Funding of Panuku work in the Unlock locations

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Purpose

1. The purpose of this paper is to inform the Committee and provide clarity on the option of funding the Panuku Development Auckland Transform and Unlock urban redevelopment programme by way of the reinvestment of proceeds of property sales from within the programme locations.

Executive summary

2. Panuku was established to facilitate the high quality urban redevelopment of strategic brownfield locations and to drive the strategic and commercial value from existing and planned assets. Panuku will play a critical part in supporting and delivering on the goals of the Auckland Plan.

3. Panuku manages a property portfolio, much of which is held for future infrastructure or service purposes. Panuku has a role to create value from strategic assets and leads a property disposal programme to deliver revenue to Auckland Council. An annual sales target is agreed as part of the Statement of Intent and in the current year is $100m. There is a tension between the disposal target and other strategic objectives.

4. The Panuku priority locations form a regionally significant redevelopment and regeneration programme approved by Council which will make a significant contribution to the delivery of the growth strategy in particular the intensification of the urban area and focus of growth in centres aligned with good transport accessibility and transport investment.

5. The funding of Panuku projects in priority locations will be discussed as part of the Long-term Plan 2018-2028 (LTP) process. Panuku has been invited to present an option, building on the support given to the reinvestment of proceeds in identified Transform locations (Manukau and Onehunga) early in 2016. As indicated during the establishment of Panuku, the funds within the Long-term Plan (LTP) budgets do not include funding for any capital or operating expenditure in the priority locations and at that time no clear mandate on funding source was provided. It has been acknowledged that the existing Panuku budgets, based on the legacy organisations and more limited mandate, are not sufficient.

6. This paper proposes that the Transform and Unlock locations are viewed as a programme which is funded, at least to the extent possible, from reinvestment of proceeds from properties which are disposed within the transform and unlock locations (with the exception of the waterfront). It also proposes that Panuku has the mandate to invest those funds in projects included within High Level Project Plans that have been approved by the Planning Committee and the mandate to transact sites has been approved by the Finance and Performance Committee. The investment of the funds would be subject to business cases approved by the Panuku Board and referred to the Finance and Performance Committee for consideration and prioritisation as part of the 2018-2028 LTP process.

7. The disposal of property in some Unlock locations will create a significant surplus, while in other unlock locations the reinvestment of the proceeds of property sales will not be sufficient to deliver the agreed outcomes of the approved High Level Project Plans. The ability to reinvest proceeds across the programme will enable Panuku to make credible progress across all locations as well as ensure that resources are applied to agreed priorities. Some surpluses generated would still come back to Council in addition to the surpluses generated from the disposal of Support sites, and other disposals.

8. The reinvestment of proceeds from property sales will enable Panuku to catalyse private sector investment early, deliver strategic objectives and increase the value of council sites. Importantly it will help to strengthen local community and stakeholder support for intensification and change in their neighborhood. It would also provide Panuku with additional certainty and agility to work with partners, as well as building confidence with investors, developers and potential home owners.
9. The concept of reinvestment has been accepted for the Panuku Transform areas, giving certainty to those programmes. The concept of reinvestment is a key tool for the multi-year redevelopment of the network of villages making up the Housing for Older Persons Portfolio. Reinvestment has also been agreed for the optimisation of service properties within Local Board areas. In all of these cases the approach provides certainty, agility and builds community support. Most importantly it enables the transformation that the Council is seeking to progress, and supports it’s “brownfields” growth strategy.
10. A portion of the property sales proceeds will also be needed, as part of the High Level Project Plan approval process, to fund non recoverable operating costs associated with implementation.

Recommendation/s

That the Finance and Performance Committee:

a) notes the proposal to reinvest the proceeds of property sales from the agreed Unlock and Transform locations (with the exception of the waterfront) to fund capital projects and initiatives in the Transform and Unlock programme to deliver the outcomes articulated in the Council-approved High Level Project Plans, while still returning some surpluses to Council

b) notes that the proposed reinvestment of the funds would be for projects endorsed in High Level Project Plans and would be subject to business cases approved by the Panuku Board and referred to the Finance and Performance Committee for consideration and prioritisation as part of the 2018-2028 LTP process.

Comments

Background - Panuku role, mandate and expectations

11. Panuku was established to facilitate the high quality urban redevelopment of strategic brownfield locations and to drive the strategic and commercial value from existing and planned assets. Panuku will play a critical part in supporting and delivering on the goals of the Auckland Plan. In particular, Panuku has a significant role in the transformational shift “Radically improving the quality of urban living”. Panuku has been charged with finding the right balance between financial and non-financial outcomes (economic, environmental, social and cultural). Among other things, there is an expectation that Panuku will deliver a range of housing choices, public realm and housing projects that demonstrate accessible design and innovative place-led engagement to harness the local community’s identity, attributes and potential.
12. An urban locations analysis to identify regional priorities for urban regeneration and redevelopment was undertaken by Auckland Council in 2015 and informed the choice of priority locations for Panuku. The short listed locations were further analysed by Panuku and presented back to Auckland Council for approval.

13. Two Transform locations in addition to the waterfront and Tamaki (Manukau and Onehunga) and seven Unlock locations (Northcote, Takapuna, Henderson, Papatoetoe, Hobsonville, Ormiston, the Housing for Older Persons portfolio) were approved by Auckland Council at the end of 2015. Avondale was endorsed by Planning Committee as an Unlock in March 2017. The Panuku Board agreed in mid-2017 to include Panmure in the programme of work as a collaboration with Auckland Transport and Tamaki Regeneration Company (TRC) within Transform Tamaki.

14. This forms a regionally significant programme approved by Council to make a significant contribution to the delivery of the growth strategy in particular the intensification of the urban area in centres aligned with good transport accessibility and transport investment.

15. Panuku has prepared High Level Project Plans (HLPPs) for the Transform and Unlock locations. The HLPPs set out the scope, vision and outcomes, identify development plans for the surplus council sites and seek mandate to transact the sites, subject to any statutory or other obligations. HLPPs have been approved for Northcote, Takapuna, Henderson, Papatoetoe and the Housing for Older Persons portfolio. The development programmes for Hobsonville and Ormiston have legacy approvals and these projects are significantly advanced. HLPPs for Avondale and Panmure will be submitted to the Planning Committee and the Finance and Performance Committee for approval within the next 3-6 months.

16. The locations are all identified as centres for growth in the revised development strategy as part of the Auckland Plan refresh. The locations were chosen for their combination of opportunities in relation to emerging market attractiveness, land and influence, scale, partnerships, previous investment and locational factors. These centres have long been identified for residential and commercial growth in legacy plans, however the policy and regulatory approach and advocacy has not led to significant market activity, and the use of other levers is clearly required.

17. In adopting these locations it was understood that these new projects will require operating and capital expenditure budgets to give effect to the strategies and objectives contained in the approved High Level Project Plans (HLLP).

18. The principle of reinvestment has been established.

19. The reinvestment of the proceeds of sales in Transform locations was approved by the Finance and Performance Committee in April 2017, in adopting the first High Level Project Plan for Manukau, as recommended by the Planning Committee.

20. In order for Panuku to lead a long term programme to redevelop and improve of the network of villages for older people, the reinvestment of the proceeds of sales into the HfOP portfolio was agreed by the Finance and Performance Committee in 2015.

21. Optimisation of service assets follows a similar principle and was addressed in a report to the Finance and Performance Committee in March 2015 from Auckland Council Property Limited (ACPL). Panuku has the mandate to work with Local Boards to optimize the use of council service property by co-locating or rationalizing services to release properties for disposal or development. It has been agreed a Local Board which supported the redevelopment and/or sale of a funded **service site** in its area was able to retain the proceeds for reinvestment in another service asset in that Local Board area. This “ring fencing” did not apply to non-service sites or to the properties on the Auckland Transport fixed register.

Sources of funding and adequacy of existing budgets

22. The 2015-25 Long-term Plan approved by Council in June 2015, before the establishment of Panuku, did not contain budgets for Transform and Unlock Projects. The 2018-2028 LTP process is now underway and Panuku will set out the programme of work that requires funding for consideration and prioritisation by the Governing Body.

23. The Unlock Projects require investment in public good and non-financial outcomes in order to unlock private sector interest and attract investment. The nature of investment required has been set out in the approved High Level Project Plans, and will be presented to the Finance and Performance Committee LTP Workshop (infrastructure workstream) on 26 September 2017.

24. However there is no clear mandate on funding source for anticipated significant capital expenditure and there is no capital budget allocation in the current LTP for these locations.

25. There is no operating budget to fund the Unlock Projects development non-recoverable operating expenditure. This includes master planning, design, engagement and feasibility work that need to be undertaken. Generally this is expenditure incurred prior to the decision to transact individual sites and is not recoverable as cost of sales or capital investment. These costs cannot realistically be funded from current LTP budgets. They are general costs over the Unlock area and cannot be loaded into particular sites.

26. In terms of Business as Usual, Panuku has access to the following funding options:

a) LTP approved funding:

- Pre-approved projects funding in the LTP
- Strategic Development Fund (SDF) to acquire land for development purposes, which has to be repaid within a defined timeframe
- Development Fund, funded by a small portion of sales proceeds
- Value compression on disposal[1] - to facilitate desired intervention outcomes on a particular site, such as decontamination or public amenity outcomes at that site, noting that there is a tension here with the asset sales target.

27. For clarity, the Panuku Development Fund is not sufficient to fund opex costs for the Transform and Unlock locations as well as the rest of the development programme unrecoverable costs. The Panuku Strategic Development Fund is not appropriate as it requires a commercial outcome that is repayment of all costs plus interest.

28. Panuku is also considering the applicability of targeted rates linked to redevelopment of sites. This work is incomplete.

Proposal to reinvest proceeds of sales within identified Unlock locations

Reinvestment of property sales proceeds – for capital projects

29. The proposal is to reinvest the proceeds of properties sold and value created, within the identified Unlock locations, to be spent on unfunded public amenity and facilities upgrades and strategic outcomes (included in approved High Level Project Plans) but which may not be covered or are only partially covered by commercial transactions. Improving the amenity of a centre is a critical component of attracting private sector investment to deliver housing and other outcomes.

30. These projects have been articulated through a High Level Project Plan. They will progress the non-financial public good objectives in our purpose and statement of intent which will require funding to be meaningful. They may include public realm upgrades, property acquisition and exemplar residential projects – things that are game changers which will add financial value over time.

[1] *There is no actual budget for value compression in the LTP, however the disposal $ values approved in the SOI are viewed as net of any value compression realised in the period.*

31. The Unlock locations have different issues and opportunities including the number and scale of surplus property assets for disposal and the nature of public good investment required to drive market interest. For some unlock locations, the reinvestment of sales proceeds could fully fund the investment required, such as in Takapuna. In other unlock locations, reinvestment of sales proceeds will only partially fund the investment required. For the remaining unlock locations significant surplus funds will be generated, such as in Hobsonville, Ormiston and Avondale.

32. The net position for each location (sales versus spend on public realm) over 10 years commencing 1 July 2018, based on indicative figures being developed for the LTP, is illustrated in the table below. This excludes any proposed investment from other parts of the Council in these locations. Based on the current numbers there is a modest surplus overall across the programme.

Priority Location	**HLPP approved by Auckland Council**	
Unlock		
Avondale	*Oct 2017*	
Henderson	May 2017	
Hobsonville	Legacy approvals	
Northcote	March 2016	
Ormiston	Legacy approvals	
Papatoetoe	July 2017	
Takapuna	March 2016	
Transform		
Manukau	April 2016	
Onehunga	March 2017	
Positive net position		
Negative net position		

33. For this reason it is proposed that the Transform and Unlock locations (with the exception of the waterfront) are viewed as a programme and that that the reinvestment of sales proceeds from within the programme is used to fund the programme of work. The "package" approach will ensure that resources are applied to approved priority projects and ensure that credible progress is being made across the whole programme consistent with the staging expressed in the approved High Level Project Plans. Depending on the funding available through reinvestment or through the LTP, it is likely that further prioritisation will need to be undertaken.

34. The proposed reinvestment is to fund Panuku-led projects in Council-approved High Level Project Plans and does not include the projects delivered in those locations by other departments and CCOs.

35. It is proposed that the reinvestment in capital projects will be subject to a business case approved by the Panuku Board, within its delegations, or to an appropriate committee.

36. The rationale and benefits of this approach are as follows:

- It will enable the early investment by Panuku in amenity and infrastructure improvements. It will increase the value of council sites and the potential to catalyse private sector investment, as has been the case in the Wynyard Quarter. It will also build confidence of developers, investors and potential home owners.
- This approach would provide Panuku with additional certainty and agility to work with partners and to make early progress. The sooner we get going, the sooner we can catalyse private sector activity.
- It would enable flexibility to ensure that resources are applied to the most value-adding strategies across the programme, rather than distortions that may occur where reinvestment is considered only within a single location and where some locations would remain unfunded.
- A consequential benefit of the reinvestment of proceeds is that it will help strengthen local community and stakeholder support for the necessary commercial dimensions to our work including development density.
- The reinvestment of sale proceeds within the project area is a common approach for international development agencies.
- The overall value creation over time will justify the investment. Panuku is undertaking Total Value Analysis for the locations as part of programme business case development in order to be able to articulate the net community benefits created.
- This proposal seeks an exception to the general approach whereby the proceeds from asset sales are non-tagged and used for general citywide capex. The scale and opportunity of the Unlock Projects justifies an alternative funding approach.

Timing issue and financing

37. To address the timing difference between expenditure and property sales realisation, it is proposed that Panuku has access to a facility enabling it to incur expenditure (both operational and capital) while it facilitates the sale of properties.
38. Overall the principal and interest relating to financing capital expenditure will be reimbursed from property sales proceeds, minimising the impact on ratepayers.

Implications for Panuku and for Auckland Council

39. The key impact of not resolving the funding issues is delay in the achievement of outcomes identified for Unlock locations.
40. This reinvestment approach is essential to achieve the sort of transformational outcomes the Council is seeking. While the redevelopment of the Unlock locations is not of the scale of Wynyard Quarter, they seek to catalyse significant private sector investment and facilitate the delivery of quality housing. Around $120m has been available to drive the transformation of the waterfront and delivery of the Waterfront Plan 2012, delivering $800m or private investment ($230m completed and the remainder underway).
41. Panuku disposals and development projects, across the Support locations, will also deliver positive community benefits including providing housing supply and choice, amenity improvements and in some cases public realm and infrastructure upgrades, increasing the attractiveness and vibrancy of those areas. Importantly, these activities also provide the shareholder with regular contributions to the LTP asset sales targets.

42. The intention of the former organization ACPL was to provide revenue to the shareholder from property sales. While there was an intention to also deliver good urban design, the key objective was revenue. While Panuku has picked up this revenue obligation there is a stronger set of strategic objectives in our mandate. The tension between the disposals target and the strategic redevelopment objectives has recently been discussed in a workshop of the Finance and Performance Committee. The Annual sales target is agreed as part of the Statement of Intent which in the current year is $100m.

43. The Council's general position is that the revenue from all property sales is untagged. The revenue is part of the consolidated budget and is used to help fund the LTP capex programme. This enables the delivery of priority projects across Auckland and delivers benefits over a wide area, based on overall priorities.

44. The proposal to fund the Unlock and Transform work programme from the reinvestment of the proceeds of property sales, at least to the extent possible, is an exception to this general approach, building on exceptions agreed for optimization of service assets and the redevelopment of the Housing for Older Persons portfolio. It seems an appropriate way to fund investment in the Council's growth strategy.

45. The funds earmarked for reinvestment would not be available to the consolidated budget for unrelated and alternative Council priorities. The proceeds of sale from the support development sites and the general disposals will continue to be attributed to the general council funding pool.

46. Other options would be to continue to fund Council's priority redevelopment programme delivered by Panuku through the LTP and current funding arrangements (listed in paragraph 24).

Consideration

Local board views and implications

47. The Governing Body is responsible for funding policy and for decisions on transformation programmes. Panuku was invited to bring forward this discussion at this time. Panuku has therefore not formally consulted on this report with Local Boards.

48. Since the principle of reinvestment was agreed for Transform locations, the question of the funding for Unlock Locations has been raised by a number of Local Boards. Some Local Boards in Unlock locations have discussed the concept of reinvestment of the proceeds property sales in the area. In particular the Whau Local Board and Otara–Papatoetoe Local Board have expressed support for the principle.

49. Whau Local Board has expressed support in Local Board workshops for the Governing Body to invest the proceeds from any sales within the Avondale metropolitan area back into the development of Avondale in line with the draft Unlock Avondale High Level project plan.

50. In supporting the Henderson High Level Project Plan, the Henderson-Massey Local Board, resolved:

- c v) Requests the Governing Body invest the proceeds from any sales within the Henderson metropolitan area back into the development of Henderson in line with the Unlock Henderson High Level project plan. (Resolution number HM/2017/26)

51. Panuku is aware that there may be a range of views from other Local Boards which are not captured here. The Governing Body may wish to request Panuku to undertake engagement on this.

Māori impact statement

52. The Unlock locations offer significant scope and opportunity to deliver positive cultural, social, environmental and economic outcomes for Māori. These activities are a catalyst for significant change, and promote exemplar initiatives that can be undertaken through this reinvestment.

53. Māori are identified as a significant potential commercial partner. The ability for Panuku to act with certainty and agility will help to catalyse Māori investment, as a commercial partner, where there is interest.

54. Panuku is working closely with mana whenua in all Unlock locations based on a foundation charter and through development of cultural narratives. Mana whenua have, or are, currently involved in the preparation of High Level Project Plans for each location. The kaitiaki project group meets regularly and the Governance Forum six times per year. This work includes identifying priority outcomes such as the application of Te Aranga Design Principles as a foundation for future activity. This work is expected to produce public good opportunities including cultural expression, environmental enhancement, place-making projects and other social outcomes that will benefit not only Māori but all Aucklanders.

55. If reinvestment is not achieved, or alternative LTP funding for the approved High Level Project Plans, then outcomes agreed with mana whenua may not be achieved.

Implementation

56. The Finance and Performance Committee will resolve the funding of Panuku programmes in the 2018-2028 LTP budget discussions.

Attachments

There are no attachments for this report.

Signatories

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