



Ref: 1718-0142

12 SEP 2017

Ms Margaret Mechum

fyi-request-6273-b84ebc94@requests.fyi.org.nz

Dear Ms Mechum

I refer to your email of 25 July 2017 requesting the following information under the Official Information Act 1982 (the Act):

- *I request copies of the reports referred to in point 6 and point 8 of the cabinet minute [SOC (10) 28/1].*
- *I also request any working documents, drafts, literature review documents, and meeting minutes associated with the production of these reports.*

It should be noted that, whilst SOC Min (10) 28/1 makes reference to reporting back to Ministers, this minute was replaced by CAB Min (10) 44/8. There is a note on the bottom of CAB Min (10) 44/8 that notes "This minute replaces SOC Min (10) 28/1. Cabinet amended paragraphs 6 to 8, and added paragraph 21." You received a copy of CAB Min (10) 44/8 as part of Treasury's response to your previous request of 20 April 2017.

A draft Cabinet Paper was provided to Ministers in April 2011 responding to the relevant recommendations from CAB Min (10) 44/8, with a final version lodged in May 2011.

The draft Cabinet paper, associated briefing, final Cabinet paper and Cabinet Minute have been released to you and are listed in the attached document schedule.

Please note that some information has been withheld under section 9(2)(b)(ii) of the OIA, to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.

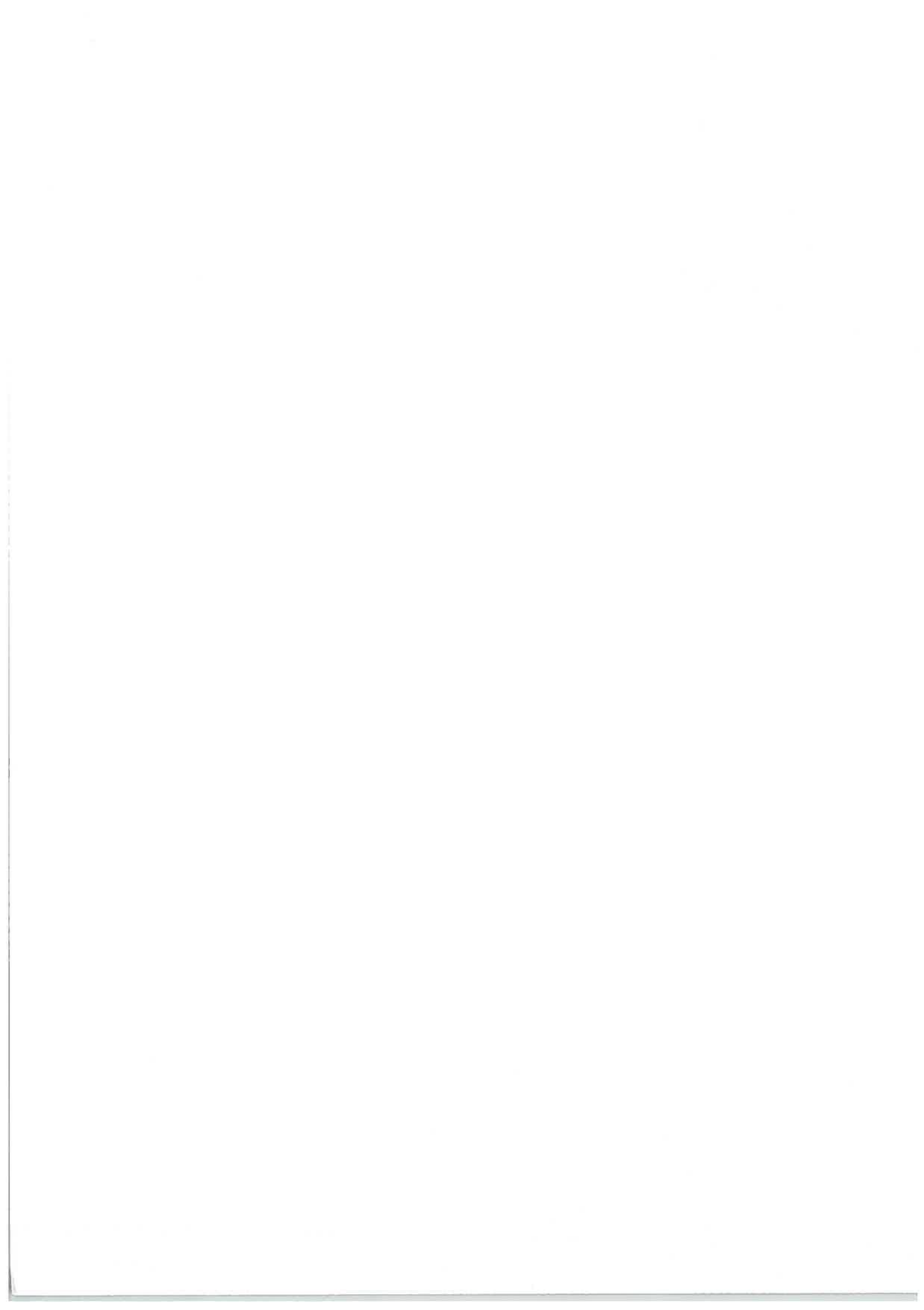
Where information has been withheld for section 9 reasons, in terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the decision to withhold this information is not outweighed by other considerations that render it desirable to make the information available in the public interest.

You have the right to seek an investigation and review of my decision by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found at www.ombudsman.parliament.nz.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Hilary Eade', written in a cursive style.

Hilary Eade
Manager, Construction and Housing Policy
Construction and Housing Markets
Building, Resources and Markets



1718-0142 – Documents released			
Ref	Date	Document Title	Withholding status
1	6 April 2011	Briefing – BN 470 10-11 - Transforming social housing through greater third party participation: Advice and draft Cabinet paper	s9(2)(b)(ii)
2	6 April 2011	Cabinet Social Policy Committee Paper - Transforming social housing through greater third party participation	s9(2)(b)(ii)
3	2 May 2011	Cabinet Social Policy Committee Paper - Establishing a Funding Mechanism for Future Social Housing Provision	N/A
4	4 May 2011	Cabinet Minute – SOC Min (11) 8/1	N/A



Minister of Housing

Date 6 April 2011

Ministerial office reference

Department reference BN 470 10-11

Transforming social housing through greater third party participation: Advice and draft Cabinet paper

Purpose

The purpose of this paper is to present recommendations to increase the scale and scope of third party provision of social and affordable housing, including:

- the steps needed to achieve growth of social and affordable housing at scale
- initiatives to grow third sector provision which potentially could be progressed in the short term
- the establishment of a specialist National Housing Unit and a Social and Affordable Housing Ministerial Advisory Panel
- confirmation of HNZC's role as a social housing provider for people with high needs
- options for funding the growth of third party providers.

A draft Cabinet paper is attached for your consideration.

Recommendations

It is recommended that you:

1. consult with the Minister of Finance on the attached draft Cabinet paper
2. note that HNZC disputes the analysis in paragraph 58 below (which indicates that the HNZC operating costs as a percentage of gross rentals are significantly higher than an industry benchmark)
3. note that a comment from the State Services Commission on the location of particular functions has been included in the Cabinet paper
4. sign the finalised Cabinet paper and CAB 100 and forward to the Minister of Finance for his agreement and signature

5. Lodge the Cabinet paper with Cabinet Office by 10.00am on Thursday 7 April 2011 for consideration by Cabinet Social Policy Committee on 13 April 2011.

Timeframe

Lodge the Cabinet paper with Cabinet Office by 10.00am on Thursday 7 April 2011 for consideration by Cabinet Social Policy Committee on 13 April 2011.

Chief Executive

Katrina Bach, Chief Executive

Principal author

Suzanne Townsend, Deputy Chief Executive Sector Policy - 027 228 4586.

Released under the
Official Information Act 1982

Transforming social housing through greater third party participation

Purpose

1. The purpose of this paper is to present recommendations to increase the scale and scope of third party provision of social and affordable housing, including:
 - the steps needed to achieve growth of social and affordable housing at scale
 - initiatives to grow third sector provision which potentially could be progressed in the short term
 - the establishment of a specialist National Housing Unit and a Social and Affordable Housing Ministerial Advisory Panel
 - confirmation of HNZC's role as a social housing provider for people with high needs
 - options for funding the growth of third party providers.

Executive Summary

2. The Government is facing a significant housing problem – in particular, a lack of social and affordable houses.¹ Current unmet demand for social and affordable housing is approximately 50,000-60,000 households (a breakdown is provided in Table 1 below) and this is growing at a rate of 5,000-10,000 per year. The problem is acute in Auckland.
3. Included within this estimate of unmet demand are around 10,000 substandard houses across the country. The Canterbury earthquakes have exacerbated housing problems in that area but those problems are being dealt with via other mechanisms.
4. Ministers have choice about the how to solve the problem and the pace of change. These solutions include:

¹ The social and affordable housing sector includes:

- people who require housing assistance because they cannot independently meet their housing needs
- organisations who provide financial assistance so people in need can meet their housing costs
- organisations who provide social and affordable housing (including HNZC and third sector providers such as not-for-profits, non-governmental organisations, iwi and commercial funders).

- Relying on HNZA to meet the problem through business as usual activities could help, although capacity to respond with supply at scale is limited (perhaps 10,000 new houses) and the cost to Government would likely be high.
 - "greenfields" development. In some areas of the country this is viable but in the worst affected area, Auckland, there is a limited amount of vacant land available for development at scale in the areas people want to live and work.
 - Providing grants for proposed projects that are in the pipeline now would leverage off the third sector, iwi and private organisations and provide some quick wins. Although there is currently some money available, it would be costly to Government to rely on this option alone to solve the problem.
 - Urban regeneration. The Government has access to significant parcels of Crown land that are currently underutilised, in particular existing state houses on large sections that could be redeveloped into higher density, mixed tenure communities. This option has the most potential for development on the scale required, but would be expensive for Government to do alone.
 - Land and stock transfers to the third sector, iwi and other private organisations. However, candidate organisations tend to be impeded by lack of liquidity required for development of land to the scale needed to make in-roads into the size of the problem.
5. While these solutions will increase supply of social and affordable housing it is unlikely that all unmet demand will be satisfied.
 6. The options described above vary in the speed at which results can be delivered. Grants for organisations that have projects in the pipeline and urban regeneration could deliver new supply quickly. The other options will take more time, especially the options that would require increasing the scale and capability of the third sector.
 7. Ministers could choose one, some or all of the options to increase the supply of social and affordable housing. Pursuing an increase in supply of social and affordable housing on the scale required will require intensive management. Different areas of the country experience different barriers to increasing supply. The responses in each area will be case specific.
 8. For example, the key problem in Auckland is limited vacant land but considerable under-utilised land. There is scope for development at scale, but this would be an unaffordable investment for Government alone. Working with partners is key, but there are limited options at present because third sector/iwi presence in the market is small and have limited ability to be quickly scaled-up without the right support.

9. This paper proposes setting up a National Housing Unit that will be responsible for facilitating greater involvement of third party providers, advising Ministers on appropriate options and liaising with the market to achieve the best results.
10. Over the next year, the NHU would plan to deliver targeted responses to the supply issue by working with existing grants and progressing current opportunities, build relationships and develop a national and affordable housing investment strategy and portfolio management plan.
11. Over time the NHU will evolve to leading procurement of new supply, funding a range of housing providers (including HNZC and the third sector) and responding to the direction of change in social and affordable housing issues.

Context

12. The Housing Shareholders Advisory Group report confirmed that the current delivery model for social housing is not meeting the needs of a growing number of households and is increasingly unaffordable for Government.
13. In December 2010, Cabinet announced its response to the report of the Housing Shareholders Advisory Group and agreed a direction of change for the social housing sector that involves delivering the following outcomes:
 - greater involvement of third sector providers of social housing
 - increasing the effectiveness of financial assistance
 - focusing Housing New Zealand Corporation (HNZC) on providing social housing to tenants with the greatest housing need
 - aligning the organisation and responsibilities of government agencies.

[STR Min (10) 16/1 of October 2010 and CAB Min (10) 44/8 of December 2010 refers]

14. This paper seeks agreement on a proposal that will allow those decisions to be implemented.
15. Cabinet invited the Minister of Finance and the Minister of Housing to report back to Cabinet Social Policy Committee on:
 - the potential scale and scope of third sector provision of social housing
 - the future role of HNZC (as a provider of social housing)
 - options for funding growth of third sector housing provision, including incentives, costs and funding sources to achieve this
 - the vehicle for funding social and affordable housing providers (including HNZC).
16. Cabinet has already made decisions to re-focus HNZC efforts on people with high needs:

- Introduction of reviewable tenancies for new state house tenants [SOC Min (11) 5/1 refers]
- Housing Restructuring and Tenancy Matters Act 1992 - proposed amendments [considered by SOC on 6 April 2011]
- Improvements to HNZC's Social Allocation System [considered by SOC on 6 April 2011].

17. Cabinet has also sought report backs on improving the performance of housing assistance, including:

- the problems associated with the current financial support for housing
- options and recommendations for changes to financial support for housing
- an appropriate transition path to a new housing assistance regime.

18. An interim report on the above matters is due on 30 June 2011.

The case for change

19. As shown in Table 1 below, there is a high level of unmet demand for social and affordable housing. Estimates suggest the current unmet demand is 50,000 to 60,000 homes:

- Auckland has the highest concentration of unmet demand and the problem is getting worse
- the Canterbury earthquakes have led to increased unmet demand there – this is being addressed separately
- there is a significant problem in rural areas arising from around 10,000 substandard private houses
- provincial areas have ongoing demand, but do not have significant unmet demand.

Released Under the Official Information Act 1982

**Table
1**

Estimated Unmet Social Housing Needs		
Household Units, as at 31 March 2011		
Housing need	Lower	Upper
	No.	No.
Living rough ¹	300	300
Substandard rural housing ²	9,700	9,700
Temporary accommodation ¹	8,000	20,000
HNZC Waiting list "A" + "B" ³	4,800	4,800
Over crowded ⁴	20,500	20,500
Estimated unmet housing need	48,600	60,600

Notes:

1. Housing Shareholders Advisory Group
2. Report on Rural Housing Programme, November 2010.
3. HNZC.
4. Statistics New Zealand *What is the extent of crowding in New Zealand? An analysis of crowding in New Zealand households 1986–2001* estimates nationally 5.1 percent of private dwellings are over-crowded.

20. Population growth, changes in household composition, the changing balance of rental housing versus owner-occupation and low levels of residential construction are all factors driving a deteriorating situation in the Auckland region. Population and household growth projections indicate a required housing stock growth rate of approximately 20,000 units per annum, with half of that growth occurring in Auckland. Current house construction rates are around 15,000 per annum for New Zealand and less than 4,000 in Auckland.
21. The Auckland situation is further complicated because the available land suitable for development, at an acceptable cost for social and affordable housing, is limited to a few thousand potential houses (e.g.: Tamaki and Weymouth). The only readily available source of suitable land is to increase housing density on existing state housing land.
22. The scale of the unmet demand is such that state housing stock would need to double over a relatively few years. The scale of the investment required is beyond what the Government can afford in the face of current fiscal pressures and borrowing constraints. Different approaches are needed. These include stock transfers, grant funding and making better use of state housing assets.

23. Making significant inroads to the unmet demand issue will require a new approach involve mobilisation of private debt and equity capital, increasing the efficiency of uses of existing state housing land and urban redevelopment at scale.

Why increase the scale and scope of third party provision?

24. Increasing the scale and scope of third party provision will accelerate reaching the following five year goals, identified by the Housing Shareholders Advisory Group (refer page 87 HSAG Report of April 2010):

- accelerated progress in major urban renewal schemes
- significant niche, local and national providers of social housing and services
- new transition products in the marketplace supporting demand for affordable houses
- building to a run rate of about 2,000 – 2,500 homes per annum after five years
- significant progress on the backlog of repairs and maintenance.

25. Proposals to achieve the transformation of the social and affordable housing sector are based on the premise, substantiated by previous decisions by Cabinet, that explicit development of third party scale and niche housing providers is required - both to meet predicted increases in demand for social housing assistance, and given the constraints on government finances.

26. As previously acknowledged by Cabinet (December 2010), the expected benefits of expanded third party provision include:

- growing the total quantum of available social housing
- the ability to leverage funding and assets from a broad range of non-government sources (including commercial, local government, iwi and philanthropic)
- the ability to shift development and/or operating risk to the private sector
- access to wider skills, specialisation and services
- costs savings through increased choice and innovation
- greater ability to tailor solutions to local and individual circumstances
- dynamic changes to the wider rental housing market, for example, in standards, supply of affordable and secure rental housing.

Scale and scope: What can be delivered and by when?

27. Over the past three months, officials have engaged with a number of existing and potential new providers of social and affordable housing, to test how much additional supply could be generated, in which areas of New Zealand.

28. This engagement has confirmed that there is the potential for significant growth in the total quantum of available social and affordable housing through HNZA and other providers. There are a range of options to develop new "greenfield" sites and to redevelop housing on existing Crown owned and territorial authority land. Ministers have choices as to the future quantum of additional social and affordable housing, the location of additional housing, and the pace of change.

The possible role of niche and special interest providers

29. Only around 2,000 - 3,000 homes could be delivered by niche and specialist social and affordable housing providers (including not-for-profit, community and iwi groups) such as the Salvation Army, IHC and others by leveraging stock transfers alone. This is because the condition, location and value of the stock would only provide limited scope for leverage and additional housing stock.
30. While some niche and specialist housing providers are keen to grow they are cautious about the speed and scale of change, as they wish to remain focused on their core business rather than move into provision of general social housing. The potential to grow this segment of the housing market is also limited because:
- niche and specialist social and affordable housing providers currently represent only 1.2% of the total housing market
 - most have a narrow focus - they are niche organisations which focus on housing people with special needs or particular problems (rather than a wide range of households)
 - only a few are interested in larger scale housing projects
 - although some have strong balance sheets they generally have low liquidity which makes it difficult to raise capital.
31. However, some niche providers have expressed an interest in increasing their housing stock and becoming general social or affordable housing providers. Also some iwi have indicated a strong interest in a significant role in social and affordable housing provision.
32. Within this segment of the overall social and affordable housing market, officials advise that priority should be given to developing the one or two niche providers that want to grow and can grow, during the next two to three years because of the ability to work directly with them to quickly deliver results. They will need additional support to build capacity and capability to play a greater role. Within the next six months expressions of interest could be sought from niche and specialist providers for:
- specific HNZA stock and/or Crown land (e.g. Weymouth)
 - providing tenancy management services for groups of HNZA housing outside major cities.
 - grants for capital to assist the funding of new supply

- potential to assist iwi to become social and affordable housing providers at scale in their local areas.

33. Once select providers have achieved critical mass they are in a better position to realise economies of scale in housing development and generate sufficient revenue to sustain their operations and contribute to their own growth.

34. As described in Annex One, there are a number of specific proposals that niche and specialist social and affordable housing providers wish to progress with officials. The support these groups are seeking include:

- access to land and some specific HNZA properties
- the opportunity to take over specific groups of HNZA tenants (e.g. Community Group Housing)
- access to grants to enable them to build capability and capacity
- specific assistance for iwi and hapu.

Achieving growth of social and affordable housing at scale

35. While special interest niche providers play an important role, they will not be able to supply a sufficient quantum of new social and affordable housing to meet the high and growing demand for social and affordable housing, particularly in Auckland.²

36. Social or affordable housing development at scale does not occur within the private market. The major constraints to the emergence and growth of third sector social and affordable housing providers (and growth of new affordable housing supply) are:

- (in Auckland), lack of access to suitable parcels of affordable land, both vacant and for redevelopment where people want to live and work
- the long timeframes, costs and uncertain outcomes of the planning processes required for major development projects creates uncertainty and a disincentive to work in this area of the market (which has a lower yield)
- an absence of institutional private social housing landlords.

37. As a result of these factors, it is very difficult for the private market to construct affordable homes at scale for people on low incomes in Auckland, where there is greatest unmet demand.

38. In rural areas, the issue of substandard Maori housing has not been addressed by the Rural Housing Programme and requires a different, more affordable approach.

² An estimated one in four New Zealand households require some form of housing assistance: through provision of a subsidy or a house to live in. The cost of financial assistance to Government increased by an annual average of 9% since 2001/2 to \$1.69 billion in 2009/10, and is forecast to increase to \$1.86 billion in 2012/13 (Ministry of Social Development). There is particular pressure on Auckland.

39. In provincial areas the social and affordable housing market is dominated by HNZC, leaving little scope for other providers at scale.
40. It is possible to overcome these constraints and grow the total social and affordable housing portfolio over time. Additional housing at scale will require:
- suitable parcels of land
 - integrated and efficient planning processes
 - organisations which can act as social landlords
 - new types of partnership arrangements
 - the ability to regenerate existing urban social housing sites.
41. The Crown (via HNZC and local authorities) has access to significant parcels of residential land that are currently underutilised. Many HNZC houses on this land are old or no longer fit for purpose. These houses are generally low value compared to the value of the land on which they sit, presenting an opportunity to redevelop at scale. This could be done in partnership with private capital.
42. To make it viable for third party providers to enter the market a reliable stream of revenue from rents or upfront subsidy will be required. At present, some low-income households, disproportionately those not renting with HNZC, are under financial stress (many of these are receiving the Accommodation Supplement) while some HNZC households (receiving Income Related Rents) are receiving more than they need.
43. Officials, led by MSD, have been directed to provide an interim report to Cabinet by 30 June 2011 on options to improve the performance of housing financial assistance. This work will take into account the requirements for third sector providers to obtain reliable revenue.

Timeframe to achieve substantial growth

44. The Housing Shareholders Advisory Group found that the third sector would grow substantially with access to certain funding sources and access to HNZC land. They recommended a transfer of capital or dwellings to selected non-government organisations to initially meet 20% of the sector's need over five years. This is uncertain and yet to be proven, and is based on current plans for increasing social housing stock being rolled out in Australia. The Housing Shareholders Advisory Group and additional consultation to date has shown the sector will continue to evolve to include a greater number of participants over time. It is hard to predict the pace of change.
45. A number of steps would be needed to plan, coordinate and implement major development projects, and to support growth of third party providers over time, including:
- identification of potential partners (i.e., organisations that can play roles in the planning, coordinating, project managing, financing and construction

- required for major redevelopment projects) - partnerships with the commercial sector and iwi have potential to provide access to the finance, capital and development expertise needed for large scale projects
- finding organisations that can manage social housing tenants and can play the role of social housing provider, and building their capability - this will take time and require direct investment and management
 - identification of suitable parcels of Crown land and housing stock. Preliminary work has identified several areas in Auckland which could be redeveloped, consistent with the draft Auckland spatial plan.

46. Given these factors a realistic timeframe to achieve between around 15,000 to 20,000 additional dwellings is probably about 10 to 15 years, with the expectation that it may move faster once the first few are in place and momentum and standard practice are established.

47. However significant progress is also needed in the short term, particularly to relieve the social housing and affordability problems in Auckland.

Auckland as a priority

48. Officials have examined a range of options to provide access to Crown land, including land in various rural and urban locations. There are strong reasons for beginning with a set of initiatives in Auckland.

49. Auckland is the area of greatest unmet demand, and there is a shortage of readily available land which is suitable for residential development. The Auckland Plan discussion document (released in March 2011) identified critical housing issues such as undersupply, lack of choice, poor quality and overcrowding.

50. In considering Government's input to the Auckland spatial planning process, Cabinet agreed that the Government's interests in Auckland housing included:

- improving economic growth through the provision of good quality, affordable housing that attracts potential migrants and retains existing residents
- helping more families in housing need, redeveloping poorly performing state housing assets and increasing the availability of affordable housing
- ensuring that those who rent their homes have access to healthy, stable accommodation at affordable rents.

51. In Auckland there are significant sites where land and housing is underutilised and which need to be reconfigured anyway. Ministers have already agreed to the Tamaki Transformation Programme, which is likely to provide an example of public/private co-operation to develop underutilised Crown land with the purpose of increasing supply of social and affordable housing.

52. Given the scale and severity of housing affordability problems, and the opportunity to leverage high value Crown land, it is recommended that Auckland be given priority.

Options for funding growth

53. There is a range of funding options available to the Crown, depending on the mix of options Ministers wish to pursue.

54. On 25 March 2011 CBC noted the estimated operating costs (not currently funded as part of Budget 2011) of \$40 million to \$45 million in each of the following three years, to implement the new direction in social and affordable housing.

55. CBC also noted that the Minister of Housing would write to HNZC to request an increase in dividends in 2011/12 to 2013/14 to offset the impact of this budget proposal on the operating balance.

56. If more funding is required Ministers could consider other options. These are summarised below.

Further dividend from HNZC

57. Further dividend could be sought from HNZC over the short term. The Government has already required greater organisational efficiency and effectiveness from HNZC, resulting in significant savings that could contribute towards a higher dividend payment.

58. Analysis undertaken by the Department of Building and Housing has highlighted that HNZC's operating costs are currently equal to 16% of gross rental expenses compared to an industry benchmark range of 8% - 9%.³ If HNZC was to function with operating costs closer to 9% then this could potentially provide savings of up to \$70 million per annum. Given the size of the potential savings, officials believe the issue warrants further investigation and propose that Ministers invite the HNZC board to identify what steps will be taken to lower operating costs closer to the industry benchmark.

59. Recycling sales proceeds from "wrong location" HNZC properties could also produce one-off funding of \$300 million - \$400 million, but this would inhibit HNZC's ability to reinvest in their own priority Auckland development.

³ This estimate is based on the 3 largest tenancy managers s 9(2)(b)(ii)

Contribution of land and/or housing stock

60. In addition, Government has options to contribute parcels of land and/or housing stock to raise capital:
- assets could be transferred to third sector providers to enable them to borrow money to finance construction of new housing and/or refurbishment of existing houses
 - parcels of Crown owned land could be sold to raise capital (e.g., Hobsonville or Weymouth).
61. Contribution from Government could be leveraged in a number of ways, including through philanthropic donations, institutional investment, contributions from local government, and through sales of some individual houses (on redeveloped sites) for owner occupation.

Incentives

62. A number of incentives have been considered for funding growth of third sector provision of social and affordable housing. They include:
- capital subsidies
 - tax incentives
 - Crown underwriting of financial risk
 - government guarantees of investment performance
 - de-risking
 - allowing third sector providers to receive the same level of income subsidy as HNZC.
63. The option of tax incentives has been discounted because incentives are inconsistent with the direction of tax policy, and they leave open the possibility of tax avoidance behaviour.
64. Capital subsidies are transparent, although for large scale developments there would be high fiscal impacts. (However government may wish to consider capital subsidies for smaller niche and specialist providers).
65. Consideration of allowing third sector providers to receive the same level of income subsidy as HNZC will be incorporated into the wider report on improving the performance of housing assistance due to be considered by Cabinet Social Policy Committee by 30 June 2011.

A further option – not recommended

66. Officials also examined the option of generating a funding stream through the sale of houses occupied by unsubsidised tenants. However this option would be unlikely to yield significant revenue, particularly within the short term. While there are a significant number of unsubsidised tenants, the level of rent they

pay is low. In addition, the houses are run-down, with low market value unlikely to realise a good price. Selling directly to the tenants will not always be feasible because, even though they are paying a market rent, many do not have the asset base or level of income required to purchase the home (or another property) and sustain homeownership.

Implications for HNZN

67. Cabinet has decided that HNZN will focus on housing people with high needs for the duration of their need [Cab Min(10) 44/8 refers]. The advice considered by SOC on 6 April on improving the Social Allocation System defines two levels of housing need: high and low. HNZN will be responsible for housing required for high needs tenants.
68. HNZN will continue to play a major role in providing housing solutions for a large number of New Zealanders and will continue to be a large social housing provider for some time.
69. The change in focus for HNZN has implications for its asset portfolio. As the focus on high needs tenants is implemented, and existing tenancies are reviewed in stages, over time HNZN will require houses in a different geographic spread to the current portfolio.
70. HNZN has also identified further opportunities for reconfiguration. As highlighted in Table 2 below based on HNZN's asset management strategy, a significant proportion of its housing is viewed as being either in the wrong place or of the wrong type.

Table 2		Right place, right type
HNZN owned:		
Acceptable quality		28,000
Impaired		12,000
Leased		2,000
Sub-total		42,000
Wrong place, wrong type		
HNZN owned		24,000
Leased		1,000
Sub-total		25,000
Total		67,000

71. It will take time for HNZN to reconfigure its portfolio and to align its asset management strategy with its new focus on high needs tenants. This is partly because alternative social housing providers (in particular providers who can

manage a large portfolio of tenancies) do not exist in some areas. It will take time to identify prospective social housing providers, to build their capability, to establish partnership arrangements, and to plan and coordinate housing redevelopment project. Partly as a result, the process of transferring land and housing stock (which is no longer needed for high needs tenants) to support the growth of alternative providers will be a staged and phased process over time.

72. A sector-wide social housing investment strategy and portfolio management plan, developed by the proposed National Housing Unit (discussed below) will allow sector wide decisions on the use of the current housing portfolio, and consideration of the possible impact of these decisions on HNZC's ability to buy or dispose of assets. This strategy will be informed by HNZC asset needs. This will:

- ensure HNZC's asset reconfiguration and ongoing management strategy does not inhibit and/or "crowd out" third sector provision of social and affordable housing
- create a level playing field for third sector housing providers
- enable Ministers to balance their specific objectives as owners of HNZC with their wider objectives of achieving greater involvement of third sector provision of social and affordable housing.

73. If Ministers agree to the development of a social housing investment strategy and portfolio management plan outlined above, the implications are:

- the HNZC Board would retain responsibility for managing the assets need for high need tenants and for providing advice to Ministers on management of these assets. The HNZC asset management strategy would need to align with the social housing investment strategy and portfolio management plan
- there would be a staged, phased release of some HNZC assets in accordance with the social housing investment strategy and portfolio management plan
- the impact on decisions arising from the investment strategy and portfolio management plan on HNZC's balance sheet and on HNZC's ability to manage its own assets would be clearly identified, and would be discussed with the HNZC Board
- the growth of a range of other providers and re-focussing HNZC efforts on being a social landlord for high needs tenants are expected to impose disciplines on HNZC that will reduce their costs and increase their efficiency.

74. Officials propose to report to CBC by 30 June 2011 with further detail on the implications for HNZC of the proposals for transformation of the social and affordable housing sector. In particular:

- there are a number of legal issues associated with reconfiguration of HNZC land and stock - advice on how Ministers could deal with those issues is still being worked through
- there are a number of legacy products and loan initiatives still being delivered by HNZC that will need to be reviewed. The State Services Commission, along with the Department of Building and Housing and HNZC, will consider if these functions should continue, where they should reside and the transition path for any change.

75. Changes to the Housing Corporation Act 1974 will be needed to give effect to the agreed changes to HNZC's role and functions. These legislative implications will be advised in the 30 June 2011 report to CBC.

National Housing Unit (NHU)

76. It is proposed that a dedicated National Housing Unit (NHU) is established from 1 July 2011 to lead the programme of work ahead to create a social and affordable housing market in New Zealand, and to maximise the effectiveness and efficiency of Government's investment in social and affordable housing.

77. The NHU would play the following roles:

- advisor to Ministers on investment strategy and portfolio plan to generate an increased supply of social and affordable housing
- allocator of funding to social housing providers (including HNZC)
- monitor and reporter of progress towards Government's goals related to social and affordable housing.

78. The NHU would work to achieve Government priorities and objectives for social and affordable housing, and would have a number of functions, including:

- facilitation of greater involvement of third sector providers to grow the overall quantum of available social housing as well as the potential for better efficiency and value for money through:
 - greater innovation, diversity and specialisation,
 - access to additional sources of capital
- facilitation, negotiation, contracting and brokerage of partnerships for specific redevelopment projects

development of a National Social Housing Investment Strategy and Portfolio Management Plan to achieve greater involvement of third sector providers through designing and championing a programme for redevelopment of underutilised state housing (land) assets including:

- preferred objectives, functions and form for redevelopment partnerships and new third sector housing service provision models
- proposed priorities and redevelopment initiatives (including the expected contribution to the Government social housing objectives and requirements for funding)

79. The NHU would also look for opportunities to encourage niche providers to partner together to increase their capability and capacity. Where the NHU could be most effective is in its ability to work with multiple partners including investors, the Crown and social housing providers to get houses built and where appropriate ensure Crown subsidies make it affordable for people struggling to find a home.

80. Possible Terms of Reference for the NHU are set out in Annex Two. It is proposed that officials submit proposed Terms of Reference for the NHU by 31 May 2011 for consideration and decisions by the Minister of Finance and the Minister of Housing.

81. The advantages of a dedicated unit with the confidence of partners is that it will be able to:

- provide a coherent Government interface with the sector
- have clearly defined objectives
- apply an independent, sector wide perspective to the use of existing Crown land and housing assets to leverage increased total supply
- obtain the mandate to broker a range of deals effectively
- keep an overview of the sector as a whole
- target its actions effectively towards Government housing objectives with reference to broader Government priorities and firmly anchored within Government policy.

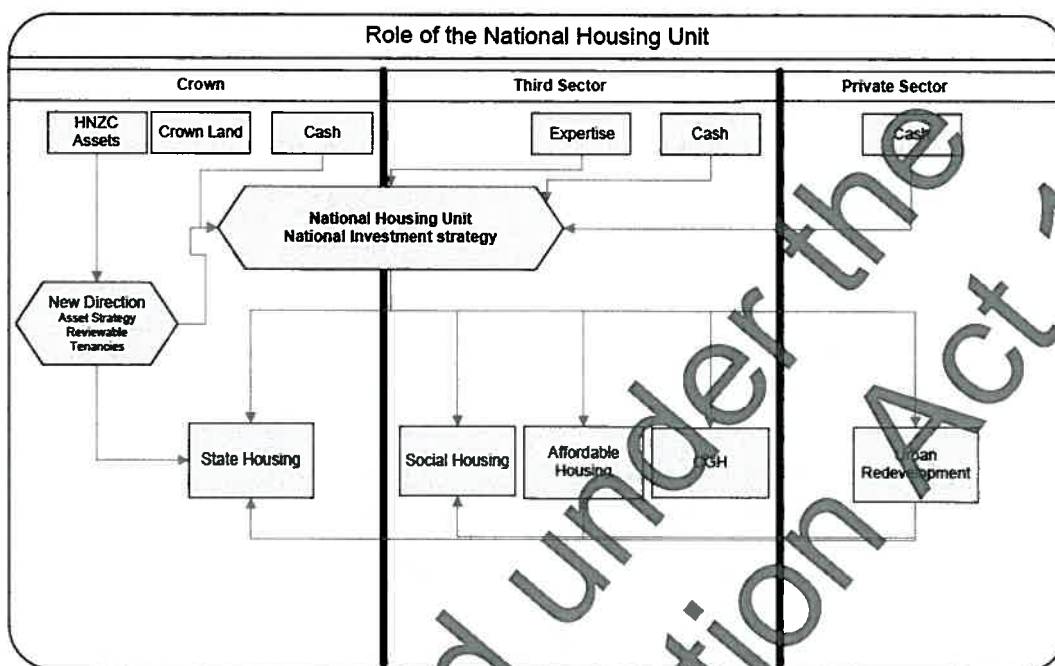
82. The proposed NHU would:

- take a nationwide view of social housing demand and supply to identify what is required and how Crown assets can be leveraged to achieve Government's objectives
- be able to work closely with a diversity of providers – including not-for-profit, for-profit, iwi and the capital markets
- have the skills to gain the confidence of providers and investors and be responsive, efficient, and able to make decisions.

83. To deliver on these functions a dedicated unit with specialist procurement skills, reporting to a Chief Executive, will be established. Given the strategic nature of the work and the complexity of the relationships to be managed, a head of the NHU will need to be an experienced senior leader with proven business skills.

84. The diagram below illustrates how the proposed NHU will be used to achieve the Crown's objectives for social and affordable housing:

End point: how the NHU contributes to a transformed market



Proposed short term deliverables for the NHU

85. The Department has discussed potential growth in the sector with social housing providers and with potential private investors. These discussions indicated a willingness to grow among some providers, and concrete proposals for progressing social and affordable housing, under the right conditions. These opportunities are detailed in Annex One and will form the starting point for ongoing work by the National Housing Unit.

86. Within six months the NHU will:

- develop systems and processes and build key relationships to establish outcomes based procurement for social and affordable housing
- progress the current opportunities to stimulate the provision of niche and specialist social housing providers, including by seeking expressions of interest from niche and specialist providers for:
 - specific HNZC stock and/or Crown land (e.g. Weymouth)
 - providing tenancy management services for groups of HNZC housing outside major cities.
 - grants for capital to assist the funding of new supply

- commence the allocation of grants to low-risk, well-established third sector housing providers (these grants will replace the current Housing Innovation Fund grants).

87. Within 12 months the NHU will:

- develop a draft National Social Housing Investment Strategy and Portfolio Management Plan for Ministers' consideration
- identify further specific opportunities to stimulate social and affordable housing at scale through the formulation of specific, large scale development projects.

Location of the NHU

88. It is proposed that the NHU be a dedicated, specialist unit. One option is to locate this unit with the Department of Building and Housing, on the grounds that:

- one group would be solely responsible for social and affordable housing strategy, procurement and relationship management
- it will result in closer alignment of social and affordable housing functions with social housing policy
- the ability to leverage existing housing initiatives already being undertaken by the Department of Building and Housing (e.g. Rural and Maori housing, Tamaki Transformation),
- the ability to leverage existing relationships with the wider building, construction and housing sector to facilitate third sector providers to increase their supply of social and affordable housing.

89. The core purpose of the unit is to increase supply of social and affordable housing by bringing together different parties within the housing and construction sector. Those core relationships currently sit with the Department of Building and Housing.

90. This would not preclude management of some contracts by the Ministry of Social Development where housing was an integral part of social service delivery. There could also be joint procurement (by the Department and the Ministry) where the purchase of housing supply and the purchase of social services were closely linked.

91. There are benefits to aligning strategy, procurement and relationship management: the unit could quickly leverage housing initiatives already being undertaken by the Department of Building and Housing.

SSC Comment on Location

92. Government is seeking greater involvement of third party providers of social housing to expand the overall supply of social housing and to achieve innovation, diversity, specialisation and new sources of capital. In order to deliver this new approach to the supply of social housing, it will be necessary for government to take a more dynamic and proactive approach to working with current and potential providers. This will involve at least four distinct functions:
- development and implementation of a national social housing investment plan, including the strategic restructuring of the state housing portfolio, including current properties that are in low demand areas, that are under-utilised and that are time-expired
 - development and negotiation of complex, at scale urban redevelopment public-private partnerships with commercial partners (from New Zealand and potentially overseas)
 - purchase of social housing outcomes from current and potential social housing providers, including HNZC
 - advice on the future role for HNZC, as a provider of social housing to tenants with high needs.
93. Locating a specialist unit within a department would be one option to perform one or more of these functions, and these functions could be delivered by one or more agencies. The State Service Commission (SSC) supports the proposal to create a separate establishment capacity from 1 July 2011 to:
- establish robust accountabilities and governance
 - draw on commercial expertise and relationships
 - apply the wider context of the need to deliver better services more efficiently to citizens and stakeholders, including by utilising existing capability, reducing fragmentation and achieving economies of scale
 - develop detailed advice on the functions required and the most effective means to deliver those functions
 - develop a clearly defined transition path, working towards implementation from 1 July 2012.
94. The establishment capacity would not carry out any operational functions itself, and it could work with current participants (including DBH, HNZC and MSD) to test and develop some of these new approaches for the supply of social housing.
95. SSC will provide detailed advice on the creation of such an establishment capacity by May 2011, including on its purpose, form, functions, governance and accountability, including cost and legislative implications. The

establishment capacity outlined above could be created by Cabinet decision. If the establishment capacity were required to take on functions or powers from other agencies (e.g. DBH or HNZA) this would require specific decisions on those functions and a different organisational form.

Other Comments on Location

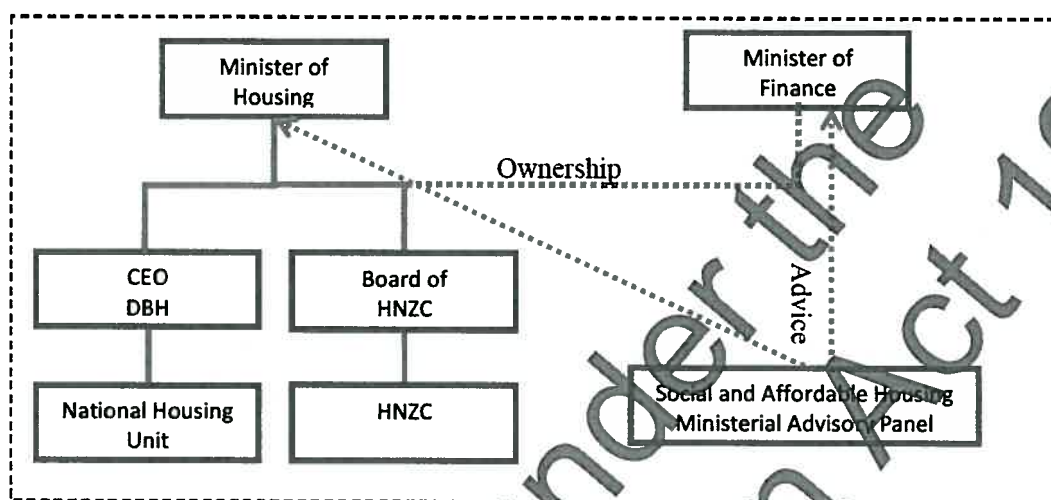
96. The Ministry of Health notes in its comments on this paper that hardwiring social services and housing together reduces people's choice as to where they are housed. This is at odds with the direction they are working towards in dealing with people with disabilities.
88. Other officials note that the proposed role for the NHU of allocation of funding to build capability of prospective social housing providers and support their entry into the market would be broader than purchase of social services. This role would also involve a wider range of providers than the existing niche and specialist providers. In addition it would be important for the NHU to establish partnerships with private sector and commercial organisations. This is a considerably wider focus than the Ministry of Social Development's current role in this area.

A Social and Affordable Housing Ministerial Advisory Panel

89. Given the range of stakeholders, the complexity of the reforms the uncertainty as to pace and impact over a long time, it is proposed that a Social and Affordable Housing Ministerial Advisory Panel is established. The Panel would report 6-monthly to shareholding Ministers with independent advice on:
- the progress of implementation
 - results being achieved
 - issues arising from or for the implementation of agreed changes in social and affordable housing
90. It is proposed that the Minister of Finance and the Minister of Housing jointly appoint a Chair and up to three other members to the Social and Affordable Housing Ministerial Advisory Panel.
91. In establishing the Ministerial Advisory Panel it would be important to appoint:
- members who have sector wide knowledge and who will bring the right expertise, and
 - members who have no conflicts of interest and who are able to provide neutral advice.
92. The Panel would not have any statutory functions or exercise decision rights. It would not need to exercise any powers.

93. The estimated cost of providing independent advice via a Panel is likely to be in the order of \$80,000 - \$100,000 (including any tax payable) per annum.

94. The relationship between such a Ministerial Advisory Panel and the other social and affordable housing agencies could be as follows:



95. Possible Terms of Reference for such a panel are set out in Annex Three. It is proposed that officials submit proposed Terms of Reference for the Ministerial Advisory Panel by 31 May 2011 for consideration and decisions by the Minister of Finance and the Minister of Housing.

Comment

Sector response

96. The Department has undertaken extensive discussions with potential and existing third sector social housing providers and with private sector partners. This has been achieved through individual meetings and by testing proposed advice with the Social Housing Reference Group. This has assisted in informing the advice and overall there is support for the direction of the recommendations in the draft Cabinet paper.

Timing of financial implications

97. A contingency of \$40 - \$45 million has been set aside in Budget 2011 for social housing initiatives in 2011/12 (CBC Min (11) 5/11 refers). Approximately 5 percent of this funding is to be used to implement the social housing programme, amounting to \$2.00-\$2.25 million, including the estimated \$80,000 - \$100,000 Panel cost per annum. At this stage, Cabinet has only agreed to one year of funding; longer term funding has yet to be secured. If Cabinet agrees to the recommendations suggested in the draft Cabinet paper,

appropriation requirements for the proposals will need to be established prior to 30 June 2011.

Supporting Material Attached

98. A draft Cabinet paper is attached for consideration by the Minister of Housing and the Minister of Finance.

Recommendations

It is recommended that you:

1. **note** that in December 2010 [CAB Min (10) 44/8 refers] Cabinet announced its response to the report of the Housing Shareholders Advisory Group and agreed a direction of change for the social housing sector that involves delivering these outcomes:
 - greater involvement of third party providers of social housing
 - increasing the effectiveness of financial assistance
 - focusing Housing New Zealand Corporation (HNZC) on providing social housing to tenants with the greatest housing need
 - aligning the organisation and responsibilities of government agencies.
2. **note** that the following recommendations seek agreement to proposals that will allow those decisions to be implemented, and provide the report back [CAB Min (10) 44/8 refers] on:
 - the potential scale and scope of third party provision of social housing
 - the future role of HNZC (as a provider of social housing)
 - options for funding growth of third party housing provision, including incentives, costs and funding sources to achieve this
 - the vehicle for funding social and affordable housing providers (including HNZC).
3. **note** that current unmet demand for social and affordable housing is approximately 50,000 to 60,000 households and this is growing at a rate of 5,000 to 10,000 per year
4. **note** that depending on the pace and level of investment decisions made, it is estimated that there is a potential to increase the scale and scope of social and affordable houses by between approximately 15,000 and 20,000 within the next 10 to 15 years

5. **note** that of the estimated 15,000 to 20,000 potential growth in social and affordable housing over 10 to 15 years, only around 2,000 to 3,000 additional homes could be delivered by existing niche and specialist social and affordable housing providers (including not-for-profit, community and iwi groups) such as the Salvation Army, IHC and others
6. **note** that the work undertaken by officials during the past three months has identified a number of additional social and affordable housing initiatives involving niche and specialist providers that can be progressed within 6 months
7. **note** that the Department of Building and Housing is already working with a set of providers (particularly iwi, in the context of the Rural Housing Programme) on several specific housing supply projects
8. **note** that achieving increased supply of social and affordable housing at scale over around the next 10 to 15 years will require:
 - suitable parcels of land
 - integrated and efficient planning processes
 - organisations which can act as social landlords
 - new types of partnership arrangements
9. **agree** that Auckland be given priority for initiatives to grow the supply of social and affordable housing, through the transfer and reconfiguration of existing Crown assets, given that Auckland has high and growing demand for such housing and sizeable parcels of under-utilised HNZC land are available together with housing stock that is no longer fit for purpose
10. **note** that on 25 March 2011 CBC noted the estimated operating costs (not currently funded as part of Budget 2011) of \$40 million to \$45 million in each of the following three years, to implement the new direction in social and affordable housing
11. **note** that CBC also noted that the Minister of Housing would write to HNZC to request an increase in dividends in 2011/12 to 2013/14 to offset the impact of this budget proposal on the operating balance
12. **invite** the HNZC board to identify what steps will be taken to lower HNZC's operating costs (currently equal to 16% of gross rental expenses) closer to the industry benchmark of around 9%

13. **note** that in addition to HNZN dividends, Government has options to contribute parcels of land and/or housing stock to raise capital:
- assets could be transferred to third parties to enable them to borrow money to finance construction of new housing and/or refurbishment of existing houses
 - parcels of Crown owned land could be sold to raise capital (e.g., Hobsonville or Weymouth)
14. **agree** the HNZN Board will retain responsibility for managing its assets and for providing advice to Ministers on management of these assets
15. **note** that HNZN's asset management strategy will need to align with the National Social Housing Investment Strategy and Portfolio Management Plan, which will be developed by the proposed National Housing Unit
16. **note** that the impacts on decisions arising from the Investment Strategy and Portfolio Management Plan on HNZN's balance sheet and on HNZN's ability to manage its own assets will be clearly identified within these documents, and will be discussed with the HNZN Board
17. **direct** officials led by the Department of Building and Housing to report to CBC by 30 June 2011 with further detail on the implications for HNZN of the proposals above for transformation of the social and affordable housing sector, including:
- legislative implications (proposed changes to the HNZN legislation to give effect to the agreed changes to HNZN's role and functions)
 - legal issues associated with reconfiguration of HNZN land and stock
 - which agency should deliver the legacy products and loan initiatives currently being delivered by HNZN and the transition path for any change
18. **agree** to establish a National Housing Unit to give effect to the transformation of the social housing sector as set out in the Cabinet Minute (10) 44/8 of December 2010
19. **direct** officials to submit proposed Terms of Reference for the NHU by 31 May for consideration and decisions by the Minister of Finance and the Minister of Housing
20. **agree** that the National Housing Unit will have five immediate priorities:

Within six months:

- develop systems and processes and build key relationships to establish outcomes based procurement for social and affordable housing
- progress the current opportunities (details are provided in Annex One) to stimulate the provision of niche and specialist social housing providers, including by seeking expressions of interest from niche and specialist providers for:
 - specific HNZC stock and/or Crown land (e.g. Weymouth)
 - providing tenancy management services for groups of HNZC housing outside major cities.
 - grants for capital to assist the funding of new supply
- commence the allocation of grants to low-risk, well-established third sector housing providers (these grants will replace the current Housing Innovation Fund grants)

Within 12 months:

- develop a draft National Social Housing Investment Strategy and Portfolio Management Plan for Ministers' consideration
- identify further specific opportunities to stimulate social and affordable housing at scale through the formulation of specific, large scale development projects

21. Either: (Department of Building and Housing preferred option)

- **agree** to establishment of a National Housing Unit within the Department of Building and Housing

Or: (State Services Commission preferred option)

- **agree** to create an establishment capacity from 1 July 2011 to develop detailed advice on the functions required, the most effective means to deliver those functions, and a clearly defined transition path to the delivery of these functions from 1 July 2012
- **direct** the State Services Commission to report to the Cabinet Social Policy Committee by May 2011 with detailed advice on the creation of this establishment capacity, including:
 - terms of reference
 - governance and accountability
 - cost and legislative implications

22. **agree** to establishment of a Social and Affordable Housing Ministerial Advisory Panel to report 6-monthly to shareholding Ministers with independent advice on:

- the progress of implementation
- results being achieved
- issues arising from or for the implementation of agreed changes in social and affordable housing

23. **agree** that the Minister of Finance and the Minister of Housing jointly appoint a Chair and up to three other members to the Social and Affordable Housing Ministerial Advisory Panel

24. **direct** officials to submit proposed Terms of Reference for the Social and Affordable Housing Ministerial Advisory Panel by 31 May 2011 for consideration and decisions by the Minister of Finance and the Minister of Housing.

Suzanne Townsend
Deputy Chief Executive Sector Policy

Hon Phil Heatley
Minister of Housing

Date

Minister's feedback

ANNEX ONE

Crown and NGO contributions to “Specific social and affordable housing initiatives identified”

Initiative	NGO contribution	Crown contribution
<p>Central Auckland Develop 157 apartments and ground level retail plus beds from homeless and detox</p>	<p>Owens land and has secured partial corporate funding for homeless/detox beds. No funding sought from Crown currently NGO has suggested Crown may wish to refund GST of development.</p>	<p>HNZC has considered contribution to homeless/detox services but no commitment made. Cost of GST refund \$11m. No direct benefit to the Crown but may accelerate implementation</p>
<p>Niche urban regeneration of up to 200 houses</p>	<p>Project funded from philanthropy and profits on sale of redeveloped houses. NGO has identified small number (5-10) of HNZC properties that would complement development NGO has proposed transfer of houses to development at nil value.</p>	<p>Cost to Crown is write-off of the value of the houses transferred (potentially \$1.5- \$2.5m for 5 to 10 houses). No direct gain to Crown other than expansion of number of affordable houses.</p>

National

Large NGO constructs an additional 1,000 social housing units over 10 years with a 50 percent capital grant from HNZC. Properties are offered at 80 percent of market rental

NGO uses all income the newly built properties plus income from properties already owned by the NGO service the 50 percent debt funding required to build the properties

Crown provides 50 percent of the values of the houses as a grant (estimated at \$170m over 10 years) and achieves a lower cost delivery of social housing. Crown may make a 30-40 percent saving on AS payment to these tenants (less than \$10m over 10 years).

Rural North Island
iwi

Four initiatives to provide lower cost refurbishment or new housing than the cost of provision under the former Rural Housing Programme

Prototypes of refurbished or new low cost housing construction methods, expertise, and infrastructure to expand local delivery.

Funding for construction (through grants). Benefit to Crown is more effective use of funding previously allocated to rural housing programmes.

Released under the Official Information Act 1982

Initiative	NGO contribution	Crown contribution
<p>Large construction company</p> <p>Proposing techniques for lower cost construction.</p>	<p>No contribution offered by NGO other than opportunity for Crown to reduce construction costs</p>	<p>No contribution sought form Crown.</p>
<p>Large developer</p> <p>Offering funding for large scale social housing development</p>	<p>Contribution is access to private sector funding if the following terms can be met:</p> <ul style="list-style-type: none"> • Target return of 9-10.5 percent weighted average cost of capital • Returns are delivered as a running yield over a 30 year term • Developer is not exposed to tenancy damage risk or residual risk on the value of the properties at the end of the investment term. 	<p>Crown has to provide for:</p> <ul style="list-style-type: none"> • Cost of tenant damage over and above normal "wear and tear". (An upper estimate for this provision could be based on HNZC experience) • Potential capital loss on the properties at the end of the term of the investment and cost of resuming owner ship of the properties. (This provision will vary widely according to the location and nature of the development).

Released under the Official Information Act 1982

The National Housing Unit: Proposed Terms of Reference

Introduction

This is a proposed terms of reference for the proposed "National Housing Unit" (NHU) that will facilitate the Government's objectives for transforming the delivery of social housing as a "vehicle for funding social housing providers (including HNZC)"⁴. The NHU will be dedicated unit, established from 1 July 2011, to lead the transformation of the social and affordable housing sector in New Zealand.

Objectives

The NHU will bring an independent, sector wide perspective to the use and allocation of Crown assets, including existing HNZC assets, for the social and affordable housing sector.

Key objectives will be to maximise the effectiveness and efficiency of Government's investment in social and affordable housing, progress opportunities for delivering better social and affordable housing and establish a framework for how social and affordable housing will be delivered in the future.

Role

The NHU will play the following key roles:

- advisor to Ministers on investment strategy and portfolio plan to generate an increased supply of social and affordable housing
- allocator of funding to social housing providers (including HNZC)
- monitor and reporter of progress towards Government's goals related to social and affordable housing.

Functions

Functions of the NHU will include:

- Facilitation of greater involvement of third sector providers to grow the overall quantum of available social housing as well as the potential for better efficiency and value for money through:
 - greater innovation, diversity and specialisation,

⁴ Paragraph 7.4 of the Cabinet Minute "A New Direction for Social and Affordable Housing in New Zealand: Government's Response to the Report of the Housing Shareholders Advisory Group", CAB Min (10) 44/8, 6 December 2010.

- access to additional sources of capital
- Facilitation, negotiation, contracting and brokerage of partnerships and opportunities for specific redevelopment projects
- Development of a National Social Housing Investment Strategy and Portfolio Management Plan to achieve greater involvement of third sector providers through designing and championing a programme for redevelopment of underutilised state housing (land) assets including:
 - preferred objectives, functions and form for redevelopment partnerships and new third sector housing service provision models
 - proposed priorities and redevelopment initiatives (including the expected contribution to the Government social housing objectives and requirements for funding)
 - by third sector providers and long term risk sharing.
- Report and monitor through establishment of processes to measure the progress of the NHU in expanding third sector social housing provision, delivering value for money and ensuring that third sector providers meet their commitments to deliver quality social housing.

Deliverables and accountabilities

The immediate functions of the NHU would be accountability for specific deliverables, as follows:

Within six months the NHU will:

- develop systems and processes and build key relationships to establish outcomes based procurement for social and affordable housing
- progress the current opportunities (details are provided in Annex One) to stimulate the provision of niche and specialist social housing providers, including by seeking expressions of interest from niche and specialist providers for:
 - specific HNZA stock and/or Crown land (e.g. Weymouth)
 - providing tenancy management services for groups of HNZA housing outside major cities.
 - grants for capital to assist the funding of new supply
- commence the allocation of grants to low-risk, well-established third sector housing providers (these grants will replace the current Housing Innovation Fund grants)

Within 12 months the NHU will:

- develop a draft National Social Housing Investment Strategy and Portfolio Management Plan for Ministers' consideration
- identify further specific opportunities to stimulate social and affordable housing at scale through the formulation of specific, large scale development projects.

In the medium term the NHU will:

- redevelop underutilised state-housing (land) assets to grow third party provision of social housing by leveraging private sector funding and expertise.
- contract with third sector social housing providers to provide social housing services.
- oversee delivery of the National Social Housing Investment Strategy and Portfolio Management Plan.

Critical relationships

The NHU will need to maintain close relationships with:

- Other government agencies in delivery of:
 - Housing and social assistance including; Ministry of Social Development, HNZA, other parts of DBH.
 - Assistance programmes to Maori (Te Puni Kōkiri) and Pacific Island peoples (Ministry of Pacific Island Affairs).
 - Infrastructure development (National Infrastructure Unit of the Treasury) and general Government procurement (Ministry of Economic Development).
- Local government agencies.
- Commercial redevelopment partners including construction firms, property developers, banks and long term investors.
- Third party, including third sector, social housing service providers and partners

Executive Director

An Executive Director, with the appropriate skills and experience, will be appointed to provide strategic and operational leadership to the NHU.

ANNEX THREE

Social and Affordable Housing Ministerial Advisory Panel: Possible Terms of Reference

Context

It is proposed that a Social and Affordable Housing Ministerial Advisory Panel is established to oversee the transformation of the social and affordable housing sector.

Role

The key role of the Social and Affordable Housing Ministerial Advisory Panel (the Advisory Panel) is to provide independent advice to the Minister of Finance and the Minister of Housing (Ministers), on:

- the progress of implementation
- results being achieved
- issues arising from or for the implementation of agreed changes in social and affordable housing.

Membership

The Advisory Panel is comprised of five to seven members with an independent chair. The membership of the Advisory Panel will include representatives:

- of third sector social housing providers
- with expertise in residential construction, property development and property management
- with expertise in the negotiation and governance of public private partnerships.

Ministers will appoint the Chair and up to three other members to the Advisory Panel.

The Chair is responsible for ensuring that the Advisory Panel has a well-planned and focused agenda, consistent with their objectives, and that Ministers are kept well-informed of the Advisory Panel work. The Chair is also responsible for managing external communications of the Advisory Panel. The Chair needs to maintain the confidence of Ministers and satisfy officials that public sector accountability standards are being met during a period of transformation of the social and affordable housing sector.

Mandate and Authorities

The Advisory Panel does not have any formal decision-making authority, will not have any statutory functions or exercise decision rights. It will not need to exercise any powers.

The Advisory Panel reports to the Ministers 6 – monthly on progress and reports on individual programmes at key decision points as requested by Ministers.

Appointments

The Advisory Panel appointments are Ministerial appointments, not employment relationships, and may be for periods up to 3 years.

Advisory Panel members serve at the pleasure of the Minister. The Minister may ask a member to stand down at any time for reasons including, but not limited to, inability to perform the functions of the office, bankruptcy, and neglect of duty or misconduct.

Fees and allowances are paid in accordance with established public service guidelines.

Released under the
Official Information Act 1982

In Confidence

Office of the Minister of Finance

Office of the Minister of Housing

Cabinet Social Policy Committee

Transforming social housing through greater third party participation

Purpose

1. The purpose of this paper is to present recommendations to increase the scale and scope of third party provision of social and affordable housing, including:
 - the steps needed to achieve growth of social and affordable housing at scale
 - initiatives to grow third sector provision which potentially could be progressed in the short term
 - the establishment of specialist National Housing Unit and a Social and Affordable Housing Ministerial Advisory Panel
 - confirmation of HNZC's role as a social housing provider for people with high needs
 - options for funding the growth of third party providers.

Executive Summary

2. The Government is facing a significant housing problem - in particular, a lack of social and affordable houses.¹ Current unmet demand for social and affordable housing is approximately 50,000-60,000 households (a breakdown is provided in Table 1 below) and this is growing at a rate of 5,000-10,000 per year. The problem is acute in Auckland.

¹ The social and affordable housing sector includes:

- people who require housing assistance because they cannot independently meet their housing needs
- organisations who provide financial assistance so people in need can meet their housing costs
- organisations who provide social and affordable housing (including HNZC and third sector providers such as not-for-profits, non-governmental organisations, iwi and commercial funders).

3. Included within this estimate of unmet demand are around 10,000 substandard houses across the country. The Canterbury earthquakes have exacerbated housing problems in that area but those problems are being dealt with via other mechanisms.
4. Ministers have choice about the how to solve the problem and the pace of change. These solutions include:
 - Relying on HNZC to meet the problem through business as usual activities could help, although capacity to respond with supply at scale is limited (perhaps 10,000 new houses) and the cost to Government would likely be high.
 - "Greenfields" development. In some areas of the country this is viable but in the worst affected area, Auckland, there is a limited amount of vacant land available for development at scale in the areas people want to live and work.
 - Providing grants for proposed projects that are in the pipeline now would leverage off the third sector, iwi and private organisations and provide some quick wins. Although there is currently some money available, it would be costly to Government to rely on this option alone to solve the problem.
 - Urban regeneration. The Government has access to significant parcels of Crown land that are currently underutilised, in particular existing state houses on large sections that could be redeveloped into higher density, mixed tenure communities. This option has the most potential for development on the scale required, but would be expensive for Government to do alone.
 - Land and stock transfers to the third sector, iwi and other private organisations. However, candidate organisations tend to be impeded by lack of liquidity required for development of land to the scale needed to make in-roads into the size of the problem.
5. While these solutions will increase supply of social and affordable housing it is unlikely that all unmet demand will be satisfied.
6. The options described above vary in the speed at which results can be delivered. Grants for organisations that have projects in the pipeline and urban regeneration could deliver new supply quickly. The other options will take more time, especially the options that would require increasing the scale and capability of the third sector.
7. Ministers could choose one, some or all of the options to increase the supply of social and affordable housing. Pursuing an increase in supply of social and affordable housing on the scale required will require intensive management. Different areas of the country experience different barriers to increasing supply. The responses in each area will be case specific.
8. For example, the key problem in Auckland is limited vacant land but considerable under-utilised land. There is scope for development at scale, but this would be an unaffordable investment for Government alone. Working with partners is key, but

there are limited options at present because third sector/iwi presence in the market is small and have limited ability to be quickly scaled-up without the right support.

9. This paper proposes setting up a National Housing Unit (NHU) that will be responsible for facilitating greater involvement of third party providers, advising Ministers on appropriate options and liaising with the market to achieve the best results.
10. Over the next year, the NHU would plan to deliver targeted responses to the supply issue by working with existing grants and progressing current opportunities, build relationships and develop a national and affordable housing investment strategy and portfolio management plan.
11. Over time the NHU will evolve to lead procurement of new supply, funding a range of housing providers (including HNZZ and the third sector) and responding to the direction of change in social and affordable housing issues.

Context

12. The Housing Shareholders Advisory Group report² confirmed that the current delivery model for social housing is not meeting the needs of a growing number of households and is increasingly unaffordable for Government.
13. In December 2010, Cabinet announced its response to the report of the Housing Shareholders Advisory Group and agreed a direction of change for the social housing sector that involves delivering the following outcomes:
 - greater involvement of third sector providers of social housing
 - increasing the effectiveness of financial assistance
 - focusing Housing New Zealand Corporation (HNZZ) on providing social housing to tenants with the greatest housing need
 - aligning the organisation and responsibilities of government agencies.

[STR Min (10) 16/1 of October 2010 and CAB Min (10) 44/8 of December 2010 refers].
14. This paper seeks agreement on a proposal that will allow those decisions to be implemented.
15. Cabinet invited the Minister of Finance and the Minister of Housing to report back to Cabinet Social Policy Committee on:
 - the potential scale and scope of third sector provision of social housing
 - the future role of HNZZ (as a provider of social housing)

² Home and Housed: A Vision for Social Housing in New Zealand – the Report of the Housing Shareholders Advisory Group of April 2011

- options for funding growth of third sector housing provision, including incentives, costs and funding sources to achieve this
 - the vehicle for funding social and affordable housing providers (including HNZC).
16. Cabinet has already made decisions to re-focus HNZC efforts on people with high needs:
- Introduction of reviewable tenancies for new state house tenants [SOC Min (11) 5/1 refers]
 - Housing Restructuring and Tenancy Matters Act 1992 - proposed amendments [considered by SOC on 6 April 2011]
 - Improvements to HNZC's Social Allocation System [considered by SOC on 6 April 2011].
17. Cabinet has also sought report backs on improving the performance of housing assistance, including:
- the problems associated with the current financial support for housing
 - options and recommendations for changes to financial support for housing
 - an appropriate transition path to a new housing assistance regime.
18. An interim report on the above matters is due by 30 June 2011.

The case for change

19. As shown in Table 1 below, there is a high level of unmet demand for social and affordable housing. Estimates suggest the current unmet demand is 50,000 to 60,000 homes:
- Auckland has the highest concentration of unmet demand and the problem is getting worse
 - the Canterbury earthquakes have led to increased unmet demand there – this is being addressed separately
 - there is a significant problem in rural areas arising from around 10,000 substandard private houses
 - provincial areas have ongoing demand, but do not have significant unmet demand

Table 1

Estimated Unmet Social Housing Needs Household Units, as at 31 March 2011		
Housing need	Lower	Upper
	No.	No.
Living rough ¹	300	300
Substandard rural housing ²	9,700	9,700
Temporary accommodation ³	8,000	20,000
HNZC Waiting list "A" + "B" ³	4,800	4,800
Over crowded ⁴	20,500	20,500
Estimated unmet housing need	48,600	66,600

Notes:

1. Housing Shareholders Advisory Group
2. Report on Rural Housing Programme, November 2010.
3. HNZC.
4. Statistics New Zealand *What is the extent of crowding in New Zealand? An analysis of crowding in New Zealand households, 1986–2001* estimates nationally 5.1 percent of private dwellings are over-crowded.

20. Population growth, changes in household composition, the changing balance of rental housing versus owner-occupation and low levels of residential construction are all factors driving a deteriorating situation in the Auckland region. Population and household growth projections indicate a required housing stock growth rate of approximately 20,000 units per annum, with half of that growth occurring in Auckland. Current house construction rates are around 15,000 per annum for New Zealand and less than 4,000 in Auckland.
21. The Auckland situation is further complicated because the available land suitable for development at an acceptable cost for social and affordable housing is limited to a few thousand potential houses (eg: Tamaki and Weymouth). The only readily available source of suitable land is to increase housing density on existing state housing land.
22. The scale of the unmet demand is such that state housing stock would need to double over a relatively few years. The scale of the investment required is beyond what the Government can afford in the face of current fiscal pressures and borrowing constraints. Different approaches are needed. These include stock transfers, grant funding and making better use of state housing assets.
23. Making significant inroads to the unmet demand issue will require a new approach involve mobilisation of private debt and equity capital, increasing the efficiency of uses of existing state housing land and urban redevelopment at scale.

Why increase the scale and scope of third party provision?

24. Increasing the scale and scope of third party provision will accelerate reaching the following five year goals, identified by the Housing Shareholders Advisory Group (refer page 87 HSAG Report of April 2010):
- accelerated progress in major urban renewal schemes
 - significant niche, local and national providers of social housing and services
 - new transition products in the marketplace supporting demand for affordable houses
 - building to a run rate of about 2,000 – 2,500 homes per annum after five years
 - significant progress on the backlog of repairs and maintenance
25. Proposals to achieve the transformation of social and affordable housing sector are based on the premise, substantiated by previous decisions by Cabinet, that explicit development of third party scale and niche housing providers is required to meet predicted increases in demand for social housing assistance and the constraints on government finances.
26. As previously acknowledged by Cabinet (December 2010), the expected benefits of expanded third party provision include:
- growing the total quantum of available social housing
 - the ability to leverage funding and assets from a broad range of non-government sources (including commercial, local government, iwi and philanthropic)
 - the ability to shift development and/or operating risk to the private sector
 - access to wider skills, specialisation and services
 - costs savings through increased choice and innovation
 - greater ability to tailor solutions to local and individual circumstances
 - dynamic changes to the wider rental housing market, for example, in standards, supply of affordable and secure rental housing.

Scale and scope: What can be delivered and by when?

27. Over the past three months, officials have engaged with a number of existing and potential new providers of social and affordable housing, to test how much additional supply could be generated, in which areas of New Zealand.
28. This engagement has confirmed that there is the potential for significant growth in the total quantum of available social and affordable housing through HNZC and other providers. There are a range of options to develop new “greenfield” sites

and to redevelop housing on existing Crown owned and territorial authority land. Ministers have choices as to the future quantum of additional social and affordable housing, the location of additional housing, and the pace of change.

The possible role of niche and special interest providers

29. Only around 2,000 - 3,000 homes could be delivered by niche and specialist social and affordable housing providers (including not-for-profit, community and iwi groups) such as Salvation Army, IHC and others by leveraging stock transfers alone. This is because the condition, location and value of the stock would only provide limited scope for leverage and additional housing stock.
30. While some niche and specialist housing providers are keen to grow they are cautious about the speed and scale of change, as they wish to remain focused on their core business rather than move into provision of general social housing. The potential to grow this segment of the housing market is limited because:
 - niche and specialist social and affordable housing providers currently represent only 1.2% of the total housing market
 - most have a narrow focus - they are niche organisations which focus on housing people with special needs or particular problems (rather than a wide range of households)
 - only a few are interested in larger scale housing projects
 - although some have strong balance sheets they generally have low liquidity which makes it difficult to raise capital.
31. However, some niche providers have expressed an interest in increasing their housing stock and becoming general social or affordable housing providers. Also some iwi have indicated a strong interest in a significant role in social and affordable housing provision.
32. Within this segment of the overall social and affordable housing market, officials advise that priority should be given to developing the one or two niche providers that want to grow, and can grow, during the next two to three years because of the ability to work directly with them to quickly deliver results. They will need additional support to build capacity and capability to play a greater role. Within the next six months expressions of interest could be sought from niche and specialist providers for:
 - specific HNZA stock and/or Crown land (e.g. Weymouth)
 - providing tenancy management services for groups of HNZA housing outside major cities.
 - grants for capital to assist the funding of new supply
 - potential to assist iwi to become social and affordable housing providers at scale in their local areas.

33. Once select providers have achieved critical mass they are in a better position to realise economies of scale in housing development and generate sufficient revenue to sustain their operations and contribute to their own growth.

34. As described in Annex One, there are a number of specific proposals that niche and specialist social and affordable housing providers wish to progress with officials. The support these groups are seeking include:

- access to land and some specific HNZC properties
- the opportunity to take over specific groups of HNZC tenants (e.g. Community Group Housing)
- access to grants to enable them to build capability and capacity
- specific assistance for iwi and hapu.

Achieving growth of social and affordable housing at scale

35. While special interest niche providers play an important role, they will not be able to supply a sufficient quantum of new social and affordable housing to meet the high and growing demand for social and affordable housing, particularly in Auckland.³

36. Social or affordable housing development at scale does not occur within the private market. The major constraints to the emergence and growth of third sector social and affordable housing providers (and growth of new affordable housing supply) are:

- (in Auckland), lack of access to suitable parcels of affordable land, both vacant and for redevelopment where people want to live and work
- the long timeframes, costs and uncertain outcomes of the planning processes required for major development projects creates uncertainty and a disincentive to work in this area of the market (which has a lower yield)
- absence of institutional private social housing landlords.

37. As a result of these factors, it is very difficult for the private market to construct affordable homes at scale for people on low incomes in Auckland, where there is greatest unmet demand.

38. In rural areas, the issue of substandard Maori housing has not been addressed by the Rural Housing Programme and requires a different, more affordable approach.

³ An estimated one in four New Zealand households require some form of housing assistance: through provision of a subsidy or a house to live in. The cost of financial assistance to Government increased by an annual average of 9% since 2001/2 to \$1.69 billion in 2009/10, and is forecast to increase to \$1.86 billion in 2012/13 (Ministry of Social Development). There is particular pressure on Auckland.

39. In provincial areas the social and affordable housing market is dominated by HNZC, leaving little scope for other providers at scale.
40. It is possible to overcome these constraints and grow the total social and affordable housing portfolio over time. Additional housing at scale will require:
- suitable parcels of land
 - integrated and efficient planning processes
 - organisations which can act as social landlords
 - new types of partnership arrangements
 - the ability to regenerate existing urban social housing sites.
41. The Crown (via HNZC and local authorities) has access to significant parcels of residential land that is currently underutilised. Many HNZC houses on this land are old or no longer fit for purpose. These houses are generally low value compared to the value of the land on which they sit, presenting an opportunity to redevelop at scale. This could be done in partnership with private capital.
42. To make it viable for third party providers to enter the market a reliable stream of revenue from rents or upfront subsidy will be required. At present, some low-income households, disproportionately those not renting with HNZC, are under financial stress (many of these are receiving the Accommodation Supplement) while some HNZC households (receiving Income Related Rents) are receiving more than they need.
43. Officials, led by MSD, have been directed to provide an interim report to Cabinet by 30 June 2011 on options to improve the performance of housing financial assistance. This work will take into account the requirements for third sector providers to obtain reliable revenue.

Timeframe to achieve substantial growth

44. The Housing Shareholders Advisory Group found that the third sector would grow substantially with access to certain funding sources and access to HNZC land. They recommended a transfer of capital or dwellings to selected non-government organisations to initially meet 20% of the sector's need over five years. This is uncertain and yet to be proven, and is based on current plans for increasing social housing stock being rolled out in Australia. The Housing Shareholders Advisory Group and additional consultation to date has shown the sector will continue to evolve to include a greater number of participants over time. It is hard to predict the pace of change.
45. A number of steps would be needed to plan, coordinate and implement major development projects, and to support growth of third party providers over time, including:
- identification of potential partners (i.e., organisations that can play roles in the planning, coordinating, project managing, financing and construction required

for major redevelopment projects) - partnerships with the commercial sector and iwi have potential to provide access to the finance, capital and development expertise needed for large scale projects

- finding organisations that can manage social housing tenants and can play the role of social housing provider, and building their capability - this will take time and require direct investment and management
- identification of suitable parcels of Crown land and housing stock. Preliminary work has identified several areas in Auckland which could be redeveloped consistent with the draft Auckland spatial plan.

46. Given these factors a realistic timeframe to achieve between around 15,000 to 20,000 additional dwellings is probably about 10 to 15 years, with the expectation that it may move faster once the first few are in place and momentum and standard practice are established.
47. However significant progress is also needed in the short term, particularly to relieve the social housing and affordability problems in Auckland.

Auckland as a priority

48. Officials have examined a range of options to provide access to Crown land, including land in various rural and urban locations. There are strong reasons for beginning with a set of initiatives in Auckland.
49. Auckland is the area of greatest unmet demand, and there is a shortage of readily available land which is suitable for residential development. The Auckland Plan discussion document (released in March 2011) identified critical housing issues such as undersupply, lack of choice, poor quality and overcrowding.
50. In considering Government's input to the Auckland spatial planning process, Cabinet agreed that the Government's interests in Auckland housing included:
- improving economic growth through the provision of good quality, affordable housing that attracts potential migrants and retains existing residents
 - better helping more families in housing need, redeveloping poorly performing state housing assets and increasing the availability of affordable housing
 - ensuring that those who rent their homes have access to healthy, stable accommodation at affordable rents.
51. In Auckland there are significant sites where land and housing is underutilised and which need to be reconfigured anyway. Ministers have already agreed to the Tāmaki Transformation Programme, which is likely to provide an example of public/private co-operation to develop underutilised Crown land with the purpose of increasing supply of social and affordable housing.

52. Given the scale and severity of housing affordability problems, and the opportunity to leverage high value Crown land, it is recommended that Auckland be given priority.

Options for funding growth

53. There is a range of funding options available to the Crown, depending on the mix of options Cabinet wish to pursue.
54. On 25 March 2011 Cabinet Business Committee noted the estimated operating costs (not currently funded as part of Budget 2011) of \$40 million to \$45 million in each of the following three years, to implement the new direction in social and affordable housing [CBC Min (11) 5/11 refers].
55. CBC also noted that the Minister of Housing would write to HNZC to request an increase in dividends in 2011/12 to 2013/14 to offset the impact of this budget proposal on the operating balance.
56. If more funding is required other options could be considered by Cabinet. These are summarised below.

Further dividend from HNZC

57. Further dividend could be sought from HNZC over the short term. The Government has already required greater organisational efficiency and effectiveness from HNZC resulting in significant savings that could contribute towards a higher dividend payment.
58. Analysis undertaken by the Department of Building and Housing has highlighted that HNZC's operating costs are currently equal to 16% of gross rental expenses compared to an industry benchmark range of 8% - 9%.⁴ If HNZC was to function with operating costs closer to 9% then this could potentially provide savings of up to \$70 million per annum. Given the size of the potential savings, officials believe the issue warrants further investigation and propose that Ministers invite the HNZC board to identify what steps will be taken to lower operating costs closer to the industry benchmark.
59. HNZC notes that
- It has additional social responsibilities to those of a private sector landlord. HNZC's modelling indicates that some \$120 million of its costs relate to the provision of social activities that would not be undertaken by a commercial landlord. While this related to activities that clearly met the criteria of being "social", the impact of HNZC's social objectives can be seen to varying degrees in most of the activities the HNZC undertakes. Around \$73 million relates to HNZC's core tenancy and asset management functions

⁴ This estimate is based on the 3 largest tenancy managers

(excluding maintenance which it is assumed DBH has excluded from the comparison).

- The costs relate to the various activities that HNZA is contracted to undertake the Income related rents Agreement entered into under section 7 of the Housing Restructuring and Tenancy Matters Act 1992 services provided to the Crown (needs assessments, placement / waitlist management, IRR calculation & subsidy management etc), provision of the options and advice service, case management to enable sustainable tenancies, higher damages (partly arising from bonds being based on income related rather than market rents) and a variety of other activities.
- The benchmark of 8% - 9% for operating costs of a private sector landlord is questionable. This is generally only a base fee and doesn't include extras such as inspections, arranging maintenance etc which have the potential to substantially increase the fee. The fee is also subject to GST which is not recoverable by a residential landlord.

60. Recycling sales proceeds from "wrong location" HNZA properties could also produce one-off funding of \$300 million-\$400 million, but this would inhibit HNZA's ability to reinvest in their own priority Auckland development.

Contribution of land and/or housing stock

61. In addition, Government has options to contribute parcels of land and/or housing stock to raise capital:
- assets could be transferred to third sector providers to enable them to borrow money to finance construction of new housing and/or refurbishment of existing houses
 - parcels of Crown owned land could be sold to raise capital (eg, Hobsonville or Weymouth)
62. Contribution from Government could be leveraged in a number of ways, including through philanthropic donations, institutional investment, contributions from local government, and through sales of some individual houses (on redeveloped sites) for owner occupation.

Incentives

63. A number of incentives have been considered for funding growth of third sector provision of social and affordable housing. They include:
- capital subsidies
 - tax incentives
 - Crown underwriting of financial risk
 - government guarantees of investment performance

- de-risking
 - allowing third sector providers to receive the same level of income subsidy as HNZC.
64. The option of tax incentives has been discounted because incentives are inconsistent with the direction of tax policy, and they leave open the possibility of tax avoidance behaviour.
65. Capital subsidies are transparent, however for large scale developments there would be high fiscal impacts. (However government may wish to consider capital subsidies for smaller niche and specialist providers).
66. Consideration of the possibility of allowing third sector providers to receive the same level of income subsidy as HNZC will be incorporated into the wider report on improving the performance of housing assistance due to be considered by Cabinet Social Policy Committee by 30 June 2011.

A further option – not recommended

67. Officials also examined the option of generating a funding stream through the sale of houses occupied by unsubsidised tenants. However this option would be unlikely to yield significant revenue, particularly within the short term. While there are a significant number of unsubsidised tenants, the level of rent they pay is low. In addition, the houses are run-down, with low market value unlikely to realise a good price. Selling directly to the tenants will not always be feasible because, even though they are paying a market rent, many do not have the asset base or level of income required to purchase the home (or another property) and sustain homeownership.

Implications for HNZC

68. Cabinet has previously decided that HNZC will focus on housing people with high needs for the duration of their need [Cab Min (10) 44/8 refers]. The advice considered by Cabinet Social Policy Committee on 6 April 2011 on improving the Social Allocation System defines two levels of housing need: high and low. HNZC will be responsible for housing required for high needs tenants.
69. HNZC will continue to play a major role in providing housing solutions for a large number of New Zealanders and will continue to be a large social housing provider for some time.
70. The change in focus for HNZC has implications for its asset portfolio. As the focus on high needs tenants is implemented, and existing tenancies are reviewed in stages, over time HNZC will require houses in a different geographic spread to the current portfolio.
71. HNZC has also identified further opportunities for reconfiguration. As highlighted in Table 2 below based on HNZC's asset management strategy, a significant

proportion of its housing is viewed as being either in the wrong place or of the wrong type.

Table 2		Right place, right type	
HNZC owned:			
	Acceptable quality		28,000
	Impaired		12,000
Leased			2,000
Sub-total			42,000
		Wrong place, wrong type	
HNZC owned			24,000
Leased			1,000
Sub-total			25,000
Total			67,000

72. It will take time for HNZC to reconfigure its portfolio and to align its asset management strategy with its new focus on high needs tenants. This is partly because alternative social housing providers (in particular providers who can manage a large portfolio of tenancies) do not exist in some areas. It will take time to identify prospective social housing providers, to build their capability, to establish partnership arrangements, and to plan and coordinate housing redevelopment project. Partly as a result the process of transferring land and housing stock, which is no longer needed for high needs tenants, to support the growth of alternative providers will be a staged and phased process over time.
73. A sector-wide social housing investment strategy and portfolio management plan, developed by the proposed National Housing Unit (discussed below) will allow sector wide decisions on the use of the current housing portfolio, and consideration of the possible impacts of these decisions on HNZC's ability to buy or dispose of assets. This strategy will be informed by HNZC asset needs. This will:
- ensure HNZC's asset reconfiguration and ongoing management strategy does not inhibit and/or "crowd out" third sector provision of social and affordable housing
 - create a level playing field for third sector housing providers
 - enable Ministers to balance their specific objectives as owners of HNZC with their wider objectives of achieving greater involvement of third sector provision of social and affordable housing.
74. If Cabinet agrees to the development of a social housing investment strategy and portfolio management plan outlined above, the implications are:
- the HNZC Board would retain responsibility for managing the assets need for high need tenants and for providing advice to Ministers on management of

- these assets. The HNZC asset management strategy would need to align with the social housing investment strategy and portfolio management plan
- there would be a staged, phased release of some HNZC assets in accordance with the social housing investment strategy and portfolio management plan
 - the impacts on decisions arising from the investment strategy and portfolio management plan on HNZC's balance sheet and on HNZC's ability to manage its own assets would be clearly identified, and would be discussed with the HNZC Board
 - the growth of a range of other providers and re-focussing HNZC efforts on being a social landlord for high needs tenants are expected to impose disciplines on HNZC that will reduce their costs and increase their efficiency.
75. Officials propose to report to Cabinet Social Policy Committee by 30 June 2011 with further detail on the implications for HNZC of the proposals for transformation of the social and affordable housing sector. In particular:
- there are a number of legal issues associated with reconfiguration of HNZC land and stock - advice on how Ministers could deal with those issues is still being worked through
 - there are a number of legacy products and loan initiatives still being delivered by HNZC that will need to be reviewed. The State Services Commission, along with the Department of Building and Housing and HNZC, will consider if these functions should continue, where they should reside and the transition path for any change
76. Changes to the Housing Corporation Act 1974 will be needed to give effect to the agreed changes to HNZC's role and functions. These legislative implications will be advised in the 30 June 2011 report to Cabinet Social Policy Committee.

National Housing Unit (NHU)

77. It is proposed that a dedicated National Housing Unit (NHU) is established as of 1 July 2011 to lead the programme of work ahead to transform the social and affordable housing sector in New Zealand, and to maximise the effectiveness and efficiency of Government's investment in social and affordable housing.
78. The NHU would play the following roles:
- advisor to Ministers on investment strategy and portfolio plan to generate an increased supply of social and affordable housing
 - allocate funding to social housing providers (including HNZC)
 - monitor and report on progress towards Government's goals related to social and affordable housing.

79. The NHU would work to achieve Government priorities and objectives for social and affordable housing, and would have a number of functions, including:
- facilitation of greater involvement of third sector providers to grow the overall quantum of available social housing as well as the potential for better efficiency and value for money through:
 - greater innovation, diversity and specialisation
 - access to additional sources of capital
 - facilitation, negotiation, contracting and brokerage of partnerships for specific redevelopment projects
 - development of a National Social Housing Investment Strategy and Portfolio Management Plan to achieve greater involvement of third sector providers through designing and championing a programme for redevelopment of underutilised state housing (land) assets including:
 - preferred objectives, functions and form for redevelopment partnerships and new third sector housing service provision models
 - proposed priorities and redevelopment initiatives (including the expected contribution to the Government social housing objectives and requirements for funding).
80. The NHU would also look for opportunities to encourage niche providers to partner together to increase their capability and capacity. Where the NHU could be most effective is in its ability to work with multiple partners including investors, the Crown and social housing providers to get houses built and where appropriate ensure Crown subsidies make it affordable for people struggling to find a home.
81. Possible Terms of Reference for the NHU are set out in Annex Two. It is proposed that officials submit proposed Terms of Reference for the NHU by 31 May 2011, for consideration and decisions by the Minister of Finance and the Minister of Housing.
82. The advantages of a dedicated unit with the confidence of social housing partners is that it will be able to:
- provide a coherent Government interface with the sector
 - have clearly defined objectives
 - apply an independent, sector wide perspective to the use of existing Crown land and housing assets to leverage increased total supply
 - obtain the mandate to broker a range of deals effectively
 - keep an overview of the sector as a whole
 - target its actions effectively towards Government housing objectives with reference to broader Government priorities and firmly anchored within Government policy.

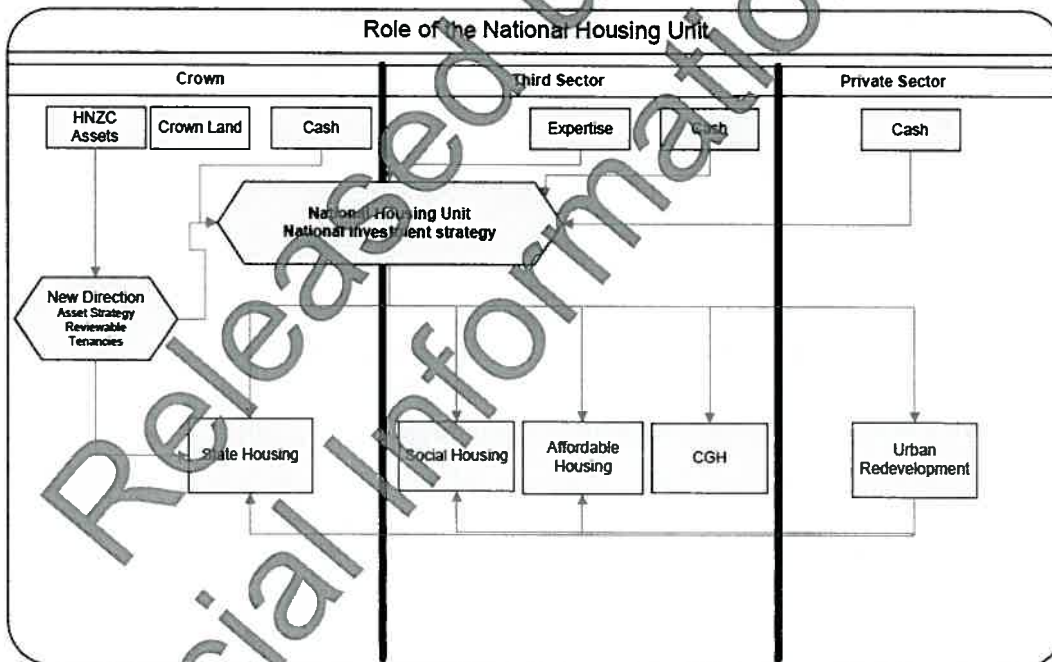
83. The proposed NHU would:

- take a nationwide view of social housing demand and supply to identify what is required and how Crown assets can be leveraged to achieve Government's objectives
- be able to work closely with a diversity of providers – including not-for-profit, for-profit, iwi and the capital markets
- have the skills to gain the confidence of providers and investors and be responsive, efficient, and able to make decisions.

84. To deliver on these functions a dedicated unit with specialist procurement skills, reporting to a Chief Executive, will be established. Given the strategic nature of the work and the complexity of the relationships to be managed, a head of the NHU will need to be an experienced senior leader with proven business skills.

85. The diagram below illustrates how the proposed NHU will be used to achieve the Crown's objectives for social and affordable housing.

End point: how the National Housing Unit contributes to a transformed social and affordable housing sector



Proposed short term deliverables for the NHU

86. The Department has discussed potential growth in the sector with social housing providers and with potential private investors. These discussions indicated a willingness to grow among some providers, and concrete proposals for progressing social and affordable housing, under the right conditions. These

opportunities are detailed in Annex One and will form the starting point for ongoing work by the National Housing Unit.

87. Within six months the NHU will:

- develop systems and processes and build key relationships to establish outcomes based procurement for social and affordable housing
- progress the current opportunities to stimulate the provision of niche and specialist social housing providers, including by seeking expressions of interest from niche and specialist providers for:
 - specific HNZC stock and/or Crown land (e.g. Weymouth)
 - providing tenancy management services for groups of HNZC housing outside major cities
 - grants for capital to assist the funding of new supply
- commence the allocation of grants to low-risk, well-established third sector housing providers (these grants will replace the current Housing Innovation Fund grants).

88. Within 12 months the NHU will:

- develop a draft National Social Housing Investment Strategy and Portfolio Management Plan for Ministers' consideration
- identify further specific opportunities to stimulate social and affordable housing at scale through the formulation of specific, large scale development projects.

Location of the NHU

89. It is proposed that the NHU be a dedicated, specialist unit. One option is to locate this unit with the Department of Building and Housing, on the grounds that:

- one group would be solely responsible for social and affordable housing strategy, procurement and relationship management
- it will result in closer alignment of social and affordable housing functions with social housing policy
- the ability to leverage existing housing initiatives already being undertaken by the Department of Building and Housing (e.g. Rural and Maori housing, Tamaki Transformation)
- the ability to leverage existing relationships with the wider building, construction and housing sector to facilitate third sector providers to increase their supply of social and affordable housing.

90. The core purpose of the unit is to increase supply of social and affordable housing by bringing together different parties within the housing and construction sector. Those core relationships currently sit with the Department of Building and Housing.

91. This would not preclude management of some contracts by the Ministry of Social Development where housing was an integral part of social service delivery. There could also be joint procurement (by the Department and the Ministry) where the purchase of housing supply and the purchase of social services were closely linked.
92. There are benefits to aligning strategy, procurement and relationship management: the unit could quickly leverage housing initiatives already being undertaken by the Department of Building and Housing.

SSC Comment on Location

93. Government is seeking greater involvement of third party providers of social housing to expand the overall supply of social housing and to achieve innovation, diversity, specialisation and new sources of capital. In order to deliver this new approach to the supply of social housing, it will be necessary for government to take a more dynamic and proactive approach to working with current and potential providers. This will involve at least four distinct functions:
- development and implementation of a national social housing investment plan, including the strategic restructuring of the state housing portfolio, including current properties that are in low demand areas, that are under-utilised and that are time expired
 - development and negotiation of complex, at scale urban redevelopment public-private partnerships with commercial partners (from New Zealand and potentially overseas)
 - purchase of social housing outcomes from current and potential social housing providers, including HNZC
 - advice on the future role for HNZC, as a provider of social housing to tenants with high needs.
94. Locating a specialist unit within a department would be one option to perform one or more of these functions, and these functions could be delivered by one or more agencies. The State Service Commission (SSC) supports the proposal to create a separate establishment capacity from 1 July 2011 to:
- establish robust accountabilities and governance
 - draw on commercial expertise and relationships
 - apply the wider context of the need to deliver better services more efficiently to citizens and stakeholders, including by utilising existing capability, reducing fragmentation and achieving economies of scale
 - develop detailed advice on the functions required and the most effective means to deliver those functions
 - develop a clearly defined transition path, working towards implementation from 1 July 2012.

95. The establishment capacity would not carry out any operational functions itself, and it could work with current participants (including DBH, HNZN and MSD) to test and develop some of these new approaches for the supply of social housing.
96. SSC will provide detailed advice on the creation of such an establishment capacity by May 2011, including on its purpose, form, functions, governance and accountability, including cost and legislative implications. The establishment capacity outlined above could be created by Cabinet decision. If the establishment capacity were required to take on functions or powers from other agencies (e.g. DBH or HNZN) this would require specific decisions on those functions and a different organisational form.

Other Comments on Location

97. The Ministry of Health notes in its comments on this paper that hardwiring social services and housing together reduces people's choice as to where they are housed. This is at odds with the direction they are working towards in dealing with people with disabilities.
98. Other officials note that the proposed role for the NHU of allocation of funding to build capability of prospective social housing providers and support their entry into the market would be broader than purchase of social services. This role would also involve a wider range of providers than the existing niche and specialist providers. In addition it would be important for the NHU to establish partnerships with private sector and commercial organisations. This is a considerably wider focus than the Ministry of Social Development's current role in this area.

A Social and Affordable Housing Ministerial Advisory Panel

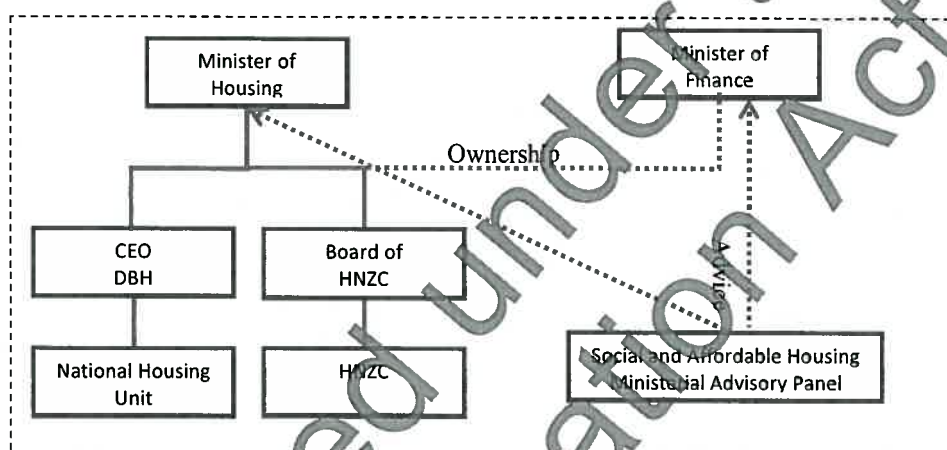
99. Given the range of stakeholders, the complexity of the reforms, the uncertainty as to pace and impact over a long time it is proposed that a Social and Affordable Housing Ministerial Advisory Panel (the Ministerial Advisory Panel) is established to report jointly at 6-monthly intervals to the Minister of Finance and the Minister of Housing, with independent advice on:
- the progress of implementation
 - results being achieved
 - issues arising from or for the implementation of agreed changes in social and affordable housing.
100. It is proposed that the Minister of Finance and the Minister of Housing jointly appoint a Chair and up to three other members to the Ministerial Advisory Panel.
101. In establishing the Ministerial Advisory Panel, it would be important to appoint members who:
- have sector-wide knowledge and the right expertise

- no conflicts of interest
- are able to provide neutral advice.

102. The Ministerial Advisory Panel would not have any statutory functions or exercise decision rights. It would not need to exercise any powers.

103. The estimated cost of providing independent advice via a Ministerial Advisory Panel is likely to be in the order of \$80,000 - \$100,000 (including any tax payable) per annum.

104. The relationship between such a Ministerial Advisory Panel and the other social and affordable housing agencies could be as follows:



105. Possible Terms of Reference for such a panel are set out in Annex Three. It is proposed that officials submit proposed Terms of Reference for the Ministerial Advisory Panel by 31 May 2011 for consideration and decisions by the Minister of Finance and the Minister of Housing.

Consultation

106. The following agencies have been consulted on this paper: the Treasury, State Services Commission, Ministry of Social Development, HNZC, Te Puni Kokiri, Ministry of Pacific Island Affairs, Ministry of Women's Affairs, Ministry of Health, Ministry of Education, Ministry of Youth Development, Older People's and International Policy Unit, Office for Senior Citizens, Office for Disability Issues, Office of the Auditor General and the Ministry for the Environment.

107. The Department of Prime Minister and Cabinet has been informed.

The Treasury

108. The Treasury agrees that there is a need to establish mechanisms to support growing third party provision, and supports the proposals to establish a funding function and a Ministerial Advisory Panel, and to develop a National Social Housing Investment Strategy and Portfolio Management Plan. The Treasury notes that a funding function could feasibly be located in either the Ministry of Social Development or the Department of Building and Housing. If the aim of the unit is to provide a clear focus on optimising the use of the current capital investment in social housing across the whole sector to grow supply, the Treasury suggests the unit be located within DBH initially. The Treasury notes however that the location, form and role of the unit may need to be revisited in future to ensure consistency with the wider direction for machinery of government.
109. The Treasury notes that a future role for the funding unit in taking decisions on stock transfers or asset sales has the potential to be inconsistent with the current requirements on HNZC to act in a business-like manner and its role as a Crown Entity at arms-length from Government. The balance sheet implications for HNZC and the Crown of these transactions also need to be evaluated in detail. The Treasury recommends that all options for funding third party providers, including asset transfers and/or sales, are considered as part of the development of the Investment Strategy, and that this include detailed consideration of the financial and other implications for HNZC and the Crown.

Housing New Zealand Corporation

110. HNZC notes that it can make a constructive contribution to the Government's overall objective to grow third party social housing provision, while reconfiguring its land and housing to meet its objective of housing those in greatest need for the duration of their need. For HNZC to carry out the objectives required of

it effectively while the overall housing sector undergoes significant changes, HNZC considers that it's necessary that the:

- role, powers and accountabilities of the proposed National Housing Unit vis-à-vis HNZC's Board are clearly defined
- costs and balance sheet implications of the proposed transfer of existing HNZC land and houses to third party providers are transparent
- policy and financial assumptions underpinning the projected growth of the sector are clear
- process and implications of any transfer of functions from HNZC to the National Housing Unit or other entities is clear, provides sufficient lead time and proceeds in close consultation with HNZC.

Ministry of Women's Affairs

111. The Ministry of Women's Affairs comments that the paper focuses on how the housing stock might be increased, but there is not a lot of discussion on how the

Government can ensure that future social housing provision is sustainable, high quality and affordable.

Ministry of Health

112. The Ministry of Health is concerned that the proposals place emphasis on assets, funding and capability of providers, rather than on outcomes for social housing clients. There is a particular concern that some target client groups (eg. those with disabilities, mental illness/addictions, older people, Maori and Pacific peoples and women with children) who do not meet the social allocation criteria for reconfigured HNZC housing, or niche provider housing, will not be able to access new third sector housing unless their needs are specifically and visibly included in all aspects of the proposals on third party provision.

Ministry of Youth Development

113. The Ministry of Youth Development is concerned that the paper does not make any explicit reference to young people's housing need. More clarity is needed about the term 'high needs' tenants and what will happen to (the relatively) low needs tenants displaced by the proposed refocusing of the HNZC portfolio.

Older People's and International Policy Unit, Office for Senior Citizens and Office for Disability Issues

114. A joint comment from the Older People's and International Policy Unit, Office for Senior Citizens and Office for Disability Issues, is that rather than focus solely on the potential to deliver an increase in the number of social housing units, it would be useful to develop a set of principles associated with reconfiguration of HNZC's housing stock and land.

Ministry for the Environment

115. The Ministry for the Environment notes that the Minister for the Environment is considering a National Policy Statement (NPS) on the urban environment as part of the second phase of resource management reform. This NPS will seek to address constraints on housing affordability associated with the resource management and planning system.

Financial implications

116. Funding will be required to establish a National Housing Unit by 1 July 2011 as the Department of Building and Housing does not currently have an appropriation to fund this work. Funding will also be required for the establishment and operation of the Social and Affordable Housing Ministerial Advisory Panel.

117. On 25 March 2011, Cabinet agreed in principle to provide a budget allocation in Budget 2011 of up to \$45 million for social housing initiatives, subject to suitable sources of funding being identified as part of the Budget package and subject to

final decision on the proposals when the Minister of Finance presents the final Budget package to Cabinet [CBC Min (11) 5/11 refers].

118. It was estimated that five percent of this funding, equal to \$2.00-\$2.25 million, would be used to operationalise and implement the social housing programme. This includes the establishment of a National Housing Unit and an estimated \$80,000 - \$100,000 per annum for the Ministerial Advisory Panel.
119. Subject to relevant decisions being made, officials will establish the actual funding needed for the proposals in this paper, and report back before the end of 2010/11 on appropriation requirements to be met from any budget allocation.
120. At this stage, Cabinet has only agreed to one year of funding; longer term funding has yet to be secured. If Cabinet agrees to the proposals, appropriation requirements for the proposals will need to be established prior to 30 June 2011.

Human rights

121. There are no human rights implications in this paper. There are no proposals that are in any way inconsistent with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Legislative implications

122. There are no legislative implications arising out of the proposals. Note that the Housing New Zealand Corporation Amendment Bill, planned to be introduced to the House in April 2011, will give effect to the transfer of the housing policy advice function from HNZC to the Department of Building and Housing by 1 July 2011.

Regulatory impact analysis

123. The Department of Building and Housing confirms that the principles of the Code of Good Regulatory Practice and the regulatory impact analysis requirements have been complied with. No Regulatory Impact Statement is required to support the proposals in this paper.

Gender implications

124. There are no gender implications arising out of the proposals.

Disability perspective

125. There are no implications from a disability perspective arising from the proposals.

Publicity

126. The Minister of Housing will co-ordinate any announcements with the Prime Minister and the Minister of Finance.

Recommendations

127. The Minister of Finance and the Minister of Housing recommend that the Committee:

1. **note** that in December 2010 [CAB Min (10) 44/8 refers] Cabinet announced its response to the report of the Housing Shareholders Advisory Group and agreed a direction of change for the social housing sector that involves delivering these outcomes:
 - greater involvement of third party providers of social housing
 - increasing the effectiveness of financial assistance
 - focusing Housing New Zealand Corporation (HNZC) on providing social housing to tenants with the greatest housing need
 - aligning the organisation and responsibilities of government agencies
2. **note** that the following recommendations seek agreement to proposals that will allow those decisions to be implemented, and provide the report back [CAB Min (10) 44/8 refers] on:
 - the potential scale and scope of third party provision of social housing
 - the future role of HNZC (as a provider of social housing)
 - options for funding growth of third party housing provision, including incentives, costs and funding sources to achieve this
 - the vehicle for funding social and affordable housing providers (including HNZC)
3. **note** that current unmet demand for social and affordable housing is approximately 50,000 to 60,000 households and this is growing at a rate of 5,000-10,000 per year
4. **note** that depending on the pace and level of investment decisions made it is estimated that there is a potential to increase the scale and scope of social and affordable houses by between approximately 15,000 and 20,000 within the next 10 to 15 years
5. **note** that of the estimated 15,000 to 20,000 potential growth in social and affordable housing over 10 to 15 years, only around 2,000 to 3,000 additional homes could be delivered by existing niche and specialist social and affordable housing providers (including not-for-profit, community and iwi groups) such as Salvation Army, IHC and others
6. **note** that the work undertaken by officials during the past three months has identified a number of additional social and affordable housing initiatives involving niche and specialist providers that can be progressed within 6 months
7. **note** that the Department of Building and Housing is already working with a set of providers (particularly iwi, in the context of the Rural Housing Programme) on several specific housing supply projects

8. **note** that achieving increased supply of social and affordable housing at scale over around the next 10 to 15 years will require:
- suitable parcels of land
 - integrated and efficient planning processes
 - organisations which can act as social landlords
 - new types of partnership arrangements
9. **agree** that Auckland be given priority for initiatives to grow the supply of social and affordable housing, through the transfer and reconfiguration of existing Crown assets, given that Auckland has high and growing demand for such housing and sizeable parcels of under-utilised HNZC land are available together with housing stock that is no longer fit for purpose
10. **note** that on 25 March 2011 CBC noted the estimated operating costs (not currently funded as part of Budget 2011) of \$40 million to \$45 million in each of the following three years, to implement the new direction in social and affordable housing
11. **note** that CBC also noted that the Minister of Housing would write to HNZC to request an increase in dividends in 2011/12 to 2013/14 to offset the impact of this budget proposal on the operating balance
12. **invite** the HNZC board to identify what steps will be taken to lower the HNZC operating costs (currently equal to 16% of gross rental expenses) closer to the industry benchmark of around 9%
13. **note** that in addition to HNZC dividends, Government has options to contribute parcels of land and/or housing stock to raise capital:
- assets could be transferred to third parties to enable them to borrow money to finance construction of new housing and/or refurbishment of existing houses
 - parcels of Crown owned land could be sold to raise capital (eg, Hobsonville or Weymouth)
14. **agree** the HNZC Board will retain responsibility for managing its assets and for providing advice to Ministers on management of these assets
15. **note** that HNZC's asset management strategy will need to align with the National Social Housing Investment Strategy and Portfolio Management Plan, which will be developed by the proposed National Housing Unit
16. **note** that the impacts on decisions arising from the Investment Strategy and Portfolio Management Plan will on HNZC's balance sheet and on HNZC's ability to manage its own assets would be clearly identified within these documents, and would be discussed with the HNZC Board
17. **direct** officials led by the Department of Building and Housing to report to CBC by 30 June 2011 with further detail on the implications for HNZC of the

proposals above for transformation of the social and affordable housing sector, including:

- legislative implications (proposed changes to the HNZC legislation to give effect to the agreed changes to HNZC's role and functions)
- legal issues associated with reconfiguration of HNZC land and stock
- which agency should deliver the legacy products and loan initiatives currently being delivered by HNZC and the transition path for any change

18. **agree** to establish a National Housing Unit to give effect to the transformation of the social housing sector as set out in the Cabinet Minute (10) 44/3 of December 2010

19. **direct** officials to submit proposed Terms of Reference for the NHU by 31 May for consideration and decisions by the Minister of Finance and the Minister of Housing

20. **agree** that the National Housing Unit will have five immediate priorities:

Within six months:

- develop systems and processes and build key relationships to establish outcomes based procurement for social and affordable housing
- progress the current opportunities (details are provided in Annex One) to stimulate the provision of niche and specialist social housing providers, including by seeking expressions of interest from niche and specialist providers for:
 - specific HNZC stock and/or Crown land (e.g. Weymouth)
 - providing tenancy management services for groups of HNZC housing outside major cities
 - grants for capital to assist the funding of new supply
- commence the allocation of grants to low-risk, well-established third sector housing providers (these grants will replace the current Housing Innovation Fund grants)

Within 12 months:

- develop a draft National Social Housing Investment Strategy and Portfolio Management Plan for Ministers' consideration
- identify further specific opportunities to stimulate social and affordable housing at scale through the formulation of specific, large scale development projects

21. *Either:* (Department of Building and Housing preferred option)

- **agree** to establishment of a National Housing Unit within the Department of Building and Housing

Or: (State Services Commission preferred option)

- **agree** to create an establishment capacity from 1 July 2011 to develop detailed advice on the functions required, the most effective means to

deliver those functions, and a clearly defined transition path to the delivery of these functions from 1 July 2012.

- **direct** the State Services Commission to report to the Cabinet Social Policy Committee by May 2011 with detailed advice on the creation of this establishment capacity, including:
 - terms of reference
 - governance and accountability
 - cost and legislative implications.
22. **agree** to establishment of a Social and Affordable Housing Ministerial Advisory Panel to report 6-monthly to shareholding Ministers with independent advice on:
- the progress of implementation
 - results being achieved
 - issues arising from or for the implementation of agreed changes in social and affordable housing
23. **agree** that the Minister of Finance and the Minister of Housing jointly appoint a Chair and up to three other members to the Social and Affordable Housing Ministerial Advisory Panel
24. **direct** officials to submit proposed Terms of Reference for the Social and Affordable Housing Ministerial Advisory Panel by 31 May 2011 for consideration and decisions by the Minister of Finance and the Minister of Housing.

Hon Bill English
Minister of Finance

____/____/____

Hon Phil Heatley
Minister of Housing

____/____/____

ANNEX ONE

Crown and NGO contributions to “Specific social and affordable housing initiatives identified”

Initiative	NGO contribution	Crown contribution
<p>Central Auckland</p> <p>Develop 157 apartments and ground level retail plus beds from homeless and detox</p>	<p>Owns land and has secured partial corporate funding for homeless/detox beds.</p> <p>No funding sought from Crown currently</p> <p>NGO has suggested Crown may wish to refund GST of development</p>	<p>HNZC has considered contribution to homeless/detox services but no commitment made.</p> <p>Cost of GST refund \$11m.</p> <p>No direct benefit to the Crown but may accelerate implementation</p>
<p>Niche urban regeneration of up to 200 houses</p>	<p>Project funded from philanthropy and profits on sale of redeveloped houses</p> <p>NGO has identified small number (5-10) of HNZC properties that would complement development</p> <p>NGO has proposed transfer of houses to development at nil value.</p>	<p>Cost to Crown is write-off of the value of the houses transferred (potentially \$1.5-\$2.5m for 5 to 10 houses).</p> <p>No direct gain to Crown other than expansion of number of affordable houses.</p>
<p>National</p> <p>Large NGO constructs an additional 1,000 social housing units over 10 years with a 50 percent capital grant from HNZC. Properties are offered at 80 percent of market rental</p>	<p>NGO uses all income the newly built properties plus income from properties already owned by the NGO service the 50 percent debt funding required to build the properties</p>	<p>Crown provides 50 percent of the values of the houses as a grant (estimated at \$170m over 10 years) and achieves a lower cost delivery of social housing. Crown may make a 30-40 percent saving on AS payment to these tenants (less than \$10m over 10 years).</p>
<p>Rural North Island iwi</p> <p>Four initiatives to provide lower cost refurbishment or new housing than the cost of provision under the former Rural Housing Programme</p>	<p>Prototypes of refurbished or new low cost housing construction methods, expertise, and infrastructure to expand local delivery.</p>	<p>Funding for construction (through grants).</p> <p>Benefit to Crown is more effective use of funding previously allocated to rural housing programmes.</p>

Initiative	NGO contribution	Crown contribution
<p>Large construction company</p> <p>Proposing techniques for lower cost construction.</p>	<p>No contribution offered by NGO other than opportunity for Crown to reduce construction costs</p>	<p>No contribution sought from Crown.</p>
<p>Large developer</p> <p>Offering funding for large scale social housing development</p>	<p>Contribution is access to private sector funding if the following terms can be met:</p> <ul style="list-style-type: none"> • Target return of 9-10.5 percent weighted average cost of capital • Returns are delivered as a running yield over a 30 year term • Developer is not exposed to tenancy damage risk or residual risk on the value of the properties at the end of the investment term. 	<p>Crown has to provide for:</p> <ul style="list-style-type: none"> • Cost of tenant damage over and above normal "wear and tear". (An upper estimate for this provision could be based on HNZA experience) <p>Potential capital loss on the properties at the end of the term of the investment and cost of resuming ownership of the properties. (This provision will vary widely according to the location and nature of the development).</p>

Released under the Official Information Act 1982

The National Housing Unit: Proposed Terms of Reference

Introduction

This is a proposed terms of reference for the proposed "National Housing Unit" (NHU) that will facilitate the Government's objectives for transforming the delivery of social housing as a "vehicle for funding social housing providers (including HNZC)"⁵. The NHU will be dedicated unit, established from 1 July 2011, to lead the transformation of the social and affordable housing sector in New Zealand.

Objectives

The NHU will bring an independent, sector wide perspective to the use and allocation of Crown assets, including existing HNZC assets, for the social and affordable housing sector.

Key objectives will be to maximise the effectiveness and efficiency of Government's investment in social and affordable housing, progress opportunities for delivering better social and affordable housing and establish a framework for how social and affordable housing will be delivered in the future.

Role

The NHU will play the following key roles:

- advisor to Ministers on investment strategy and portfolio plan to generate an increased supply of social and affordable housing
- allocator of funding to social housing providers (including HNZC)
- monitor and reporter of progress towards Government's goals related to social and affordable housing.

Functions

Functions of the NHU will include:

- Facilitation of greater involvement of third sector providers to grow the overall quantum of available social housing as well as the potential for better efficiency and value for money through:
 - greater innovation, diversity and specialisation,
 - access to additional sources of capital

⁵ Paragraph 7.4 of the Cabinet Minute "A New Direction for Social and Affordable Housing in New Zealand: Government's Response to the Report of the Housing Shareholders Advisory Group", CAB Min (10) 44/8, 6 December 2010.

- Facilitation, negotiation, contracting and brokerage of partnerships and opportunities for specific redevelopment projects
- Development of a National Social Housing Investment Strategy and Portfolio Management Plan to achieve greater involvement of third sector providers through designing and championing a programme for redevelopment of underutilised state housing (land) assets including:
 - preferred objectives, functions and form for redevelopment partnerships and new third sector housing service provision models
 - proposed priorities and redevelopment initiatives (including the expected contribution to the Government social housing objectives and requirements for funding)
 - by third sector providers and long term risk sharing.
- Report and monitor through establishment of processes to measure the progress of the NHU in expanding third sector social housing provision, delivering value for money and ensuring that third sector providers meet their commitments to deliver quality social housing.

Deliverables and accountabilities

The immediate functions of the NHU would be accountability for specific deliverables, as follows:

Within six months the NHU will:

- develop systems and processes and build key relationships to establish outcomes based procurement for social and affordable housing
- progress the current opportunities (details are provided in Annex One) to stimulate the provision of niche and specialist social housing providers, including by seeking expressions of interest from niche and specialist providers for:
 - specific HNZA stock and/or Crown land (e.g. Weymouth)
 - providing tenancy management services for groups of HNZA housing outside major cities.
 - grants for capital to assist the funding of new supply
- commence the allocation of grants to low-risk, well-established third sector housing providers (these grants will replace the current Housing Innovation Fund grants)

Within 12 months the NHU will:

- develop a draft National Social Housing Investment Strategy and Portfolio Management Plan for Ministers' consideration
- identify further specific opportunities to stimulate social and affordable housing at scale through the formulation of specific, large scale development projects.

In the medium term the NHU will:

- redevelop underutilised state-housing (land) assets to grow third party provision of social housing by leveraging private sector funding and expertise.
- contract with third sector social housing providers to provide social housing services.
- oversee delivery of the National Social Housing Investment Strategy and Portfolio Management Plan.

Critical relationships

The NHU will need to maintain close relationships with:

- Other government agencies in delivery of:
 - Housing and social assistance including; Ministry of Social Development, HNZA, other parts of DBH.
 - Assistance programmes to Maori (Te Puni Kokiri) and Pacific Island peoples (Ministry of Pacific Island Affairs).
 - Infrastructure development (National Infrastructure Unit of the Treasury) and general Government procurement (Ministry of Economic Development).
- Local government agencies.
- Commercial redevelopment partners including construction firms, property developers, banks and long term investors.
- Third party, including third sector, social housing service providers and partners

Executive Director

An Executive Director, with the appropriate skills and experience, will be appointed to provide strategic and operational leadership to the NHU.

Released under the Official Information Act 1982

ANNEX THREE

Social and Affordable Housing Ministerial Advisory Panel: Possible Terms of Reference

Context

It is proposed that a Social and Affordable Housing Ministerial Advisory Panel is established to oversee the transformation of the social and affordable housing sector.

Role

The key role of the Social and Affordable Housing Ministerial Advisory Panel (the Advisory Panel) is to provide independent advice to the Minister of Finance and the Minister of Housing (Ministers), on:

- the progress of implementation
- results being achieved
- issues arising from or for the implementation of agreed changes in social and affordable housing.

Membership

The Advisory Panel is comprised of five to seven members with an independent chair. The membership of the Advisory Panel will include representatives:

- of third sector social housing providers
- with expertise in residential construction, property development and property management
- with expertise in the negotiation and governance of public private partnerships.

Ministers will appoint the Chair and up to three other members to the Advisory Panel.

The Chair is responsible for ensuring that the Advisory Panel has a well-planned and focused agenda, consistent with their objectives, and that Ministers are kept well-informed of the Advisory Panel work. The Chair is also responsible for managing external communications of the Advisory Panel. The Chair needs to maintain the confidence of Ministers and satisfy officials that public sector accountability standards are being met during a period of transformation of the social and affordable housing sector.

Mandate and Authorities

The Advisory Panel does not have any formal decision-making authority, will not have any statutory functions or exercise decision rights. It will not need to exercise any powers.

The Advisory Panel reports to the Ministers 6 – monthly on progress and reports on individual programmes at key decision points as requested by Ministers.

Appointments

The Advisory Panel appointments are Ministerial appointments, not employment relationships, and may be for periods up to 3 years.

Advisory Panel members serve at the pleasure of the Minister. The Minister may ask a member to stand down at any time for reasons including, but not limited to, inability to perform the functions of the office, bankruptcy, and neglect of duty or misconduct.

Fees and allowances are paid in accordance with established public service guidelines.

Released under the
Official Information Act 1982

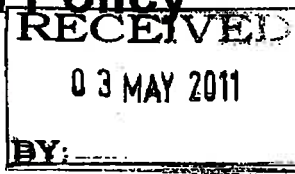


CE
DUE SP
DUE BSSS



Cabinet Social Policy Committee

SOC (11) 27



Copy No: 40

Summary of Paper

2 May 2011

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

LATE PAPER: This paper was submitted after the Cabinet deadline and has been accepted for the agenda by the Chair.

Establishing a Funding Mechanism for Future Social Housing Provision

Portfolios Finance / Housing

Purpose This paper seeks agreement to the establishment of an interim social housing purchasing function within the Department of Building and Housing (the DBH).

Previous Consideration In December 2010, Cabinet agreed to a direction of reform for social and affordable housing involving: greater involvement of third sector providers of social housing; increasing the effectiveness of financial assistance; focusing Housing New Zealand Corporation (the HNZC) on providing social housing to tenants with the greatest housing need; and aligning the organisation and responsibilities of government agencies.

Cabinet invited the Minister of Finance and the Minister of Housing (the Ministers) to report to SOC on: the potential scale and scope of third sector provision of social housing; the future role of the HNZC (as a provider of social housing); options for funding growth of third sector housing provision, including incentives, costs and funding sources to achieve this; and the vehicle for funding social and affordable housing providers (including the HNZC).

[CAB Min (10) 44/8]

Summary

Greater involvement and growth of third party providers of social housing is fundamental to helping the government meet its current and future housing challenges. Third party providers will help grow the total quantum of available social housing, promote choice and contestability, have access to a wider pool of capital, and help drive more efficient, specialised and innovative use of existing housing resources. Auckland will be given priority in considering initiatives to grow third party provision of social and affordable housing.

In 2011, further work will be undertaken on two key areas that have implications for the decision-making powers and funding mechanisms that will need to be available to a future social housing purchaser: improving the performance of financial assistance for accommodation costs; and what decision-making powers will be needed to be able to reallocate resources across the sector. This work will in a large part determine the future organisational form of the purchasing function.

To enable the government to start taking specific actions over the next year to grow third party provision, it is proposed that an interim Social Housing Unit (the Unit) be established as a semi-autonomous body within the DBH.

The Unit's role will be to advise on the allocation of all resources that the Government invests in the supply-side of social and affordable housing provision, with the aim of maximising the effectiveness and efficiency of provision over time.

The Treasury, in consultation with the State Services Commission (SSC), the DBH, the HNZC, and the Ministry of Social Development and Employment will submit terms of reference for the Unit's functions (and how they relate to those of the DBH and HNZC), and operation to the Ministers by 20 May 2011.

The Unit will develop a draft Social Housing Investment Strategy by December 2011 which will outline how the Unit will grow third party provision, the nature of the funding mechanisms it will require to achieve the best value for money for the Crown, and the financial implications for the Crown of different approaches. Following consideration of the draft Strategy, the Ministers will take decisions on the final form of the Unit in the first half of 2012.

The HNZC will remain the most significant provider of social housing in the medium-term. The Ministers will continue efforts to enable the HNZC to focus on its core business of providing social housing to high needs tenants effectively and efficiently. The Minister of Housing will write to the HNZC to request an increase in dividends for 2011/12 to 2013/14 to provide resources to implement initiatives to support the new direction for social housing.

DBH, in consultation with the Unit, SSC, the Treasury and HNZC, will report to the Ministers by 30 July 2011 with proposals for the future delivery of Crown products currently being delivered by HNZC.

To date, input from the private and third sectors has been critical for understanding what will work and how the government can work better with these parties. A Ministerial Advisory Panel will be established to provide the Ministers with independent advice on progress on implementation, results being achieved, and major issues that need to be addressed.

SSC, in consultation with relevant agencies, will submit terms of reference for the Advisory Panel to the Ministers by 20 May 2011.

**Regulatory
Impact Analysis**

Not applicable.

**Baseline
Implications**

Cabinet has set aside a tagged contingency of \$45 million for social housing initiatives in Budget 2011 [CAB Min (11) 15/14(21)]. The Ministers will report to SOC by 30 June 2011 on the funding requirements for the Unit and Advisory Panel which can be sourced from the social housing initiatives contingency.

**Legislative
Implications**

None from this paper.

Timing Issues

The Unit will be established from 1 July 2011, or as soon as possible thereafter.

Announcement

The Minister of Housing will coordinate any announcements with the Prime Minister and Minister of Finance.

Consultation Paper prepared by the Treasury. DBH, SSC, HNZC, MSD, TPK, MPIA, MWA, MoE, MoH, and MfE were consulted. DPMC was informed.

The Minister of Housing indicates that discussion is not required with the government caucus and will be undertaken with other parties represented in Parliament.

The Minister of Finance and the Minister of Housing recommend that the Committee:

Background

- 1 note that on 6 December 2010, Cabinet:
 - 1.1 agreed to a direction of reform for social and affordable housing involving:
 - 1.1.1 greater involvement of third sector providers of social housing;
 - 1.1.2 increasing the effectiveness of financial assistance;
 - 1.1.3 focusing the Housing New Zealand Corporation (the HNZC) on providing social housing to tenants with the greatest housing need; and
 - 1.1.4 aligning the organisation and responsibilities of government agencies;
 - 1.2 invited the Minister of Finance and the Minister of Housing to report to the Cabinet Social Policy Committee (SOC) on:
 - 1.2.1 the potential scale and scope of third sector provision of social housing;
 - 1.2.2 the future role of the HNZC (as a provider of social housing);
 - 1.2.3 options for funding growth of third sector housing provision, including incentives, costs and funding sources to achieve this; and
 - 1.2.4 the vehicle for funding social and affordable housing providers (including HNZC);

[CAB Min (10) 44/8]
- 2 note that the preferred approach to growing third party provision is to move towards a greater share of the social housing market being available to providers other than the HNZC in a staged and managed way over time, as the relative advantage of other providers becomes clearer;
- 3 note that there is a potential future role for both niche or specialist providers and additional scale providers;
- 4 agree that Auckland should be given priority in considering initiatives to grow third party provision of social and affordable housing;

Establishing an interim purchasing function for social housing

- 5 agree to the establishment of a Social Housing Unit (the Unit) as a semi-autonomous body within the Department of Building and Housing from 1 July 2011, or as soon as possible thereafter, and that it be responsible to the Minister of Housing for the provision of its social housing purchasing services;
- 6 agree that the Unit's role will be to advise on the allocation of all resources that the Government invests in the supply-side of social and affordable housing provision, with the aim of maximising the effectiveness and efficiency of provision over time;
- 7 note that the standard public service accountability and monitoring arrangements will apply to the Unit as a semi-autonomous body, including that the:
 - 7.1 the Chief Executive of the Department of Building and Housing (the DBH) is accountable for performance of the Unit;
 - 7.2 the Chief Executive of DBH is accountable for the purchase and performance agreements relating to the Unit even where the responsibility for negotiating these has been delegated to the head of the Unit;
 - 7.3 the Chief Executive of DBH must ensure all instruments of delegation are in place; and
 - 7.4 the head of the Unit is appointed and employed by the Chief Executive of DBH;
- 8 agree that protocols be put in place in the form of a 'relationship document' that sets out and manages the accountability and reporting relationship between Ministers, the Chief Executive of DBH and the head of Unit, in accordance with the Cabinet Accountability Guidelines for Semi-Autonomous Bodies [CAB (99) M 14/9];
- 9 agree that in its first year the Unit will also be tasked with:
 - 9.1 establishing new programmes to support the development of third party provision, including replacements for the Housing Innovation Fund and the new Rural Community Regeneration Programme;
 - 9.2 developing relationships with key sector participants;
 - 9.3 investigating the implementation of a regulatory framework for the third sector.
 - 9.4 developing standards for provision of social housing, to be used in future contracting;
 - 9.5 developing procedures for running contracting processes and criteria for assessing the relative value for money of different proposals; and
 - 9.6 seeking expressions of interest from potential providers for initial projects;
- 10 direct the National Infrastructure Unit within the Treasury, in consultation with the State Services Commission (the SSC), the DBH, the HNZA, and the Ministry of Social Development and Employment to submit Terms of Reference for the Unit to the Minister of Finance and the Minister of Housing for approval by 20 May 2011;

- 11 direct the Unit, in consultation with other relevant agencies, to report to the Minister of Finance and the Minister of Housing by the end of 2011 with a draft Social Housing Investment Strategy;

Funding growth in third party provision

- 12 note that the Minister of Finance and the Minister of Housing intend to fund increased third party provision through more efficient use of our existing investment, currently invested in the HNZC's stock, rather than providing additional resource;
- 13 note that in its first year, the Unit will have access to funding set aside in Budget 2011 to support social housing initiatives and will pursue specific opportunities relating to divestment of HNZC stock, but will not have powers to direct the use of specific HNZC's assets;

Role of the HNZC

- 14 note that the Minister of Finance and the Minister of Housing anticipate that the HNZC will remain the most significant provider of social housing in the medium-term, and that we will continue implementing measures to enable the HNZC to focus on its core business;
- 15 note that the Minister of Housing intends to write to the HNZC to request an increase in dividends for 2011/12 to 2013/14 to provide resources to implement initiatives to support the new direction for social housing;
- 16 direct the DBH, in consultation with the Social Housing Unit, the SSC, the Treasury and the HNZC, to report to the Minister of Finance and the Minister of Housing by 30 July 2011 with proposals for the future delivery of Crown products currently being delivered by the HNZC;

Future decisions

- 17 direct the SSC, the Treasury and the DBH, in consultation with the Unit and the HNZC, to report to the Minister of Finance and the Minister of Housing by 30 March 2012 on:
- 17.1 the decision making powers that the Unit should have in future in order to achieve its objectives on behalf of the Crown;
- 17.2 whether the existing levers for influencing the HNZC, and the parameters within which the HNZC operates, provide sufficient flexibility to optimise resource allocation across the sector, or whether changes are required;
- 17.3 the most appropriate long-term organisational form and functions of the Unit;
- 17.4 the implications of any resulting proposals for the HNZC;

Establishing a Ministerial Advisory Panel

- 18 agree to the establishment of an independent Ministerial Advisory Panel to provide independent advice to the Minister of Finance and the Minister of Housing on how well the reforms are progressing;

- 19 direct the SSC, in consultation with other relevant agencies, to submit Terms of Reference for the Ministerial Advisory Panel to the Minister of Finance and the Minister of Housing for approval by 20 May 2011;
- 20 invite the Minister of Finance and the Minister of Housing to report to SOC by 30 June 2011 on the funding requirements of the Unit and the Ministerial Advisory Panel, which can be sourced from the contingency for social housing initiatives set aside in Budget 2011.

Gerrard Carter
Committee Secretary

Distribution:

Cabinet Social Policy Committee
Office of the Prime Minister
Chief Executive, DPMC
Director, PAG, DPMC
PAG Subject Advisor, DPMC
Secretary to the Treasury
Audrey Sonerson, Treasury
Minister of Health
State Services Commissioner
Secretary for the Environment
Secretary for Education
Chief Executive, Ministry of Pacific Island Affairs
Chief Executive, MSD
Don Gray, MSD
Chief Executive, Housing New Zealand Corporation
Chief Executive, Ministry of Women's Affairs
Minister for Building and Construction
Chief Executive, Department of Building and Housing
Chief Executive, Te Puni Kokiri
Geoff Short, Te Puni Kokiri

In Confidence

Office of the Minister of Finance

Office of the Minister of Housing

Chair
Cabinet Social Policy Committee

Establishing a Funding Mechanism for Future Social Housing Provision

Proposal

1. This paper proposes establishing an interim social housing purchasing function, in the form of a semi-autonomous body within the Department of Building and Housing, from 2011/12. This is part of the response to the report of the Housing Shareholders' Advisory Group and the agreed direction of change for the social housing sector Cabinet announced in December 2010 [STR Min (10) 16/1 of October 2010 and CAB Min (10) 44/8 of December 2010 refers].

Executive Summary

2. Cabinet has previously agreed to pursue a range of reforms to improve the performance of the Government's interventions in social and affordable housing, following the report of the Housing Shareholders' Advisory Group last year. One of the major planks of these reforms is growing alternative, third party providers of social housing¹.

3. Greater involvement and growth of third party providers of social housing is fundamental to helping the Government meet its current, and future, housing challenges. Third party providers will help grow the total quantum of social housing available, promote choice and contestability, have access to a wider pool of capital, and help drive more efficient, specialised and innovative use of existing housing resources across the whole social housing sector.

4. This paper proposes the establishment of an interim Social Housing Unit ('the Unit') to enable us to start taking specific actions over the next year to grow third party provision. The purpose of the Unit will be to optimise the allocation of the Crown's resources across the supply-side of the social housing sector to grow the total quantum of social housing and achieve more efficient and effective provision. Over the next year, the Unit would plan to deliver targeted increases in social housing through grants, progress current opportunities to work with providers and register what other cash, Crown land or Housing New Zealand Corporation (HNZC) properties could be sensibly transferred to boost the wider social housing sector.

¹ Third party providers could include third sector providers such as NGOs, private providers or partnerships between different kinds of providers.

5. Over time, the Unit would evolve to lead contracting with providers, funding a range of housing providers (including HNZC and the third sector) and responding to the direction of change in social and affordable housing issues.

6. We propose that the Unit initially take the form of a semi-autonomous body within the Department of Building and Housing (DBH).

7. We intend to bring about change in a staged and managed way over time, gradually reallocating resource to other providers as good opportunities are identified. We therefore anticipate that HNZC will remain the most significant provider of social housing in the medium-term, while these changes occur. We will, however, be seeking significantly improved financial performance from HNZC in order to release resources for investment in other providers. We will continue to take decisions to enable HNZC to respond to this imperative, such as divesting it of functions that do not relate to its core business.

8. If we can simultaneously improve the efficiency and financial performance of HNZC, and at the same time reinvest the surplus produced to support other providers to grow, we have a much improved opportunity to increase efficient housing provision in a self-sustaining way over time, without the need to invest significantly more.

9. In the Unit's first year, we will continue to use the existing levers that we have to influence HNZC and support the growth of other providers. This means that the Unit may not take extensive decisions about the use of specific HNZC assets, as the current legislative parameters do not allow for this, although some easy and sensible opportunities may be pursued. We intend to seek advice over the next year that will enable us to take decisions on the final form of the Unit, and any implications for the parameters within which HNZC operates and the levers that the Crown has over HNZC.

Background

10. In 2010, we established the Housing Shareholders' Advisory Group (HSAG) to provide independent advice on how to achieve more effective provision of social housing. We established this group because we saw significant potential to improve the performance of the \$11.6 billion of equity that we have invested in the Housing New Zealand Corporation, and the \$1.8 billion that we spend each year on the Accommodation Supplement and Income-Related Rents.

11. The report of the HSAG, and subsequent advice from officials last year confirmed that:

- state housing is not well matched to need;
- increasing demand is likely to create fiscal pressures in the future that will be difficult to manage under the current model;
- there is a lack of alternatives to state housing that offer security of tenure and are affordable;
- financial assistance for housing is inequitable and inadequate for some;
- there are continuing affordability problems for low-income renters especially. [CAB Min (10) 44/8 refers].

12. In December, Cabinet agreed to progress a programme of reforms to address these problems [CAB Min (10) 44/8 refers]. Our ultimate objective is to achieve more efficient and effective provision of social and affordable housing. To achieve this Cabinet agreed that we needed an approach with four major elements.

- Greater involvement of third-party providers of social housing: that is, bringing both third sector and private providers into the market, as a means of achieving more efficient and effective provision through innovation, specialisation, and greater contestability.
- Improving the effectiveness of financial assistance for housing costs: so that this assistance is fairer, and supports the economic viability of the sector by enabling tenants to pay a market rent.
- Focusing HNZC on its core business of providing social housing to tenants with the greatest housing need, in order to improve its overall efficiency and effectiveness and so that we can judge its performance more transparently.
- Aligning the organisation and responsibilities of Government agencies, to support the direction of change.

13. We are already progressing a number of changes to help HNZC focus on its core business. These include:

- The introduction of reviewable tenancies for new tenants from 1 July 2011 [SOC Min (11) 5/1 refers];
- Changes to the Housing Restructuring and Tenancy Matters Act [CAB Min (11) 16/19 refers];
- Reviewing the Social Allocation System (the system for determining initial eligibility for state housing) [SOC Min (11) 6/2 refers];
- Investigating options for the Crown to exit more quickly from the Hobsonville development in Auckland, while ensuring the land continues to be used for housing purposes [CAB Min (11)15/21 refers]; and
- Consolidating housing policy advice in the Department of Building and Housing [CAB Min (10) 44/8 refers].

14. The Ministry of Social Development is also due to report back in June this year on improving the performance of financial assistance for housing costs (interim report), and how to integrate assessment of housing needs with assessments for wider social support.

15. As previously acknowledged by Cabinet (December 2010), the expected benefits of expanded third party provision include:

- growing the total quantum of available social housing;
- the ability to leverage funding and assets from a broad range of non-government sources (including commercial, local government, iwi and philanthropic);
- the ability to shift development and/or operating risk to the private sector;
- access to wider skills, specialisation and services;

- costs savings through increased choice and innovation;
- greater ability to tailor solutions to local and individual circumstances; and
- dynamic changes to the wider rental housing market, for example, in standards, supply of affordable and secure rental housing.

16. We now need to begin implementing changes to enable third party provision of social housing to grow. This paper makes proposals for the first actions we will take in this direction, and responds to the direction from Cabinet that we report back on:

- the potential scale and scope of third party provision of social housing;
- the future role of HNZC (as a provider of social housing);
- options for funding growth of third party housing provision; and
- the vehicle for funding social housing providers (including HNZC) [CAB Min (10) 44/8 refers].

Potential future role of third party providers

Potential scale of third party provision

17. The HSAG considered that third party providers could supply a significant proportion of social housing in future. More recently, the Department of Building and Housing has estimated that it may be possible for third party providers to contribute 15-20,000 dwellings to the social housing pool within 10-15 years.

18. We know from the analysis undertaken to date, and international experience, that third party providers can play a valuable role. At this stage, however, we do not know exactly how large a market share third party providers would ideally provide to optimise the effectiveness of the sector, or where they may develop a comparative advantage, given greater support from Government and less monopolistic policy settings. We will need to test this through some real examples. We are also aware that we will need to carefully manage the impacts on tenants of a transition to a wider range of providers, and that there are significant assets embedded in the HNZC model that we want to take advantage of, not lose.

19. Given this, our preferred approach is to move towards a greater share of the market being available to other providers over time in a staged and managed way.

Potential role of third-party providers

20. Our intention is to grow alternative provision over time that will in some cases be complementary to the service provided by HNZC, and in other cases act as an alternative supplier. This will provide the Government with a choice of suppliers and better benchmarks for performance.

21. Social housing is not a 'one size fits all' service. There is a continuum of needs that this market needs to provide for, from tenants with specialised and complex needs, through to tenants whose main problems are affordability and security of tenure. This means that there is a role for both niche and specialist providers of social housing and scale providers in the future market.

22. There is also an interaction between provision of social housing and housing affordability more generally. We decided in December that our priority was social and affordable housing, rather than housing affordability more broadly. However any expansion in the supply of housing at the lower end of the housing market generally would have positive impacts for social housing outcomes.

Niche and specialist providers

23. Niche and specialist providers can play an important role in catering to client groups with specific needs (for example, disabilities). Through being able to focus specifically on the needs of a certain client group, there is potential for these providers to offer a more focused and effective service than a large provider. Niche providers are unlikely however to contribute significant additional supply to the social housing pool.

24. For example, DBH has estimated that supporting these providers with transfers of HNZC stock has the potential to deliver around 2–3,000 additional homes. It's worth noting that the condition, location and value of the stock that HNZC may not require for high needs tenants, and so could make available for divestment, may only provide limited scope for leverage and additional housing stock.

25. These providers currently represent 1.2% of the total housing market, and most have a narrow focus. While some niche and specialist housing providers are keen to grow their social housing services, some are cautious about the speed and scale of change, and some wish to remain focused on their core business rather than move into provision of general social housing.

26. We intend to prioritise developing providers that want and have potential to grow. There are a number of existing proposals for how we could work with these providers. Over the next year, we will seek expressions of interest from niche and specialist providers in order to determine the most promising opportunities for investment. Government support in future could take a range of forms, including access to land or other assets, contracts for tenant management, grants, or other assistance with building capacity and capability.

Scale providers

27. Over time, we also want to encourage the emergence of scale providers that are capable of achieving economies of scale and catering to a reasonable share of the market. Analysis by DBH indicates that provision of higher density social housing can reduce both land costs and, if done at scale, construction costs.

28. At present, social and affordable housing development at scale does not occur within the private market. Some of the barriers to this occurring are:

- in Auckland, a lack of access to affordable land, either vacant or for redevelopment;
- the long timeframes, costs and uncertain outcomes of the planning processes required for major development projects;

- perceptions about lower and/or more unreliable rental yields from housing at the lower end of the market; and
- an absence of institutional private social housing landlords.

29. It is possible to overcome these constraints and grow the total social and affordable housing portfolio over time. Additional housing at scale will require:

- suitable parcels of land, for greenfields or brownfields development;
- integrated and efficient planning processes;
- organisations which can act as social landlords;
- new types of partnership arrangements;
- the ability to regenerate existing urban social housing sites; and
- commitment from the Government over a multi-year timeframe.

30. We consider that there is a role for Government in reducing these barriers so that scale providers can emerge – for example, through making underutilised HNZC land available for redevelopment, and supporting the emergence of social landlords that can provide tenancy management services. Improving the performance of financial assistance with accommodation costs will also be important, to help ensure a reliable and adequate revenue stream for landlords. If this cannot be achieved through the existing mechanisms, a subsidy for providers may be required.

Auckland as a priority

31. The situation is most pressing in Auckland, where population growth, changes in household composition, the changing balance of rental housing versus owner-occupied housing, and low levels of residential construction are all driving pressure on social and affordable housing. This is further complicated by the lack of available land suitable for development at a price that would allow social and affordable housing to be built. The Auckland Plan discussion document released in March identified a number of critical housing issues including undersupply, lack of choice, poor quality and overcrowding.

32. The scale of the unmet demand is such that, if no change to current settings are made, state housing stock would need to increase significantly over relatively few years if we were to seek to meet this demand using the current model. The scale of the investment required is beyond what the Government can afford in the face of current fiscal pressures and borrowing constraints. Different approaches are needed. These include stock transfers, grant funding and making better use of state housing assets.

33. In Auckland there are significant HNZC holdings where land is underutilised and reconfiguration is needed, such as in Tamaki. Given the scale of the problems in Auckland, and the potential to better leverage Crown land, we propose that Auckland is given priority in selecting initial projects.

Establishing a vehicle within Government for purchasing social housing

34. We propose establishing a social housing purchasing function from 1 July 2011, or as soon as possible thereafter. This will enable us to take the practical steps necessary to begin working with other providers, and create the right environment for a market to emerge.

The need for an interim arrangement

35. We propose creating an interim arrangement for the purchasing function for 2011/12, rather than deciding on the final institutional arrangements now. Further work will be undertaken this year on two key areas that will have implications for the decision-making powers and funding mechanisms that will need to be available to a future purchaser:

- work on improving the performance of financial assistance for accommodation costs (which will have implications for the extent of supply-side subsidies required for providers); and
- further work on what decision-making powers, including over HNZC assets, will be needed in order to be able to reallocate resource across the sector [refer paragraphs 59-60 below].

36. These pieces of work will in large part determine the future organisational form of the purchasing function.

Proposed interim arrangement

37. For 2011/12, we propose establishing a Social Housing Unit ('the Unit') as a semi-autonomous body within DBH, responsible to the Minister of Housing. A semi-autonomous body is legally part of the host department, and the Chief Executive of the Department remains accountable for all aspects of its performance in accordance with the Public Service accountability and monitoring framework. However, the Head of a semi-autonomous body also has a direct relationship with the responsible Minister for the delivery of outputs on a day-to-day basis. The relationship between the Minister, the Chief Executive of the host department and the Head of the semi-autonomous body is established through a 'relationship document' prepared in accordance with Cabinet's Accountability Guidelines for Semi-Autonomous Bodies [CAB 99 M 14/9-Annex One].

38. Establishing a Unit within DBH will create a funder/provider split, consistent with our long-term intentions, and will provide for accountability to Ministers for the progress being made.

Role and purpose

39. Ultimately, the purpose of the Unit will be to take, or advise on, decisions on the allocation of the resources that the Government invests in the supply-side of social and affordable housing provision, with the aim of maximising the effectiveness and efficiency of provision over time. This will mean that it may, in

the future, draw on a range of potential tools in order to encourage the growth of third party providers. These include grants, access to assets or transfer or sale of assets.

40. In order to do this, the Unit is likely to need to play a number of roles, including facilitating partnerships, negotiating on behalf of the Crown, contracting with providers, monitoring supply, and setting standards. It will be critical that the Unit, and in particular its Head, has the right commercial and financial skill sets to be able to work with a range of providers and manage the Crown's interests well. While the form of the Unit may change, we envisage that the Head will be appointed on a long-term basis to ensure continuity.

41. In its first year, while we determine the best long-term decision making arrangements, the Unit will be tasked with:

- establishing new programmes to support the development of third party provision, including a replacement for the Housing Innovation Fund and a new Rural Community Regeneration Programme;
- developing relationships with key sector participants;
- investigating the implementation of a regulatory framework for the third sector;
- developing standards for provision of social housing, to be used in future contracting²;
- developing procedures for running contracting processes and criteria for assessing the relative value for money of different proposals; and
- seeking expressions of interest from potential providers for initial projects.

42. During 2011/12, the Unit will not have any formal role in relation to HNZC, although we expect the Unit and HNZC will work closely together and collaborate wherever possible, particularly in the first year, to achieve our objectives. The HNZC Board will remain accountable to its shareholding Ministers, and HNZC will continue to be monitored by DBH.

43. In identifying priorities, standards and procedures for social housing development, the Unit will need to ensure that social housing is provided to people with the highest need, and that provision is well matched to need. This will mean ensuring that the work of the Unit integrates well with the introduction of an integrated assessment of housing and other needs, and any mechanisms developed to allocate tenants to providers. These areas are the subject of a separate report to Ministers from the Ministry of Social Development, due in June this year [CAB Min (10) 44/8 refers].

44. We propose that officials submit proposed Terms of Reference for the Unit to the Ministers of Housing and Finance for our approval by 20 May 2011. Given the skill sets required and the roles that the Unit will play, we propose that the National Infrastructure Unit within the Treasury develop the Terms of Reference, in consultation with SSC, DBH, HNZC and MSD. Through the Terms of Reference, we will clearly define the Unit's functions, how they relate to those of HNZC, and DBH, and how the Unit will be expected to operate.

² This could include standards for accessibility of social housing.

Developing a Social Housing Investment Strategy

45. We propose directing the Unit to develop a draft Social Housing Investment Strategy by December 2011. In this strategy, the Unit will outline in detail how it will go about growing third party provision, the nature of the funding mechanisms it will need to have at its disposal to achieve the best possible value for money for the Crown, and the financial implications for the Crown of different approaches. Following consideration of the draft investment strategy, we will then take final decisions in the first half of next year on the final form of the Unit, to ensure that it has the right decision-making powers to fulfil its purpose and manage the Crown's interests. Given the potential to use HNZC assets to grow third party provision, we expect that the Unit will work closely with HNZC in developing this strategy.

46. The draft investment strategy will need to consider how iwi, hapu and whanau, and the Pasifika community, can participate as potential social housing providers. In advance of this DBH is due to report back to the Ministers of Housing, Pacific Island Affairs and Maori Affairs by 30 June 2011 on progress on a scheme or initiatives to develop the role of iwi and hapu, and the Pasifika community as providers of social housing.

Funding growth in third party provision

47. Our intention is to fund growth in third party provision through achieving better financial performance from HNZC over time, and reinvesting these higher dividends in other providers. In the short-term, this means we will be seeking higher dividends over the next few years to fund other initiatives. In future years, we intend to potentially draw on a broader range of funding mechanisms, including stock transfers.

48. HNZC has historically produced low returns on equity – on average about 0.82% over 2001/02-2009/10. This is due to a number of factors, including the higher costs of being a social landlord, restrictions on how HNZC has been able to manage its assets, poor incentives to use capital efficiently, and the number of additional activities that HNZC has undertaken, without full funding, on behalf of the Crown.

49. Over 2001/02-2009/10, HNZC's operating costs grew by 91%, compared with CPI growth of 27%, suggesting that there is room to reduce these costs and receive a return closer to that expected of a private sector landlord. Improving HNZC's return on equity by even 1 percentage point would yield \$115 million a year to reinvest in third-party provision.

50. In its first year, the Unit will have access to funding set aside in Budget 2011 to support initial programmes and projects, and we will continue to use the current levers over HNZC to encourage higher financial performance. In particular, we intend to write to HNZC and set an expectation that higher dividends will be produced in coming years. In future years, we intend to fund initiatives through reinvesting dividends received from HNZC.

51. In the course of 2011/12, while the Unit is establishing relationships and processes, we intend to seek advice from officials on whether the existing levers over HNZC will provide the Unit with sufficient flexibility to reallocate resources across the sector over time. The current arrangements make it difficult for the Crown to make specific assets available to third party providers. In particular:

- As a crown entity, HNZC is intended to be able to take commercially sound decisions as it sees fit in order to deliver the outcomes and performance standards agreed with Ministers through the annual Letter of Expectations and Statement of Intent. This means that Ministers, and the Unit, cannot direct HNZC's operational decisions over the use of specific assets.
- Under current legislation, HNZC is also required to act in a financially responsible manner, which means that it should not take decisions that result in loss of value from its balance sheet without a commensurate benefit. This affects the ability of HNZC to transfer or sell stock to other providers at a discounted rate.

52. We do not propose changing these parameters at this time, until further work has been undertaken on the decision-making powers that the Unit will need in the long-term to achieve its objectives, and whether this is achievable within the current settings [refer paragraphs 59-60 below].

Contribution of land and/or housing stock

53. In future years, the Government has options to contribute parcels of land and/or housing stock to raise capital:

- assets could be transferred to third sector providers to enable them to borrow money to finance construction of new housing and/or refurbishment of existing houses
- parcels of Crown owned land could be sold to raise capital (e.g. Weymouth).

54. Contribution from Government could be supplemented in a number of ways, including through philanthropic donations, institutional investment, contributions from local government, and sales of some individual houses (on redeveloped sites) for owner occupation to create mixed tenure developments.

The future role of HNZC

55. As noted above, we intend to pursue a staged and managed approach to change. We anticipate that HNZC will remain the most significant provider of social housing in the medium-term, while we gradually reallocate resources to investment opportunities with high potential. We will continue efforts to enable HNZC to focus more squarely on its core business of providing social housing to high needs tenants, and deliver that as effectively and efficiently as possible. Receiving higher dividends from HNZC over the long-term, so that these can be reinvested elsewhere, is a key part of our strategy.

56. A number of actions are already underway in this area, as noted in paragraph 13 above. One outstanding issue that needs to be resolved is who will in future deliver a number of legacy products and loan initiatives that HNZC presently administers on behalf of the Crown, and which are not part of HNZC's core business. Clarity is required over the future administration of these functions so that HNZC can proceed with any organisational changes required.

57. In particular, given that the new Social Housing Unit will not be in a position to administer legacy products on 1 July 2011, we propose that HNZC continue to administer the existing Housing Innovation Fund (HIF) projects, including Maori Demonstration Partnerships (MDP) until 31 December 2011. This will ensure that organisations with projects underway continue to be appropriately managed while the Unit is being established. This arrangement relates to existing loan and grant agreements. We anticipate that the Unit will assume responsibility for administering any new loans and grants as soon as practicable.

58. In parallel with this, we propose that officials from DBH, in consultation with the Social Housing Unit, SSC, Treasury and HNZC, report back to the Ministers of Housing and Finance with proposals for the future provision of Crown programmes administered by HNZC by 30 July 2011.

Future decisions on the final form of the purchasing function and implications for HNZC

59. As noted above, we intend to take decisions over the next year on the final form of the Unit and any implications for the parameters that HNZC operates within and the levers that the Crown has over HNZC. These decisions will need to be informed by the development of the draft Social Housing Investment Strategy, which we will ask the Unit to develop by the end of 2011.

60. Following development of the draft Social Housing Investment Strategy, we propose directing SSC, the Treasury and DBH, in consultation with the Social Housing Unit and HNZC, to report back to the Ministers of Finance and Housing by 30 March 2012 on:

- the decision-making powers that the Unit should have in future in order to achieve its objectives on behalf of the Crown;
- whether the existing levers for influencing HNZC, and the parameters within which HNZC is expected to operate, provide sufficient flexibility to optimise resource allocation across the sector, or whether changes are required;
- the most appropriate long-term organisational form and functions of the Unit, given the Government's objectives and the decision-making powers required; and
- the implications of any resulting proposals for HNZC.

Establishing a Ministerial Advisory Panel

61. Progressing these reforms promptly and effectively is a high priority. To date, input from the private and third sectors has been critical for understanding what will work and how we can work better with these parties. We want to continue to draw on private and third sector expertise as we implement the new direction.

62. To achieve this, we also propose establishing an independent Ministerial Advisory Panel to report to the Ministers of Housing and Finance with independent advice on:

- progress on implementation;
- results being achieved; and
- any major issues arising during implementation that need to be addressed.

63. The role of the Panel would be advisory only – it will not have the ability to direct the actions of the Unit or other agencies, and would not have any statutory functions or exercise decision rights.

64. We propose that the Ministers of Housing and Finance jointly appoint a Chair and up to three other members of the Panel. The Panel would require a small budget for expenses. We propose that the State Services Commission, in consultation with other relevant agencies, submit proposed Terms of Reference for the Panel to the Ministers of Housing and Finance for our approval by 20 May 2011.

Consultation

65. This paper was prepared by the Treasury. The following agencies have been provided with an opportunity to comment on the paper: Department of Building and Housing, State Services Commission, Housing New Zealand Corporation, Ministry of Social Development, Te Puni Kokiri, Ministry of Pacific Island Affairs, Ministry of Women's Affairs, Ministry of Education, Ministry of Health, Ministry for the Environment.

66. The Department of Prime Minister and Cabinet has been informed.

Financial Implications

67. Cabinet has previously agreed to set aside \$45 million for social housing initiatives, in the form of a tagged contingency, in Budget 2011 [CAB Min (11) 15/14(21) refers].

68. The Unit and the Ministerial Advisory Panel will both require a budget for their operation for at least 2011/12, but the exact funding requirements have yet to be determined. The Minister of Housing will report back to Cabinet before the end of the financial year to seek appropriations from the social housing contingency for this purpose.

Human Rights implications

69. There are no human rights implications in this paper. There are no proposals that are inconsistent with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Legislative Implications

70. There are no legislative implications currently arising out of the proposals. However, legislative implications may arise in the future, in particular from the advice to be provided in July 2011 (paragraph 58 above refers) and March 2012 (paragraph 60 above refers) relating to HNZC.

71. Note that the Housing New Zealand Corporation Amendment Bill, planned to be introduced to the House in April 2011, will give effect to the transfer of the housing policy advice function from Housing New Zealand Corporation to the Department of Building and Housing by 1 July 2011.

Regulatory Impact Analysis

72. Some options that we considered for the interim form of the social housing purchase function could have potentially had regulatory implications. However, these fall within the scope of the exemption in the Regulatory Impact Assessment regime for proposals that have only a minor impact, such as those involving changes to the internal administrative or governance arrangements of the New Zealand Government. Therefore a Regulatory Impact Statement is not required.

Gender Implications

73. Over a third of HNZC tenants are sole-parent families, most of which are headed by women. Measures to ensure that demand for social housing can continue to be met in the future, and that those with the highest needs are housed, should result in better outcomes for this group than if the current model became unsustainable. It will be important however that the transition to a wider range of providers is managed carefully, to minimise the risk of negative impacts on families with complex needs.

Disability Perspective

74. Moving to a model that allows for a range of providers that can cater to different housing needs has the potential to result in more effective housing services for people with disabilities. This will however depend on how the changes are implemented, and in particular, what measures are put in place to ensure that there is provision available for groups with more complex access requirements, as well as those with less complex needs.

Publicity

75. The Minister of Housing will co-ordinate any announcements with the Prime Minister and the Minister of Finance.

Recommendations

76. The Minister of Finance and the Minister of Housing recommend that the Committee:

1. **note** that on 6 December 2010 Cabinet agreed to a direction of reform for social and affordable housing involving:
 - 1.1. greater involvement of third sector providers of social housing;
 - 1.2. increasing the effectiveness of financial assistance;
 - 1.3. focusing Housing New Zealand Corporation (HNZC) on providing social housing to tenants with the greatest housing need; and
 - 1.4. aligning the organisation and responsibilities of government agencies.
2. **note** that Cabinet invited the Minister of Finance and the Minister of Housing to report back to Cabinet Social Policy Committee on:
 - 2.1. the potential scale and scope of third sector provision of social housing;
 - 2.2. the future role of HNZC (as a provider of social housing);
 - 2.3. options for funding growth of third sector housing provision, including incentives, costs and funding sources to achieve this; and
 - 2.4. the vehicle for funding social and affordable housing providers (including HNZC) [CAB Min (10) 44/8 refers].
3. **note** that the preferred approach to growing third party provision is to move towards a greater share of the social housing market being available to providers other than HNZC in a staged and managed way over time, as the relative advantage of other providers becomes clearer.
4. **note** that there is a potential future role for both niche or specialist providers and additional scale providers.
5. **agree** that Auckland should be given priority in considering initiatives to grow third party provision of social and affordable housing.

Establishing an interim purchasing function for social housing

6. **agree** to the establishment of a Social Housing Unit as a semi-autonomous body within the Department of Building and Housing from 1 July 2011, or as soon as possible thereafter, and that it be responsible to the Minister of Housing for the provision of its social housing purchasing services.
7. **agree** that the Social Housing Unit's role will be to advise on the allocation of all resources that the Government invests in the supply-side of social and affordable housing provision, with the aim of maximising the effectiveness and efficiency of provision over time.

8. **note** that the standard public service accountability and monitoring arrangements will apply to the Social Housing Unit as a semi-autonomous body, including that:
- 8.1. the Chief Executive of DBH is accountable for performance of the Unit;
 - 8.2. the Chief Executive of DBH is accountable for the purchase and performance agreements relating to the Unit even where the responsibility for negotiating these has been delegated to the head of the Unit;
 - 8.3. the Chief Executive of DBH must ensure all instruments of delegation are in place; and
 - 8.4. the head of the Unit is appointed and employed by the Chief Executive of DBH.
9. **agree** that protocols be put in place in the form of a 'relationship document' that sets out and manages the accountability and reporting relationship between Ministers, the Chief Executive of DBH and the head of SHU, in accordance with the Cabinet Accountability Guidelines for Semi-Autonomous Bodies [CAB (99) M 14/9 refers].
10. **agree** that in its first year the Social Housing Unit will also be tasked with:
- 10.1. establishing new programmes to support the development of third party provision, including replacements for the Housing Innovation Fund and the new Rural Community Regeneration Programme;
 - 10.2. developing relationships with key sector participants;
 - 10.3. investigating the implementation of a regulatory framework for the third sector.
 - 10.4. developing standards for provision of social housing, to be used in future contracting;
 - 10.5. developing procedures for running contracting processes and criteria for assessing the relative value for money of different proposals; and
 - 10.6. seeking expressions of interest from potential providers for initial projects.
11. **direct** the National Infrastructure Unit within the Treasury, in consultation with SSC, DBH, HNZC, and MSD to submit Terms of Reference for the Social Housing Unit to the Ministers of Housing and Finance for approval by 20 May 2011.
12. **direct** the Social Housing Unit, in consultation with other relevant agencies, to report back to the Ministers of Housing and Finance by the end of 2011 with a draft Social Housing Investment Strategy.

Funding growth in third party provision

13. **note** that our intention is to fund increased third party provision through more efficient use of our existing investment, currently invested in HNZC's stock, rather than providing additional resource.
14. **note** that in its first year, the Social Housing Unit will have access to funding set aside in Budget 2011 to support social housing initiatives and will pursue specific opportunities relating to divestment of HNZC stock, but will not have powers to direct the use of specific HNZC assets.

Role of HNZC

15. **note** that we anticipate that HNZC will remain the most significant provider of social housing in the medium-term, and that we will continue implementing measures to enable HNZC to focus on its core business.
16. **note** that the Minister of Housing intends to write to HNZC to request an increase in dividends for 2011/12 to 2013/14 to provide resources to implement initiatives to support the new direction for social housing.
17. **direct** DBH, in consultation with the Social Housing Unit, SSC, the Treasury and HNZC, to report to the Ministers of Housing and Finance by 30 July 2011 with proposals for the future delivery of Crown products currently being delivered by HNZC.

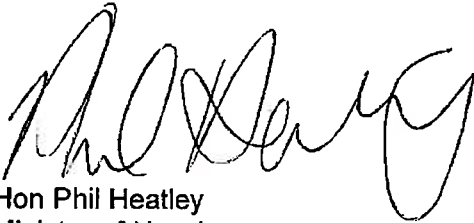
Future decisions

18. **direct** SSC, the Treasury and DBH, in consultation with the Social Housing Unit and HNZC, to report back to the Ministers of Housing and Finance by 30 March 2012 on:
 - 18.1. the decision making powers that the Social Housing Unit should have in future in order to achieve its objectives on behalf of the Crown;
 - 18.2. whether the existing levers for influencing HNZC, and the parameters within which HNZC operates, provide sufficient flexibility to optimise resource allocation across the sector, or whether changes are required;
 - 18.3. the most appropriate long-term organisational form and functions of the Social Housing Unit; and
 - 18.4. the implications of any resulting proposals for HNZC.

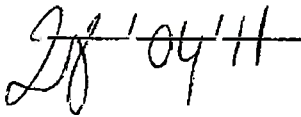
Establishing a Ministerial Advisory Panel

19. **agree** to the establishment of an independent Ministerial Advisory Panel to provide independent advice to the Ministers of Housing and Finance on how well the reforms are progressing.

20. **direct** SSC, in consultation with other relevant agencies, to submit Terms of Reference for the Ministerial Advisory Panel to the Ministers of Housing and Finance for approval by 20 May 2011.
21. **invite** the Ministers of Housing and Finance to report to the Social Policy Committee by 30 June 2011 on the funding requirements of the Unit and the Ministerial Advisory Panel, which can be sourced from the contingency for social housing initiatives set aside in Budget 2011.


Hon Phil Heatley
Minister of Housing


Hon Bill English
Minister of Finance

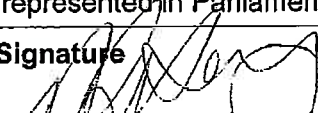




Released under the Official Information Act

Consultation on Cabinet and Cabinet Committee Submissions

Certification by Department:	
Guidance on consultation requirements for Cabinet/Cabinet committee papers is provided in the CabGuide (see Procedures: Consultation): http://www.cabguide.cabinetoffice.govt.nz/procedures/consultation	
Departments/agencies consulted: The attached submission has implications for the following departments/agencies whose views have been sought and are accurately reflected in the submission: Department of Building and Housing, State Services Commission, Housing New Zealand Corporation, Ministry of Social Development, Te Puni Kokiri, Ministry of Pacific Island Affairs, Ministry of Women's Affairs, Ministry of Education, Ministry of Health, Ministry for the Environment.	
Departments/agencies informed: In addition to those listed above, the following departments/agencies have an interest in the submission and have been informed: Department of Prime Minister and Cabinet	
Others consulted: Other interested groups have been consulted as follows:	
Name, Title, Department: Chris Bunny, Manager Health & Housing, The Treasury	
Date: 28 / 4 / 2011	Signature: pp A. Honerton

Certification by Minister:	
Ministers should be prepared to update and amplify the advice below when the submission is discussed at Cabinet/Cabinet committee.	
The attached proposal:	
Consultation at Ministerial level	<input checked="" type="checkbox"/> has been consulted with the Minister of Finance [required for all submissions seeking new funding] <input type="checkbox"/> has been consulted with the following portfolio Ministers: <input type="checkbox"/> did not need consultation with other Ministers
Discussion with National caucus	<input type="checkbox"/> has been or <input type="checkbox"/> will be discussed with the government caucus <input checked="" type="checkbox"/> does not need discussion with the government caucus
Discussion with other parties	<input type="checkbox"/> has been discussed with the following other parties represented in Parliament: <input type="checkbox"/> Act Party <input type="checkbox"/> Maori Party <input type="checkbox"/> United Future Party <input type="checkbox"/> Other [specify] <input checked="" type="checkbox"/> will be discussed with the following other parties represented in Parliament: <input type="checkbox"/> Act Party <input checked="" type="checkbox"/> Maori Party <input type="checkbox"/> United Future Party <input type="checkbox"/> Other [specify] <input type="checkbox"/> does not need discussion with other parties represented in Parliament
Portfolio Housing	Date 28 / 4 / 11
Signature 	

If this form covers two pages ensure that both certification sections are completed and attached at the back of the Cabinet/committee submission

CE
DUE SP
DUE BSSS

Ann Clark

BUDGET : SENSITIVE

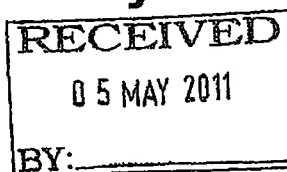
(b1) 15.05.20



Cabinet Social Policy Committee

SOC Min (11) 8/1

Minute of Decision



Copy No: 39

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Establishing a Funding Mechanism for Future Social Housing Provision

Portfolios: Finance / Housing

On 4 May 2011, the Cabinet Social Policy Committee (SOC):

Background

- 1 noted that on 6 December 2010, Cabinet:
 - 1.1 agreed to a direction of reform for social and affordable housing involving:
 - 1.1.1 greater involvement of third sector providers of social housing;
 - 1.1.2 increasing the effectiveness of financial assistance;
 - 1.1.3 focusing the Housing New Zealand Corporation (the HNZC) on providing social housing to tenants with the greatest housing need;
 - 1.1.4 aligning the organisation and responsibilities of government agencies;
 - 1.2 invited the Minister of Finance and the Minister of Housing to report to SOC on:
 - 1.2.1 the potential scale and scope of third sector provision of social housing;
 - 1.2.2 the future role of the HNZC (as a provider of social housing);
 - 1.2.3 options for funding growth of third sector housing provision, including incentives, costs and funding sources to achieve this;
 - 1.2.4 the vehicle for funding social and affordable housing providers (including the HNZC);
- [CAB Min (10) 44/8]
- 2 noted that the preferred approach to growing third party provision is to move towards a greater share of the social housing market being available to providers other than the HNZC in a staged and managed way over time, as the relative advantage of other providers becomes clearer;

- 3 noted that there is a potential future role for both niche or specialist providers and additional scale providers;
- 4 agreed that Auckland should be given priority in considering initiatives to grow third party provision of social and affordable housing;

Establishing an interim purchasing function for social housing

5 agreed to the establishment of a Social Housing Unit (the Unit) as a semi-autonomous body within the Department of Building and Housing (the DBH) from 1 July 2011 or as soon as possible thereafter, and that it be responsible to the Minister of Housing for provision of its social housing purchasing services;

6 agreed that the Unit's role will be to advise on the allocation of all money that the government invests in the supply-side of social and affordable housing provision, with the aim of maximising the effectiveness and efficiency of provision of such services;

7 noted that the standard public service accountability arrangements apply to the Unit as a semi-autonomous body, including that:

- 7.1 the Chief Executive of the DBH is accountable for performance of the Unit's functions;
- 7.2 the Chief Executive of the DBH is responsible for the purchase and performance agreements relating to the Unit, and the responsibility for procuring these has been delegated to the head of the Unit;
- 7.3 the Chief Executive of the DBH is responsible for ensuring that the terms of delegation are in place;
- 7.4 the head of the Unit is appointed and removed by the Chief Executive of the DBH;

8 agreed that provisions relating to the Unit's relationship document that sets out and manages accountability and reporting relationships between Ministers, the Chief Executive of the DBH and the head of the Unit are consistent with the Cabinet Accountability Guidelines for Semi-Autonomous Bodies (CAB (99) M 14/9);

9 agreed that in its first year the Unit will also be tasked with:

- 9.1 developing a programme to support the development of third party provision, including work for the Housing Innovation Fund and the new Rural Community and Generation Programme;
- 9.2 developing relationships with key sector participants;
- 9.3 initiating the implementation of a regulatory framework for the third sector;
- 9.4 developing standards for provision of social housing, to be used in future contracting;
- 9.5 developing procedures for running contracting processes and criteria for assessing the relative value for money of different proposals;
- 9.6 seeking expressions of interest from potential providers for initial projects;

directed the National Infrastructure Unit within the Treasury, in consultation with the State Services Commission (the SSC), the DBH, the HNZC, and the Ministry of Social Development to submit Terms of Reference for the Unit to the Minister of Finance and the Minister of Housing for approval by 20 May 2011;

- 11 directed the Unit, in consultation with other relevant agencies, to report to the Minister of Finance and the Minister of Housing by the end of 2011 with a draft Social Housing Investment Strategy;

Funding growth in third party provision

- 12 noted that the Minister of Finance and the Minister of Housing intend to increase third party provision through more efficient use of existing investments in the HNZC's stock, rather than providing additional resource;
- 13 noted that in its first year, the Unit will have access to funding set aside in the Budget 2011 to support social housing initiatives and will pursue specific opportunities relating to divestment of HNZC stock, but will not have powers to use of specific assets;

Role of the HNZC

- 14 noted that the Minister of Finance and the Minister of Housing:
14.1 anticipate that the HNZC will continue to be the most significant provider of social housing in the medium-term;
14.2 will continue implementing measures to ensure the HNZC focuses on its core business;
- 15 noted that the Minister of Housing intends to direct the HNZC to request an increase in dividends for 2011/14 to provide funding to implement initiatives to support the new direction of social housing;

directed the DBH, in consultation with the Social Housing Unit, the SSC, the Treasury and the Minister of Finance and the Minister of Housing by 30 July 2011 to submit proposals for the future delivery of Crown products currently being delivered by the HNZC;

Funding growth in third party provision

- 17 directed the Minister of Housing, Treasury and the DBH, in consultation with the Unit and the HNZC, to report to the Minister of Finance and the Minister of Housing by 30 March 2012 on:
17.1 the powers and making powers that the Unit should have in future in order to achieve its objectives on behalf of the Crown;
17.2 whether the existing levers for influencing the HNZC, and the parameters within which the HNZC operates, provide sufficient flexibility to optimise resource allocation across the sector, or whether changes are required;
17.3 the most appropriate long-term organisational form and functions of the Unit;
17.4 the implications of any resulting proposals for the HNZC;

