



REPORT TO:

Wellington City Council

An Urban Development Agency for Wellington City
Business case and proposal

March 2016



Contents

GLOSSARY.....	2
EXECUTIVE SUMMARY	3
1. INTRODUCTION	9
2. WHAT URBAN DEVELOPMENT AGENCIES DO	11
3. WELLINGTON CITY: PROBLEM DEFINITION AND BENEFITS OF ACTING.....	13
4. WHAT DEVELOPMENT WELLINGTON WOULD DO.....	16
5. COST BENEFIT ANALYSIS	27
6. PROPOSED MODEL	34
7. CONCLUSION	42
8. BACKGROUND MATERIAL	44

GLOSSARY

AC	Auckland Council
CCC	Christchurch City Council
CCDU	Christchurch Central Development Unit
CCO	Council-Controlled Organisation
CCTO	Council Controlled Trading Organisation
Council	Wellington City Council
EQPB	Earthquake Prone Building(s)
GFC	Global Financial Crisis
HASHAA	Housing Accords and Special Housing Areas Act
LGA	Local Government Act
LGOIMA	Local Government Official Information and Meetings Act
PWA	Public Works Act
RMA	Resource Management Act
UDA	Urban Development Agency
UGP	Wellington City Urban Growth Plan (2015)
SHA	Special Housing Area (identified under the WHA)
SPV	Special Purpose Vehicle
TAG	Technical Advisory Group
WHA	Wellington Housing Accord
WWL	Wellington Waterfront Limited

EXECUTIVE SUMMARY

CONTEXT

This business case supports the establishment of a Council-led urban development agency (UDA) for Wellington City. The UDA would be a council-controlled organisation (CCO) or council-controlled trading organisation (CCTO) to enable Council to effectively participate in the local property market and partner with private developers to deliver catalyst projects, Council facilities and achieve broad-scale urban regeneration. The idea of Council forming a UDA has been raised periodically over the last ten years but more recently Council initiatives and growth pressures have given it greater momentum.

UDAs are employed broadly around the world as special purpose vehicles (SPVs) to facilitate positive change in urban environments where there has been market failure or a partnership approach is required to address urban decay and redevelopment challenges. Although there is not a rich history of UDAs in New Zealand urban development pressures are being felt more keenly as urban areas continue to grow and face new challenges.

This is particularly the case in Auckland where Auckland Council (AC) has recently formed Panuku, a UDA with a mandate to oversee the redevelopment of Council policy in a manner consistent with AC's urban policy objectives. With its earthquake experience Christchurch has also provided fertile ground for public sector intervention in the property market with central government forming a UDA known as the Christchurch Central Development Unit (CCDU) which is currently transitioning into a joint central government / Christchurch City Council (CCC) entity called Regenerate Christchurch.

THE ISSUES FOR WELLINGTON

Wellington City's issues are unique in their own right and stem back to the physically constrained nature of the city (hemmed between the harbour and the hills and lacking flat land) and exacerbated by the demand pressures of being the economic hub of the lower North Island.

These factors constrain the city's ability to grow and raise the stakes on what readily developable land does become available. Public sector intervention in the land and property market poses the opportunity to consolidate and assemble land, and to make better use of strategic sites when they do become available. Put simply, without direct intervention many of the projects and outcomes set out in Council's urban growth plan (UGP) will not be realised. A dedicated function which better responds to (and proactively identifies) partnership opportunities would assist in bringing land to market and delivering the outcomes and projects set out in the UGP.

However, intervention should seek to leave as light a footprint as possible based on the principle of “bridging the gap to the market and no more” (see below). This would be achieved by acting in partnership with the private sector to harness its abilities rather than compete against it.

The related Council initiatives and growth pressures which have given the idea of a UDA greater momentum include:

- Council’s economic development and investment initiatives;
- the recently adopted UGP;
- the Wellington Housing Accord (WHA) signed with central government; and
- associated housing supply and price pressures.

With these factors in mind we recommend the UDA operate in the follow main areas of endeavour:

- Purchasing and assembling viable development parcels in strategic locations.
- Setting outcomes for developments – and working with the market to deliver those outcomes.
- Delivering major Council projects (above specified significance and value thresholds).
- Acting as Council’s development advocate / developer facing function where support and or co-ordination with Council activities is required.

For clarity we note that the UDA would have a project delivery focus and would not impact Council’s planning (district plan and resource consents) or infrastructure delivery functions. These would continue to be delivered from in-house. Notwithstanding, alignment with these and other related functions of Council would clearly be beneficial.

If it is determined not to form a UDA and become a proactive player in the market we believe the primary risk is one of lost opportunity in terms of transforming Wellington consistent with Council’s economic growth and urban development goals. There is also a risk over the medium-term that left to its own devices the development sector will not be able to bring enough new housing product to market given the identified land scarcity and fragmentation issues in the city, together with lack of development capacity. In turn this could result in significant increases in house prices within the city and leakage of prospective new residents to local authorities to the north (and potentially the region altogether). There is also the likelihood that the market may deliver suboptimal outcomes.

PRINCIPLES BASED APPROACH

To maximise effectiveness and limit risk to Council a principles based is recommended. In

November 2015 officers presented eight broad principles for a UDA that would guide the operations of the UDA:

1. Supports Council's urban development and urban growth initiatives.
2. Operates with clear terms of reference and is accountable to Council.
3. Bridges the gap to the market and no more.
4. Operates in a commercial manner at arms' length of Council
5. Self-funding (over time).
6. Is agile and able to scale up and down quickly in response to workflow.
7. Is independent of local property interests.
8. Operates within risk parameters established by Council.

ARMS' LENGTH ENTITY

Application of the principles allied to the findings of research and consultation has led us to a clear view that an arms' length entity, either a CCO or CCTO, is preferable to performing UDA type functions from inside Council's existing structure. Further work on tax implications is required to determine whether a CCO or CCTO is the best vehicle. The main reasons an arms' length entity is preferred are as follows:

1. Enhanced ability to perform a dedicated urban development delivery function.
2. Enhanced ability to attract board members and staff with the required expertise.
3. Self-funding structure could avoid / limit impacts on ratepayers.
4. Ability to ring-fence financial risk and limit the liability of the Council.
5. Adaptability and speed of operation.

FUNCTION AND RATIONALE

The UDA would principally undertake the following four types of work:

1. Liaising directly with the development sector to encourage development.
2. Purchasing and assembling development parcels.
3. De-risking sites through activities such as land remediation, building demolition and upgrading infrastructure connections.

4. Procuring and managing private partners to deliver developments.

The advantage this has over a passive regulatory approach (i.e. controlling development exclusively through the district plan) is that they give Council (through the UDA) direct control over development outcomes where it chooses to intervene. Because it would not be possible or desirable to be involved in all development in the city UDAs tend to focus projects and sites of strategic importance which have “catalyst” or “knock on” effects in the local property market. There are numerous examples from around the world (e.g. Australia, Canada) where a dollar spent by the UDA has returned several dollars in private investment.

The set of activities listed above is inherently riskier than the traditionally passive, regulatory focused roles Council undertakes. The risks are:

- financial – through active involvement in the property market;
- contractual – through procurement of private development partners;
- loss of control and scope creep – through placing delivery of the function at arms’ length;
- health and safety – projects involve physical development; and
- reputational – the function extends beyond Council’s traditional ambit and its every move will be closely watched.

For these reasons the following matters will need to be carefully considered:

- adoption of a specific risk management framework;
- reporting and accountability back to Council;
- the scale of intervention;
- the specific type of SPV used (we recommend CCO or CCTO).

Principal among the UDA’s activities would be attracting and facilitating development activity in the city (an advocacy role); disposing, purchasing and assembling land to create strategic development parcels; de-risking strategic land where existing encumbrances have presented a barrier to market activity; and procuring and managing development partners including leveraging land ownership to achieve outcomes with social or environmental benefits (e.g. affordable housing units, exemplar urban design, greenstar buildings). To maximise benefits the UDA’s activities should be aligned with Council’s activities, for example major infrastructure upgrades, to support development projects.

The primary barrier to realization of outcomes in the UGP is lack of supply of vacant, serviced and zoned (“shovel ready”) land in the city. Therefore assembling and readying shovel ready land in

strategic locations would be a core focus for the UDA. More broadly the proposal for a UDA outlined in this report is predicated on removing existing barriers to market delivery of Council's vision for the urban and economic development of the city. A core principle underpinning its activities would be "bridging the gap to the market and no more". This approach will ensure the UDA does not overreach itself financially, rather it would facilitate partnerships with and harness the private development sector.

In particular, based on our analysis of the issues, we see there being particular utility in the UDA operating in the following areas to help Council achieve its vision for the city:

1. **Unlock development potential** – remove barriers to development where that will enable achievement of formal Council policy on urban renewal, economic development, housing delivery and affordability (e.g. land assembly, infrastructure investment).
2. **Increase supply of affordable housing** – support delivery of new housing into the market at affordable price points.
3. **Deliver large-scale Council development projects** – deliver Council development projects above a specified value threshold that would otherwise be delivered from in-house.
4. **Catalyse the market through demonstration projects** – conceptualise and lead delivery of demonstration projects to catalyse the market in support of strategic urban development policy including earthquake prone building (EQPB) clusters and medium density housing.
5. **Oversee development of strategic Council property** – oversee development of underutilised Council land holdings located in strategic locations or which have strategic development potential. Any land involved would need to be specifically allocated to the Urban Development Agency by Council.
6. **Optimise development outcomes on strategic sites** – intervene to optimise strategic development opportunities (in terms of quality or scale) where there is a risk the market alone will not.

KEY ORGANISATIONAL ELEMENTS

Given its arms' length nature as a CCO or CCTO a number of checks and balances are proposed to ensure that the UDA delivers on the role and outcomes Council would envisage, these include:

- direct accountability to Council or a nominated Council committee;
- regular reporting and accountability mechanisms aligned with Council's annual and long-term plan process (and more regular – quarterly – reporting);

- an independent TAG group with a focus on development outcomes which vets individual projects and provides input into development design and configuration;
- an independent board with relevant, specialised skills; and
- nimble organisational structure based on a small number of permanent staff and use of contractors to give greater control of overheads given the lumpy nature of development projects.

NEXT STEPS

Establishing a UDA would represent a significant decision for Council, but without it, or something akin to it, Council's role in urban development will remain passive and regulatory in nature. Experience since 2006, when Council began taking a strategic, planned approach, is that this and regulatory and passive role has not delivered the outcomes sought as much as could have been achieved by a more proactive approach. Based on certain assumptions about Council decision making we propose the following process for establishment of the UDA:

1. Seek Council approval to consult on the establishment of the UDA through the 2016-17 annual plan process.
2. Consider submissions received on the UDA proposal through the 2016-17 annual plan process. An in-principle decision to establish the UDA could be made following this stage
3. Seek Council approval for funding to operationalise the UDA on 1 July 2017 through the 2017-18 annual plan process.

1. INTRODUCTION

1.1 PREAMBLE

This business case supports the establishment of a Council-led urban development agency (UDA). The UDA would be a council-controlled organisation (CCO) or council-controlled trading organisation (CCTO) to enable Council to effectively participate in the local property market and partner with private developers to deliver catalyst projects, Council facilities and achieve broad-scale urban regeneration.

1.2 BACKGROUND

Councillors have asked officers to report on the merits of establishing a UDA to assist delivery of development consistent with the urban growth plan (UGP) and major projects. Council currently plays a passive - primarily regulatory - role in city development which has limitations in terms of delivering the UGP vision. To address this shortcoming the UDA could play an active role in the property market by undertaking activities such as assembling land in key locations and partnering with private developers to undertake and control “catalyst” developments (for example redevelopment of earthquake prone building (EQPB) clusters). Councillors were given a preliminary briefing in November 2015 where officers presented eight broad principles for a UDA as follows:

1. Supports Council’s urban development and urban growth initiatives.
2. Operates with clear terms of reference and is accountable to Council.
3. Bridges the gap to the market and no more.
4. Operates commercially at arms’ length from Council.
5. Self-funding (over time).
6. Is agile and able to scale up and down quickly in response to workflow.
7. Is independent of local property interests.
8. Operates within risk parameters established by Council.

Councillors were generally comfortable with the broad framework these principles establish and officers have prepared this business case and proposal for a UDA with them in mind.

Council previously had a UDA (Wellington Waterfront Limited / WWL) responsible for overseeing the development of Council-owned land in Lambton Harbour consistent with Council’s vision for that area (the Wellington Waterfront Framework).

1.3 CONSULTATION AND RESEARCH

Recent officer advice and the content of this report are underpinned by a programme of research and consultation. Consultation has been undertaken with Auckland Council (AC); Panuku (AC's UDA); Christchurch City Council (CCC); Regenerate Christchurch (a joint Council and Crown UDA); the Property Council; the Bank of New Zealand; and a full range of internal staff. This report draws directly on findings from these investigations. Specialist legal and tax advice has also been obtained to ensure the recommended approach is lawful and within prudent risk parameters, though further advice is being sought to determine whether a CCO or CCTO is the best special purpose vehicle (SPV).

2. WHAT URBAN DEVELOPMENT AGENCIES DO

UDAs are used widely around the world to intervene in the private property market to make land available for urban renewal, housing and local economic development projects. The exact scope of activities varies according to the problem and local political structure but is directed to a common set of development barriers like land fragmentation and urban decay that the market alone cannot overcome. In such cases UDAs intervene to remove the barriers and allow desirable development to occur. The risk spectrum below represents the types of activities UDAs are typically involved in:

LOW RISK
DEVELOPMENT ADVOCACY
PROPERTY MANAGEMENT AND DISPOSAL
PACKAGING AND MARKETING DEVELOPMENT OPPORTUNITIES
PROCURING AND MANAGING DEVELOPMENT PARTNERS
ACQUIRING AND ASSEMBLING DEVELOPMENT PARCELS
DIRECTLY UNDERTAKING DEVELOPMENT
HIGH RISK

The advantage this suite of tools has over a passive regulatory approach (i.e. controlling development exclusively through the district plan) is that they give public bodies (through their UDA) direct control over development outcomes. Because it would not be possible or desirable to be involved in all development in a city UDAs tend to focus projects and sites of strategic importance which have “catalyst” or “knock on” effects in the local property market. There are numerous examples from around the world (e.g. Australia, Canada) where a dollar spent by the UDA has returned several dollars in private investment.

While there are risks associated with taking a more proactive role in urban development in the city, there are also risks associated with not doing so. The primary risk is one of lost opportunity in terms of transforming Wellington consistent with Council’s economic growth and urban development goals. There is also a risk over the medium-term that left to its own devices the development sector will not be able to bring enough new housing product to market given the identified land scarcity and fragmentation issues in the city and this may affect housing affordability in the future.



Melbourne Docklands

Melbourne Docklands is a major urban regeneration project led by the Victorian State Government's UDA Places Victoria (formerly VicUrban).

Source: www.marevellephotography.com.au

We note up front that in the New Zealand context, a mixed-economy with a thriving private sector, there is little benefit in local authorities or UDAs directly undertaking development (construction). It is preferable to procure private development partners to manage and undertake this aspect of the process.

3. WELLINGTON CITY: PROBLEM DEFINITION AND BENEFITS OF ACTING

3.1 LAND SCARCITY

One of the biggest impediments to growth in Wellington City is a lack of well located, large land holdings to accommodate new businesses and residential development. Most new development occurs in mature “brownfield” areas which are often constrained by existing uses, fragmented ownership and other complexities arising from over one hundred years of urban use and development including clusters of earthquake prone buildings in Te Aro. Collectively these issues have a material impact on the ability of the city to renew and redevelop because they make projects risky and uneconomic. In Wellington this is exacerbated by the scale and balance sheets of some local developers¹.

3.2 GAP BETWEEN COUNCIL’S VISION AND THE PRIVATE DEVELOPMENT SECTOR

The UGP is Council’s integrated transport and land use vision for the city. It identifies “transformational growth areas” such as Adelaide Road and Kent and Cambridge Terraces as well as individual economic development / catalyst projects such as a new convention centre and concert venue. The transformational growth areas are large, mostly located in brownfield locations, and experience the complexities described in Section 3.1 above.

The projects identified in the UGP will have city-wide benefits but are generally not viable projects using traditional direct-return measurements. This represents a gap between the development market and the UGP vision which will not be bridged without the type of public sector intervention provided by UDAs.

Council has also entered into a partnership agreement with the Crown (the Wellington Housing Accord / WHA) to deliver more houses to market to help address housing affordability concerns in the city. There is potential to unlock strategic sites and deliver housing at-scale through the type of public sector intervention provided by UDAs.

3.3 CORE COUNCIL FUNCTIONS NOT GEARED TO PARTNER WITH THE PRIVATE SECTOR

Council is regularly approached by third parties to buy and sell land and partner in development projects. In recent months Council has been approached to buy large, strategic land holdings; engage in land swaps to create larger development parcels; and partner in the delivery of new

¹ This combined with modest city-growth encourages low risk “easy in, easy out” development projects.

social housing complexes. Our research indicates the approaches are increasing as a result of diminishing development opportunities in the city and more collaborative post-GFC development behaviour. Council is not optimally geared to respond to these opportunities because its' existing structure (and its legislative function as defined in the Local Government Act / LGA) is geared towards traditionally passive regulatory and property activities. Over time Council's practice is to form temporary project teams in response to these approaches – typically by appointing part-time secondees from core parts of the Council business (e.g. planning, property). Whilst officers have made admirable efforts they themselves advise it is difficult to do justice to these projects on a part-time basis given the speed at which partners generally require them to move and the demands they place on Council. A dedicated function which better responds to (and proactively identifies) partnership opportunities could assist in bringing land to market and delivering the outcomes and projects set out in the UGP.

3.4 DELIVERING MAJOR PROJECTS BETTER PURSUED BY A DEDICATED COMMERCIAL FUNCTION

In the current triennium Council is considering funding, delivery and partnership of major projects. The combined value of these projects is substantially larger than Council has considered in previous years and will come with commensurate levels of financial risk and partnership risk. An Urban Development Agency with its commercial skill-set is well suited to the delivery of large projects that have a development component (though not the policy considerations underpinning them). Delivering major projects through a UDA like that proposed presents opportunities to limit Council's financial liability by placing the project at arms' length. For these reasons projects above a specified value ceiling or with certain risk characteristics could be better delivered by an SPV (staffed with appropriate commercial expertise) in terms of mitigating risks².

3.5 LOCAL DEVELOPMENT MARKET DELIVERING TRADITIONAL PRODUCTS

For many years Council has provided advocacy, policy and regulatory leadership on the issues of housing intensification, urban design and development sustainability (e.g. green buildings). Whilst the approach taken to date has achieved some notable successes a proportion of the local development sector continues to provide relatively traditional products to the market. By taking a more active approach in the market Council, through a UDA, could catalyse improved market outcomes. Specific opportunities include:

- Delivery of quality medium density housing around key suburban centres (e.g.

² It is not envisaged that this function would deliver Council infrastructure / infrastructure renewal projects.

Johnsonville, Kilbirnie).

- Exemplar anchor projects (e.g. urban design, green star buildings) in the central city with potential to generate a positive “halo effect” on surrounding sites.
- Group strengthening of earthquake prone buildings in the Cuba Street area.

Such projects would be undertaken strategically on a demonstration or catalyst basis only and would need to be carefully evaluated for their “knock on” benefits.



Currie Barracks

Currie Barracks is a mixed-use development in Calgary, Canada with greenstar characteristics that was delivered by the Canadian Government’s UDA (the Canada Lands Company)

Source: www.clc.ca

4. WHAT DEVELOPMENT WELLINGTON WOULD DO

To address the issues set out in [Section 4](#) above we have identified some targeted activity areas which Council is not currently active in or where its' existing activities could be tangibly increased. These are set out below.

4.1 ACTIONS

4.1.1 Development attraction and advocacy

Council is involved in broader business and investment attraction but not specifically in the area of land development to support the UGP. This is a basic, low risk activity that could involve the following:

- More actively promoting the outcomes sought in the UGP to build market intelligence and support.
- Identifying prime development sites (on Council and non-Council owned land) and promoting desirable development outcomes.
- Demystifying and assisting major developers through Council's regulatory processes (primarily the district plan).

4.1.2 Land purchase, disposal and assembly

By more actively transacting in the local land market Council could increase the volume of attractive, viable development parcels coming to market. This would include the purchase and exchange of land to create larger, consolidated development parcels. Where Council became the owner of such sites it could simply sell the parcel on the open market or contract the purchaser to deliver specific development outcomes such as a certain number of affordable dwelling units or urban design criteria (also see [Section 3.5](#)). Leveraging land ownership in this way is the most direct and powerful way that Council can influence development outcomes. Transacting actively in the market carries financial risk, particularly when buying land (see [Section 5.1](#)).

Currently there are varying legal interpretations about whether local authorities or associated entities can compulsorily acquire land under the Public Works Act (PWA) to facilitate the types of projects referred to in this report. Given this doubt it would be prudent to assume these powers are not available. Such powers would significantly enhance Council's ability to purchase land at reasonable value and in a timely fashion and central government is considering the benefits of legislative amendment to empower local authorities in this way. We recommend that Council

actively support such changes but note without such powers there is still a role for Council or an associated entity to intervene in the property and development market.

4.1.3 De-risking development sites

As noted in Section 4.1 Wellington’s land scarcity is exacerbated by the complexities of redeveloping brownfield sites with development constraints. Examples include:

Physical constraints	Legal constraints
<ul style="list-style-type: none"> ➤ Contaminated soils ➤ Leaky or earthquake prone buildings ➤ Poorly aligned access and servicing ➤ Lack of infrastructure capacity 	<ul style="list-style-type: none"> ➤ Existing (especially long-term) leases ➤ District plan rules ➤ Encumbrances and easements registered on the title

Individually or collectively these issues can make development projects unfeasible or simply elevate project risk beyond a level private developers will respond to. This is a particular issue for Wellington where the development constraints can be acute and the private development sector lacks the scale and capability to “ride out” the associated delays and costs.

Where sites with potential to contribute to Council’s strategic vision for the city are constrained Council could play a role in remediating them so that the private market will step back in and redevelop the site. Council’s larger balance sheet and “city-wide” perspective would provide the means and rationale for intervention. Any uplift in property value as a result of Council’s activities could be captured at the time of sale to recover some or all of the costs.

4.1.4 Procuring and managing development partners

Where public bodies and UDAs are involved in development it is very rare that they are directly involved in development or construction. The traditional model is to procure private sector partners with established skills, processes and disciplines. This has three main advantages:

- It enables the Council or UDA to hire the best skills in a flexible “as required” manner.
- It allows Council to transfer risk to the private partner (who in turn realises a profit).
- It reinforces the intention to enable rather than compete with the private market.

We recommend that this practice be followed for any Council-led development function or UDA but note it is also important to procure and manage private partners carefully to ensure maximum benefit to Council. Competitive procurement processes should be followed as a general rule to

maximise transparency and benefit to Council. Effective procurement requires a specialised skill set. In appropriate circumstances UDA ownership of land should be leveraged through the procurement process to commit the selected partner to the delivery of specific outcomes / success factors.

4.2 PROJECTS

Based on projects identified in the UGP and current pressures and opportunities we have identified five distinct types of projects that a UDA could be involved in. These are set out below. It is important to point out that every project considered by Council / the UDA will present its own opportunities, pressure points and cost structures and so there is no “one size fits all” way of operating. For these reasons it would be essential that the UDA develop business cases for every project being evaluated. Over time this business model approach could become sophisticated, efficient and standardised. The examples set out below are simply to demonstrate, in broad terms, the types of opportunities that exist for a UDA.

4.2.1 Strategic site acquisition and development

Because of the scarcity of large, well located development sites in the city Council actively monitors the upcoming availability of strategically located brownfield sites. In recent years examples have included school closures, the former defense land at Shelly Bay and a brownfield site at Rugby Street consolidated by Foodstuffs. In a land constrained city with steady demand such sites take on greater strategic importance than elsewhere. In particular they present an opportunity for Council to intervene to optimise outcomes rather than “leave it to the market”.

To demonstrate what role a UDA could play in this space we have chosen a hypothetical example of a school site. A review of school sites in suburban Wellington indicates that these vary in size but are often around two hectares in area. Land owned by the Ministry of Education for educational purposes is typically complicated by the Public Works Act (PWA) and Treaty of Waitangi settlements, meaning it cannot be sold on the open market without fulfilling other disposal obligations. These matters are explored separately in [Section 5.3](#) below.

Further assuming that a site became available in an established suburb like Miramar or Karori a UDA could buy the land at fair market value and oversee its redevelopment in a mixture of housing and community facilities. In many suburbs of Wellington this would present a rare opportunity to deliver a large number of new dwellings to the market and improve the provision of local services (e.g. community centre, recreation / sports facilities). Although such opportunities would typically also attract vigorous market responses these would typically not deliver the same sort of

community benefits. Our analysis suggests market driven outcomes in most suburbs at the current time would be a small retirement village or lower density residential development.

However, on a two hectare site it would be possible to develop 50 or more medium density residential units (100m² townhouses) and provide a new community centre and small neighbourhood park. This could meet numerous Council housing objectives; exhibit exemplar urban design; and improved social outcomes.

This scenario could be delivered through a UDA in partnership with a private developer. Initial analysis (based on existing suburban land prices, construction costs and a deal structured in a way that would attract a reputable development partner) suggests it is possible for the developer to achieve a feasible profit margin whilst delivering Council the community elements described above. The net financial result for Council / the UDA could be neutral.

As the scenario demonstrates, to achieve these outcomes the UDA would need to take a direct interest (ownership) in the land and contract a development partner. Both actions involve taking on greater liability and risk than simply “leaving it to the market”. On the flipside, as demonstrated by the hypothetical scenario, through its involvement a UDA can realise a higher development yield (and associated rating base), better urban design outcomes, delivery of community facilities and a direct financial return.

4.2.2 Medium-Density Housing Exemplars

We have chosen this example because a medium density housing exemplar projects in Kilbirnie or Johnsonville has been raised at various times as a means of supporting the medium density district plan zonings in these locations. The purpose of exemplar projects would be to demonstrate how good quality medium density housing can be delivered in Council's preferred medium density housing locations to catalyse the private market and achieve broader community buy into the concept of medium-density suburban housing.

Based on existing lot sizes and the likelihood of assembling contiguous sites we have developed a hypothetical scenario of a 2,000m² site (three existing, standard sites) being redeveloped into a compliant multi-unit complex in the MDRA2³ zone of Johnsonville. Based on existing site sizes and configuration a UDA would likely need to acquire three contiguous sites at a combined value of around \$1.25m (a premium over market value in order to bring them together quickly). The UDA could then competitively procure a development partner and transfer the land at cost to that partner to allow it to deliver the project (demolition and construction).

³ Medium Density Residential Area 2 – the lower density of two medium density housing zones in Johnsonville



Medium density housing concept

Source: <http://wellington.govt.nz/your-council/projects/housing-choice-and-supply/karori/karori-as-a-medium-density-area>

Based on the district plan rules the site could be developed into a 12-unit complex of superior quality that would meet the definition of “exemplar” whilst achieving an acceptable profit margin that would attract a reputable private development partner. The net result for Council would be the delivery of an exemplar development and the associated rates revenue. The direct financial result to Council would be cost neutral. A development of greater scale would be required to generate a stronger margin including any direct revenue to Council (or transfer of units into Council ownership at no cost).

4.2.3 Earthquake prone building cluster redevelopment

There are well documented issues associated with earthquake prone buildings (EQPB) in the city, particularly in the Te Aro area - Cuba Street being the most prominent example. There are examples of solitary EQPBs and clusters which are constrained for redevelopment due to the financial circumstances of their owners (EQPBs are disproportionately owned by “mum and dad” investors). Unfortunately the financial issues are often circular, with owners unable to insure and tenant buildings because of their earthquake prone status, thereby affecting their ability to raise capital to strengthen or redevelop their property.

In some cases the issues are complicated by buildings having heritage status (in the district plan, with Heritage New Zealand or both). Further, because of the substantial clustering of EQPBs some owners will choose not to remedy their buildings because their adjoining owners will not or cannot

(damage to one building by an adjoining building in an earthquake is known colloquially as “pounding”).

Some clusters of EQPBs, notably in the Cuba Street area, are strategically located for redevelopment but because of the fragmented ownership buildings and the issues described above co-ordinated redevelopment will not occur in a timely fashion. Over time, and there are already clear signs of this occurring, this results in ingrained urban decay which further resists reinvestment. Council has had a long-standing and successful policy of seeking to protect heritage, and is actively seeking to restore these clusters of heritage buildings. Breaking this cycle of decline in a timely fashion is dependent on some form of public intervention or co-ordination role. Council would seek to see this done in such a way as to strengthen and restore heritage buildings.

Council is already playing a role in breaking these cycles but there could also be a role for a UDA in purchasing and assembling contiguous sites, demolishing buildings and creating a development brief or masterplan for its redevelopment. Such projects may realise a net financial loss to Council / the UDA but could still be undertaken for broader public good purposes. The benefits would include:

- Removal of redevelopment barriers.
- Potential “halo” effects on adjoining and adjacent buildings.
- Seeking to retain, strengthen and restore earthquake prone heritage buildings at risk of demolition.
- Release of new development land in a strategic location supporting Council’s urban policy.
- Opportunity to deliver exemplar / catalyst projects in a highly visible location.

These benefits would need to be quantified and broadly considered before the UDA proceeded with such projects. The risks of involvement in such projects would include:

- Risks associated with purchasing “tarnished” assets.
- Risks of the project not proceeding and being left with assets without significant value.
- Risks of EQPB owners perceiving the UDA / Council as “bail-out” entities.

The risk of being perceived as a bail-out entity is particularly important. It would be important to ensure that the UDA’s involvement in such projects was based exclusively on the basis of broader public good. It would also be important to ensure the UDA’s involvement remained property based but was well aligned with other Council initiatives on EQPB issues.



Cuba Mall

4.2.4 Large-scale urban renewal projects

The UGP includes major urban renewal projects at Adelaide Road and Kent & Cambridge Terraces. Other large scale renewal projects are also being discussed within Council and may become part of the formal work programme in due course. For Adelaide Road there is a clear vision for the development underpinned by the 2008 Adelaide Road Framework. Kent & Cambridge Terraces are currently dominated by peripheral service and retail activities (including prestige car yards) and Adelaide Road is dominated by peripheral service and semi-industrial activities underlain by large property parcels. Both areas are strategically located close to the central city and present opportunities for high-quality mixed-use (residential and commercial) development.

Officer and consultant analysis has concluded that without direct Council intervention neither area will transition from existing uses to the desired vision in a timely manner that aligns with Council's strategic goals. The reasons for this are many and varied but with root causes being existing fragmentation of land and its ownership and numerous established businesses. Council's intervention would need to include:

- Direct purchase of property.
- Masterplanning.
- Demolition and remediation to prepare sites for development.
- Co-ordinated reinvestment in infrastructure and public realm.
- Procurement and management of private development partners.

Using Adelaide Road as an example we have identified the high-level of Council commitment required to deliver major urban renewal projects. The Adelaide Road study area is approximately 5ha in area; includes over 100 individual property parcels; and it would cost in excess of \$100m to purchase all of the property within this area. Compulsory purchasing powers would be essential to assemble all of the land and redevelopment would need to be staged to align with market demand and avoid over-exposure of Council's finances at any given point in time. Further complications would arise in terms of ensuring ongoing ease of access along Adelaide Road during redevelopment and managing the impact of losing existing businesses from the area.

Under existing market conditions the project would take in the order of 10-20 years to deliver. This would need to be acknowledged up front to ensure a robust, long-term commitment is made. It will also need to be understood that market conditions will fluctuate throughout the delivery period so that short-term blips are not used to justify abandonment. Another key mechanism for offsetting Council's risk should be to procure private development partners to manage delivery of the individual development stages. To attract partners each stage will need to be presented to the market as financially viable propositions but in turn this will limit Council's capital involvement and risk. These projects are inherently complex and multi-faceted and a dedicated vehicle like a UDA would be essential deliver them. We are not aware of projects of this scale being successfully delivered from "in-house" at a local authority.

Across such large areas and with such high expectations the risks to Council (or UDA) are many and substantial. They include:

- Political risks associated with such a dramatic and cash-intensive intervention.
- Purchasing and holding such a large property portfolio in one part of the city.
- Entering into development agreements with private sector partners.
- Market downturn and natural hazard risks which could write off property value and threaten project viability.
- Lost appetite and political support over the extended project timeframes.
- Inability to sustain funding / the financial model over the extended project timeframes.
- Managing the local impact of works in terms of business continuity and neighbourhood amenity.
- Effective co-ordination with Council proper over the required infrastructure upgrades and timing of these to support the development.

In addition to the above we have identified that such projects, given the large amount of land

involved, are only possible with legislative change that confers compulsory acquisition powers upon Council. Without them the land cannot be brought into Council's direct control in a timely or cost effective manner. At this time no such powers exist, but the Productivity Commission has recommended that it be investigated.

Such projects will need to be the subject of detailed business cases and it is expected that each project will require its own model and expectations around the net financial result for the UDA and the community and social infrastructure delivered. As a general rule large financial returns should not be expected though the UDA should seek to realise returns on the value uplift in property it creates through land remediation, masterplanning and development certainty.



Adelaide Road Framework concept

Source: <http://wellington.govt.nz/your-council/plans-policies-and-bylaws/policies/adelaide-road-framework>

4.2.5 Unsolicited bids

Council is under regular pressure from third parties (primarily private developers) to partner in development projects or property transactions. We are aware of the following recent approaches:

- Proposal to jointly develop refugee housing in Te Aro.
- Proposal to jointly deliver a medium density housing project in Johnsonville.
- Proposal for Council contribution to redevelopment of Shelly Bay.
- Proposals to partner with Council in delivery of new social (city) housing.

Generally the approaching party comes to Council with a value proposition (usually land ownership

or development capability) and sometimes this requires careful consideration by Council before deciding to pursue the opportunity or not.

These sorts of approaches are known as “unsolicited bids” and current trends indicate Council will continue to come under pressure from third parties in this way. A mandated development function, preferably in the form of an arms’ length entity would be more effective at responding. In particular it would ensure consistency in terms of how Council responds; protect core business units from the associated resource pressures; and could develop uniform methodologies for assessing the risks and benefits of each approach.

See [Section 3.3](#) for more background on these matters.

4.3 LEGISLATIVE CONSTRAINTS AND CONSIDERATIONS

We believe there is a role for a UDA under the current legislative settings in New Zealand pertaining to property, planning and local government (the statutes of primary relevance being the RMA, LGA and PWA). Currently any UDA would have access to some of the empowering elements of the LGA but would be treated like any other under the RMA and would not have access to the compulsory purchasing powers of the PWA (see [Section 4.1.2](#)). Under these settings we believe a UDA could still be effective at effecting change at a small-medium scale or where a minimal number of property parcels are concerned (and it is notable that AC established Panuku under these settings). However, complex and large scale urban renewal projects like those described in [Section 4.2.4](#) would not be feasible with compulsory purchasing powers – simply because without them it would not be possible to assemble the land in a timely or cost effective manner.

4.3.1 Compulsory purchasing powers

As noted above larger scale change or unlocking more complex urban development problems will require compulsory purchasing powers and to this end we suggest that Council remain engaged in existing legislative reform on urban development matters because this is hinting at conferring such powers on local authorities for urban regeneration purposes. A recent report by the Productivity Commission (“Using Land for Housing”) and media statements by the Property Council are supportive of such change and we understand AC and CCC are directly engaged with the Crown on such matters. Joining them to form a tripartite for further engagement may be beneficial.

4.3.2 Offer back considerations

An issue related to compulsory purchase is “offer back” under the PWA. Where land has been historically taken under compulsion (and is in the ownership of central or local government) the PWA prescribes a sequence of steps that must be followed when that land is disposed. Before such land can be sold on the open market it must first be offered to other crown bodies, the relevant local authority, local Iwi and former owners. This point is specifically noted because it would apply to any Council owned land originally taken under compulsion and should therefore be considered before any Council land is transferred and/or developed by a UDA.

4.3.3 Special planning powers

Due principally to housing affordability concerns we understand government is considering the benefits special planning powers could provide in terms of development certainty and reducing development costs. In particular we understand this relates to lessons from HASHAA which could be incorporated into future amendment to the Resource Management Act (RMA). If such powers were to become available to Council in the future they could be used to assist the effectiveness of a UDA through close co-ordination (the special planning powers would be held by Council rather than the UDA). We recommend that Council participate actively in discussions with government on this matter given the potential benefits. We also note the HASHAA is already active in Wellington by virtue of the WHA and can be used as a tool to immediately create new development potential and value uplift. We would expect any planning powers to be consistent with the existing District Plan e.g. not to override heritage or open space designation.

5. COST BENEFIT ANALYSIS

The rationale and benefits of intervention (and forming a UDA) are set out in [Section 3](#). These must be considered against the risks and disadvantages. Broadly speaking becoming an active player in the local property and land development market will increase Council's risk profile (whilst noting the potential benefits are also commensurately increased). These risks rise commensurate with the level of intervention. The risks are outlined below. The risks of not acting are also addressed. A risk management framework, to manage the risks identified, is set out in [Section 6.6](#).

It is also important to note that Council has a number of projects in the pipeline, which regardless of the type of function formed, will see it involved in development partnerships and land acquisition (e.g. convention centre/movie museum). In this regard risks will remain to Council even in the absence of a UDA.

5.1 RISKS OF ACTING

5.1.1 Financial Risk

Deep involvement in the property and development market will expose Council to greater financial costs and risks. These include (but are not limited to):

- Purchasing land which incurs net holding costs or loses market value.
- Taking direct financial interests in development projects where the private partner fails to deliver or there is market downturn.
- Paying market premiums for land when it is known that Council (or an associated entity) is the purchaser.
- Council failing to deliver its agreed contribution meaning its own return on investment is compromised.

In each of the scenarios listed above Council may be left incurring losses (paper losses or actual losses). Depending on the scale of loss a spectrum of negative scenarios may arise from minor project delays through to aborted projects and realisation of substantial losses.

5.1.2 Contractual Risk

In order to deliver the types of projects identified Council will need to enter into partnership agreements with private developers. This will expose Council to associated contractual risks. These include (but are not limited to):

- The development partner failing to deliver on its agreed contribution.
- Council failing to deliver on its agreed contribution and associated risks of the partner seeking costs or damages.

Generally speaking the private partner will be the sole delivery agent (i.e. responsible for delivering all physical works) and therefore Council will need to carefully choose its partners to ensure that projects are delivered as agreed. Every agreement will be different but private partners will be expected to deliver a certain overall development outcome; specific development elements (e.g. exemplar design elements, sustainability features); and in some cases amenities and facilities for transfer into Council ownership (e.g. reserves). Failure by the partner to deliver some or all of the agreed project outcomes will fundamentally call into question Council's involvement.

In other cases a UDA may make financial commitments of its own to a project, for example:

- Completing capital works or public realm projects to support developments.
- Waiving or reducing development contributions.

Where the private partner does not deliver its agreed contribution, or does not do so in a timely fashion, there will inevitably be adverse cost and reputational impacts to Council. The greater the commitment made by Council the bigger those impacts will be. Given the type of projects and activities proposed failure to manage these risks financial and reputational impacts on Council could be significant.

Where the partner perceives that Council has not executed its responsibilities in line with the agreement it may seek costs or damages. It is therefore important that Council sets itself up to move quickly and confidentially as commercial property and development agreements require. This is a key reason we recommend the formation of a UDA as a CCO or CCTO.

5.1.3 Loss of control and scope creep

Ultimately this business case recommends the formation of an arms' length UDA, being a CCO or CCTO. On balance the benefits of an arms' length entity significantly outweigh any disadvantages, but it is still important to outline what the disadvantages are. To ensure the UDA functions effectively Council will need to empower it with an envelope of responsibilities that it can execute without referring back to Council for approval. Whilst these will need to be executed consistent with a constitution and statement of intent established and agreed by Council there is a risk that the UDA's actual decision making and execution of responsibilities will not always align with Council's expectations. As with any entity there is also a risk of scope creep. These are risks that Council can directly mitigate by setting the UDA up with an appropriate constitution, governance

framework, board of directors, statement of intent and reporting and accountability mechanisms. These matters are addressed fully in [Section 6](#).

5.1.4 Reputational Risk

The establishment of a UDA in Wellington may not be supported by all sectors of the community. We anticipate this coming from three main perspectives:

- Parties who do not want to see Council funds put at risk.
- Parties who do not see it as Council's role to intervene in the property and development market.
- Parties who see partnership with the development sector as being to the detriment of other sectors of the community.

Council should expect these views to emerge if it decides to proceed with establishing a UDA. Such views will chorus if some of the identified risks materialise. Forming an arms' length entity will displace some of the direct reputational risks on Council, but ultimately there will be reputational damage to Council itself if projects are mismanaged.

5.1.5 Health and Safety Risk

This risk relates to personal injury or health impact (staff and contractors), and any health or safety incident involving the public. This risk can be managed by the UDA's policies and practices to ensure the health and safety of its workforce, contractors and the public, for example by good planning for hazards and risks, good processes, and training. The UDA's risk is mitigated because it will not directly undertake construction. The UDA would require potential construction partners to demonstrate a good track record in health and safety, and put in place a sound health and safety plan.

5.2 RISKS OF NOT ACTING

Council is already committed to various urban development projects risks associated with activities like land acquisition and development partnerships will remain whether a UDA is established or not. However, it is accepted that the scale of Council involvement in urban development will necessarily increase with the formation of a UDA, and therefore the scale of risk would also increase.

The risks of not forming a dedicated, arms' length development function fall into two main

categories, being:

- Leaving Council to continue to facilitate development partnerships from “in-house”, subject to existing structural constraints and constraints imposed by the LGA.
- Failing to deliver on desired urban development, housing and economic outcomes set out in key adopted policy documents (principally the UGP and WHA).

It is noticeable that Council is more actively partnering with the private sector currently than in the past. However, around urban development issues it is fundamentally still structured to deliver a traditionally passive local authority role. With almost ten years of experience to draw on it is apparent that the more transformative goals of the 2006 Urban Development Strategy (now mirrored in the UGP) cannot be achieved without a greater degree of intervention to guide and foster the market.

Drawing on the analysis in Section 3 there is a fundamental gap between the objectives of the UGP and the ability of the local development sector to deliver it. The primary issues relate to land scarcity; associated issues of land fragmentation and development constraints in already developed areas; and the limited capacity and capital in the local development sector to deliver transformational projects. We have concluded that a UDA can intervene strategically in the market to overcome this gap and deliver (through partnerships) a range of beneficial outcomes for the city.

If it is determined not to form a UDA and become a proactive player in the market we believe the primary risk is one of lost opportunity in terms of transforming Wellington consistent with Council's economic growth and urban development goals. There is also a risk over the medium-term that left to its own devices the development sector will not be able to bring enough new housing product to market given the identified land scarcity and fragmentation issues in the city, together with lack of development capacity. In turn this could result in significant increases in house prices within the city and leakage of prospective new residents to local authorities to the north (and potentially the region altogether).

5.3 OPTIONS

This section examines the merits of alternative organisational forms for delivering the development function. A report commissioned by Council in 2012⁴ suggested a series of questions to aid local authorities in determining the best organisational form when a new service or entity is proposed. These include:

- What are the drivers for change from the status quo?

⁴ Plimmer Consulting (2012), What Works? A report for Wellington City Council on getting the best from council-controlled organisations.

- What is the problem that the proposal seeks to address?
- Should the service be delivered by the Council?
- If yes, should it be delivered in-house or at arms' length?

The report also identifies key factors that should inform decision making on whether a service should be delivered from in-house or at arms' length, these are:

- The level of control required.
- Whether the activity is core to the governance role of the local authority.
- Whether as an arms' length entity more capable of attracting the skilled personnel required.
- Whether a commercial focus is important.
- Whether there should be a profit making motive.
- Whether there is reliance on Council-funding.
- Whether there is benefit in ring-fencing financial risk by using arms' length entity.

With regards to arms' length entities (CCOs and Council-Controlled Trading Organisations / CCTOs) the report identifies that these are preferable to in-house functions where the following factors apply:

- The activities objectives will not be subject to regular change.
- There is benefit in independence from Council proper.
- The function will be enduring / ongoing.
- There is an activity specific focus.
- The activities are dynamic.
- There is a commercial focus.
- The activity will represent a significant change or innovation from usual service.
- The activity will generate or rely on increased external funding.
- The activity will be self-funding or profit making.

These key aspects of the report have been taken into account in the evaluation of in-house and arms' length options below.

5.3.1 Status quo

Given the projects in the pipeline and issues facing the city we do not recommend that Council continue addressing these with the existing structure.

The primary benefit of the status quo is that it is embedded in the infrastructure of Council-proper, meaning that elected representatives and Council officers collectively retain total control of development activities.

Whilst officers are doing an admirable job of running urban development partnerships with the private sector there are significant limitations of doing this from within the existing structure, including the ability to operate confidentially and at pace; the lesser ability to attract board members and staff with commercial skills perception; the inability to ring-fence the commercial risk of activities / projects to limit Council's financial liability.

Our overall assessment is that the limitations associated with the status quo led directly to investigations into the benefits of a UDA and on this basis it is not regarded as an efficient means of addressing the urban development issues identified in [Section 3](#).

5.3.2 Increased in-house development function

An in-house development function with increased resourcing could represent an improvement on the status quo. However, the remaining limitations identified for the status quo in [Section 5.3.1](#) above would remain and for this reason it is not recommended.

5.3.3 Arm's length entity

The development activities identified in [Section 4](#) strongly indicate that an arm's length entity is preferable to in-house delivery for the following five reasons:

1. Enhanced ability to perform a mandated urban development delivery function.
2. Places individual developments at arms' length which gives developers greater certainty
3. Enhanced ability to attract board members and staff with the required expertise.
4. Self-funding structure could avoid / limit impacts on ratepayers.
5. Ability to ring-fence financial risk and limit the liability of the Council.

These are critical considerations and in our view each offers substantial benefits for delivering the development function envisaged.

On the flipside of the equation devolving the function to an arms' length entity does present risks

for Council in terms of losing direct control. However, in our view those risks are outweighed by the benefits and in any case can be fully mitigated through an appropriate constitution, governance framework, board of directors, statement of intent and reporting and accountability mechanisms (see [Section 6.1.3](#)).

The options for an arms' length organisation are a CCO or CCTO. The LGA sets out the governance and accountability requirements for both. CCTOs trade for the purpose of making a profit. At first glance this does not fit with the foundation principle of operating for public good purposes but requires more careful consideration in light of the desire to make the UDA self-funding (which will require profits to be made in some projects). Overall, the foundation principles, issues and activities outlined in earlier sections of this report require an entity with a mixed commercial and public good focus and this would be best performed by a CCO or CCTO. Which option is best requires further investigation into tax matters.

CCO and CCTOs require the Council or group of councils to have a controlling share (more than 50%) and may take the form of a company, trust, incorporated society, incorporated charitable trust or joint venture. Overall we recommend that the UDA be formed as a CCO or CCTO (and a company), with Council as the sole shareholder. This is expanded upon in [Section 6](#).

5.3.4 Fully devolved entity

We have not fully investigated entity structures which are fully devolved from Council (e.g. private company structure). This is because the function would have a public good focus established by Council and needs to be accountable to Council to ensure that focus is not lost.

6. PROPOSED MODEL

6.1 RECOMMENDED OPTION - COUNCIL CONTROLLED ORGANISATION OR COUNCIL CONTROLLED TRADING ORGANISATION (CCTO)

The recommended option to deliver the actions described in [Section 4.1](#) is a CCO or CCTO (and company).

6.2 RELATIONSHIP TO COUNCIL

The UDA would be fully owned by Wellington City Council (100%). It could also be set up to allow transfer of shares to neighbouring local authorities or future local authority entities (to respond to partnership opportunities or potential amalgamation). The UDA would operate at arms' length from Council but would be subject to a robust framework of reporting and accountability (see [Section 6.4](#)).

6.3 ORGANISATIONAL GOVERNANCE AND STRUCTURE

6.3.1 UDA Board

The UDA would have its own board of independent directors. In addition, to avoid conflicts of interest, board members would not have substantial property interests in Wellington City. We propose that the board comprise six members (inclusive of the chair), at least one with background in each of the following areas:

- commercial property or property development;
- property or commercial law;
- banking, finance or accounting;
- urban design or architecture;
- urban planning / resource management; and
- local government.

The board would be appointed by Council on a triennial basis in alignment with LTP decision making.

6.3.2 UDA Staff

The UDA would have a small core staff as follows:

- Chief Executive Officer / General Manager;
- Finance Manager;
- Development Manager;
- Procurement Manager;
- Iwi Liaison Officer;
- Communications / Marketing Manager;
- Administration Officer.

This core group of staff would be supported by a panel of professional contractors able to provide professional support as needed for technical project teams. This panel would need to cover project management; urban design / architecture; legal services; town planning / resource management; civil engineering; traffic engineering; and development services. Outsourcing these services would enable the UDA to financially manage its inevitable “lumpy” project workload without carrying a large, ongoing staff overhead.

6.3.3 UDA Technical Advisory Group

We also recommend that the UDA has a part-time technical advisory group (TAG) similar to that which supported WWL. However, given that the UDA’s project portfolio would be more varied and complex we recommend that its TAG have a more varied technical skillset (i.e. not exclusively urban design). We recommend that it comprise members with the following skillsets:

- urban design or architecture;
- landscape architecture;
- town planning / resource management;
- civil engineering; and
- traffic engineering.

To ensure sufficient availability of TAG members and to avoid conflicts of interest it may be necessary to form a panel of preferred suppliers from which the TAG can be drawn on a project by project basis. The purpose of the TAG would be to provide independent advice to the UDA board, chief executive and project teams at critical points during projects. Generally this would not be

detailed technical advice but rather high-level feedback and direction that would be considered and actioned by the UDA itself.

6.4 ACCOUNTABILITY AND REPORTING FRAMEWORKS

As the UDA will be carrying out its development activities for the primary purpose of improving urban development outcomes in the city and for Council it is important to establish accountability and reporting frameworks that ensure the UDA does so in the way Council wishes. This needs to be considered alongside the benefits of allowing the UDA to undertake its activities at arms' length to realise the benefits of that approach. The frameworks proposed below balance these considerations.

6.4.1 Accountability Framework

In developing the accountability framework below we have drawn on the recent experience of establishing CCOs in Auckland. The framework adopted by AC was endorsed by the Auditor General⁵. The components of the accountability framework proposed for the UDA are:

- **Constitution** – this would be a static element (rarely changed) covering key institutional arrangements such as the UDA's purpose, its relationship to Council and how the board operates and reports. The constitution would be developed and agreed by Council.
- **Long Term Plan** – Council can directly influence the UDA through its' triennial (long-term) planning process. Through the LTP Council will be able to set out its objectives and policies for the UDA for the three-year period ahead; its' intended activities; and key performance targets. In addition, all of these things can be amended annually through the Annual Plan process.
- **Wellington City Council Governance Manual (formerly referred to as the shareholders' expectation guide)** – this document will set out the nature of the relationship between Council and the UDA and how they will work together for Wellington's benefit. This would be reviewed annually with an expectation that Council and the UDA would collaborate to determine its contents, though ultimately it is for Council's benefit so Council would have the final say.

⁵Auditor General (2011), Letter to the Chief Executive of Auckland Council and Watercare Services Ltd, <http://www.oag.govt.nz/2011/auckland-water/>

- **Statement of Intent** – this would be issued by the UDA annually to cover the ensuing three year period. It would be developed by the UDA board and outline to Council how the UDA intends to deliver on priorities and objectives set out for it. It would also articulate the nature and scope of activities to be undertaken and the performance measures and targets adopted to ensure Council's expectations are met.
- **Letter of expectation** – this would be issued by Council to the UDA. It would be an informal mechanism (it is not required by law) whereby Council could outline its priorities to the UDA board ahead of it issuing the statement of intent.

The above sets out the mechanical accountability framework but it will be essential that the purpose and emphasis in these documents makes the UDA accountable in terms of delivering the outcomes Council has in mind for it. We propose that this be achieved as follows:

- A purpose statement to be included in the constitution which describes the reason for the UDA's existence and the type of activities it will be involved in.
- Explicit reference to the UGP as the guiding document for the UDA's activities.
- Inclusion of the UDA's organisational objectives, core operational activities and performance measures in the statement of intent.

We think the UDA's organisational objectives could be derived from the following:

1. **Unlock development potential** – remove barriers to development where that will enable achievement of formal Council policy on urban renewal, economic development, housing delivery and affordability (e.g. land assembly, infrastructure investment).
2. **Increase supply of affordable housing** – support delivery of new housing into the market at affordable price points.
3. **Deliver large-scale Council development projects** – deliver Council development projects above a specified value threshold that would otherwise be delivered from in-house.
4. **Catalyse the market through demonstration projects** – conceptualise and lead delivery of demonstration projects to catalyse the market in support of strategic urban development policy.
5. **Oversee development of strategic Council property** – oversee development of underutilised Council land holdings located in strategic locations or which have strategic development potential.
6. **Optimise development outcomes on strategic sites** – intervene to optimize strategic development opportunities (in terms of quality or scale) where there is a risk the market

alone will not.

6.4.2 Reporting Framework

The UDA would be responsible to Council via its board, though it is expected that reporting back to Council would be done by the UDA's chief executive on behalf of the UDA's board. Decision making and control of the UDA by Council could be exercised by full Council or delegated to a committee (e.g. Transport and Urban Development). We think there is likely to be value in having an Iwi appointee on the Council committee overseeing the UDA's activities. This would help to ensure that mana whenua and Māori cultural issues relevant to development are given appropriate attention at the governance / oversight level, including the development of the constitution and statement of intent. The major reporting junctures for the UDA back to Council would occur to align with Council's annual and long-term planning processes but less substantive reporting would need to occur on a quarterly or six-monthly basis.

6.5 FINANCIAL FRAMEWORK

Early engagement with Councilors signaled a clear preference for a development entity to become self-funding over time – see the broad principles outlined in [Section 1](#). Decision making on the form and quantum of establishment funding would be made as part of deliberations on the 2017-18 annual plan following public consultation.

Ultimately self-funding would be achieved by the UDA generating profits in development projects which could then be recycled into future projects and offsetting operating costs. However, in the first instance the UDA would need to be funded in some form to begin operations. Further work is required to ascertain the best option and the level of funding required.

6.6 RISK MANAGEMENT FRAMEWORK

The UDA should be established within a clear risk management framework. This would be drawn directly from Council's own risk management handbook which is based on best practice and the Australian – New Zealand Standard on Risk Management (AS/NZS4360:2004) and international standard ISO31000. Council's approach to risk management is:

- The management board and directors are consulted and kept informed about risks.
- Risks are evaluated and managed in line with the risk description and action table in the handbook.
- Accountability for the management of risks is assigned to relevant managers.

- Risk registers (risk management plans) are established and maintained.
- Risks and controls are regularly reviewed for relevance, sufficiency and effectiveness.
- Risks and treatment plans are regularly monitored and reported on.
- Consideration of risks is integrated into planning, project management and assurance activities.

The UDA will need to prepare a risk register and risk management plan which will:

1. Link the key goals and objectives of the UDA to the Council group's activities.
2. Identify all potential risks, when and where they could occur and the impacts.
3. Identify existing controls, the likelihood and consequence of the risk occurring with the controls in place, and determine the risk level based on the risk matrix in the policy handbook.
4. Evaluate the risks, whether the risk is tolerable and acceptable, and the options for responding to the risk including treat; accept; transfer; share; terminate; contingency or prevent.
5. Treat the risks by identifying who is responsible, when the plan will be implemented and what the plan involves.
6. Monitor and review treatment plans and any changes to the internal or external environment.

A preliminary assessment and identification of risks is set out in [Section 6.1](#).

6.7 SPATIAL JURISDICTION

Because the UDA would be formed by Council its obvious spatial jurisdiction is within city boundaries. However, it would be useful if the UDA can be set up so that it could operate outside the city boundaries in the future. This could be useful in the event of possible local government amalgamation / restructuring or demand from neighbouring local authorities to contract the UDA's services.

At a more local scale there are parts of the city where the UDA's intervention will be more likely / valuable than others and we think it is reasonable that the UDA would signal to Council annually and triennially (to align with the annual and long-term plan processes) the projects and areas where its' activities will be focused.

6.8 ORGANISATIONAL LIFESPAN AND REVIEW

As noted in [Section 6.5](#) the UDA will need a realistic period of time over which to become self-funding. It will also need a realistic period of time to prove its ability to deliver desirable urban development outcomes for the city. However, the effectiveness and ongoing need for the UDA should be subject to regular review by Council given the resourcing and risks associated with it. We suggest the following review junctures based on an assumed organisational establishment date of 1 July 2017:

- Annual effectiveness reviews aligning with Council’s annual plan processes.
- Substantive three-yearly reviews aligning with Council’s long-term plan processes.

Specific consideration should be given to the scope of annual versus three-yearly reviews but we would suggest that annual effectiveness reviews focus on areas for organisational improvement whilst three-yearly reviews should also address Council’s ongoing requirement for the UDA. However, to ensure the UDA is given sufficient time to succeed we suggest that the first review of the UDA’s ongoing requirement occur as part of deliberations on the 2024-2034 long-term plan (i.e. in eight years’ time). Given the strategic, large-scale nature of some of the projects the UDA might undertake we think this is the earliest point at which a full review should occur. This would be consistent with Section 17A of the Local Government Act which requires local authorities to review the cost effectiveness such structures not less than every six years. Assuming establishment on 1 July 2017 or thereafter this can be timed to tie in with deliberations on the 2024-34 long-term plan as suggested above.

At this stage we don’t think it is necessary to place an end date on the UDA’s activities. Unlike WWL it will not be operating in a discrete spatial area where an overall development timeframe can be estimated. Further, some of the large scale change and projects identified in the UGP will likely need extended timeframes (in excess of 10 years) to be realised.

We recommend that review of the UDA’s activities be undertaken by Council’s CCO team with findings being reported to a dedicated committee for decision making (see [Section 6.4.2](#)).

6.9 ALIGNMENT WITH OTHER COUNCIL ACTIVITIES

Outside of the UDA’s activities Council will continue to deliver critical functions and services related to urban development. These will include:

- Strategic city planning / growth management (UGP).
- District plan policy (including special housing areas / SHAs).

- Major infrastructure funding and delivery.
- Development contributions policy and collection.
- Social infrastructure funding and delivery.

The UDA would exist exclusively for the purpose of assisting Council in achieving its strategic urban growth goals (embodied in the UGP). For this reason it is critical that its activities are optimally aligned with related activities being delivered from “in-house” at Council. This will require close, disciplined communication between the UDA and Council proper. Particular opportunities / areas for alignment are:

- Ensuring the UDA’s activities generally occur within priority growth areas identified in the UGP (in its current form or as amended by future reviews).
- Ensuring the UDA’s activities occur in areas with favourable district plan zonings (or SHAs).
- Aligning Council’s infrastructure renewals / capital works programme with UDA projects where necessary to ensure sufficient infrastructure capacity is available.
- Review of Council’s development contributions policy to provide financial incentives to the private sector in support of UDA projects (e.g. waivers where there is adequate infrastructure capacity available or certain development conditions are met).
- Aligning Council’s social infrastructure programme with the UDA’s activities to provide investment / anchor tenant support.

Because the UDA would operate at arms’ length with a mandated delivery function, alignment between it and Council proper should be overseen and pursued primarily from in-house but should also be seen as an area of joint responsibility.

6.10 ESTABLISHMENT

The UDA could be formally be operating on 1 July 2017. In the period leading up to this date Council would need to make a decision to establish the UDA, approve funding, appoint the inaugural UDA board which would be charged with appointing its own chief executive who in turn would appoint other UDA staff. The decision to establish the UDA and its level of funding could be made next year as part of 2017-18 annual plan deliberations. An in-principle decision can be made prior to this.

7. CONCLUSION

The establishment of a broad ranging UDA as an arms' length entity of Council has been actively considered for almost 10 years. First and foremost limitations relating to land availability and the local development mean that Council's vision for Wellington embodied in the UGP will not be realised without some form of public sector intervention. In its guardianship role for the city Council is the agency best positioned to do this.

For reasons fully explained in preceding sections a dedicated UDA entity is proposed. It would be a CCO or CCTO and company with an independent board responsible to Council. To ensure value for money to ratepayers it would operate within a commercial framework but its organisational purpose would be to assist delivery of Council's vision for the city set out in the UGP.

A number of checks and balances are proposed to ensure that the UDA delivers on the role and outcomes Council would envisage, these include:

- direct accountability to Council or a nominated Council committee;
- regular reporting and accountability mechanisms aligned with Council's annual and long-term plan process (and more regular – probably quarterly – reporting);
- an independent TAG group with a focus on development outcomes which vets individual projects and provides input into development design and configuration;
- an independent board with relevant, specialised skills; and
- nimble organisational structure based on a small number of permanent staff and use of contractors to give greater control of overheads given the lumpy nature of development projects.

Principal among the UDA's activities would be attracting and facilitating development activity in the city (an advocacy role); disposing, purchasing and assembling land to create strategic development parcels; de-risking strategic land where existing encumbrances have presented a barrier to market activity; and procuring and managing development partners including leveraging land ownership to achieve "bonus" outcomes with social or environmental benefits (e.g. affordable housing units, exemplar urban design). To maximise benefits the UDA's activities should be aligned with Council's activities, for example major infrastructure upgrades, to support development projects.

The primary barrier to realization of outcomes in the UGP is lack of supply of vacant, serviced and zoned ("shovel ready") land in the city. Therefore assembling and readying shovel ready land in strategic locations would be a core focus for the UDA. More broadly the proposal for the UDA

outlined in this report is predicated on removing existing barriers to market delivery of Council's vision for the urban and economic development of the city. A core principle underpinning its activities would be "bridging the gap to the market and no more". This approach will ensure the UDA does not overreach itself financially and is focused on facilitating partnerships (rather than competition) with the private development sector.

Establishing the UDA would represent a significant decision for Council, but without it, or something akin to it, Council's role in urban development will remain passive and regulatory in nature. Experience since 2006, when Council began taking a strategic, planned approach, is that this passive role has not delivered the outcomes sought. Based on certain assumptions about Council decision making we propose the following process for establishment of the UDA:

- Seek Council approval to consult on the establishment of the UDA through the 2016-17 annual plan process.
- Consider submissions received on the UDA proposal through the 2016-17 annual plan process. An in-principle decision can be made at this stage
- Seek Council approval for funding to operationalise the UDA on 1 July 2017 through the 2017-18 annual plan process.



Author:
Andrew Macleod
National Planning Manager
The Property Group



Peer review:
Matthew Paetz
Auckland Planning Manager
The Property Group

BACKGROUND MATERIAL

Christchurch Central Development Unit website (www.ccdugovt.nz).

New Zealand Government (2011), *Canterbury Earthquake Recovery Act*.

New Zealand Government (2002), *Local Government Act*.

New Zealand Government (1981), *Public Works Act*.

New Zealand Government (1991), *Resource Management Act*.

New Zealand Government (2013), *Housing Accords and Special Housing Areas Act*.

New Zealand Government and Wellington City Council (2014), *Wellington Housing Accord*.

New Zealand Productivity Commission (2015), *Using land for housing*.

Panuku Development Auckland website, (www.panuku.co.nz).

Regenerate Christchurch website, (<http://regeneratechristchurch.co.nz/transition>).

The Property Group (2014), *Wellington Land Development Agency: Issues and potentials*.

The Property Group (2014), *Wellington City Housing and Residential Growth Study: Final Planning Assessment and Recommendations*.

Treasury (2013), *Briefing to the Incoming Minister of Housing: Monitoring Housing New Zealand Corporation and Tamaki Redevelopment Company [2013]*

Wellington City Council (1999), *Wellington City Operative District Plan*.

Wellington City Council (2003), *Northern Growth Management Framework*.

Wellington City Council (2006), *Urban Development Strategy*.

Wellington City Council (2008), *Adelaide Road Framework*.

Wellington City Council (2008), *Centres Policy*.

Wellington City Council (2015), *Urban Growth Plan 2014 – 2043*.

Wellington City Council (2015), *Urban Growth Plan (Implementation Plan) 2014 – 2043*.

Wellington City Council (2001), *Wellington Waterfront Framework*.

