THE TREASURY
Kaitohutohu Kaupapa Rawa

Reference: 20170144

18 May 2017

Margaret Mechum
fyi-request-5755-5dcdcde5@requests.fyi.org.nz

Dear Margaret Mechum

Thank you for your request made under the Official Information Act, received on 20 April 2017. You asked:

- *which officials and/or group within the Treasury initiated the thinking that led to the Social Housing Reform Programme (SHRP)*
- *which documents set out the initial thinking for what would become the SHRP (with copies)*
- *whether there was a key meeting, or series of meetings, that led to the development of the SHRP, and for copies of related documents.*

I have decided under section 15A of the Official Information Act to extend the time limit for deciding on your request by an additional 30 working days. The new due date for responding to your request is 3 July 2017. The extension is required because your request necessitates a search through a large quantity of information as well as consultation.

In the meantime, I can partially answer your second question. One document that set out the initial thinking is the Housing Shareholders Advisory Group report published in April 2014. I am attaching a copy.

Notwithstanding the extension, I undertake to make a decision on the remainder of your request as soon as reasonably practicable.

You have the right to ask the Ombudsman to investigate and review this decision.

Yours sincerely

Tom Hall
Manager, Housing Team

1 The Terrace
PO Box 3724
Wellington
New Zealand
tel. 64-4-472 2733
fax. 64-4-473 0982
www.treasury.govt.nz

Home and Housed

A Vision for Social Housing in New Zealand

April 2010

Prepared by the Housing Shareholders Advisory Group

Preface

Shelter is one of the most basic human needs, but a home is much more than the place where we hang our hat: it gives our lives stability and permanence and contributes materially to our physical and social wellbeing.

Owning a home has always been at the core of the Kiwi dream. Yet the availability of healthy, affordable housing is dwindling in New Zealand. An increasing number of people are renting a home because they cannot afford to own one, and, even with Government support in place, some people with the highest needs are missing out on shelter.

Social housing in New Zealand represents a significant investment by the New Zealand Government.

This report 'Home and Housed - A Vision for Social Housing in New Zealand' has been prepared by the Housing Shareholders Advisory Group for the Minister of Finance and Minister of Housing in accordance with the terms of reference for this review.

This report reflects the work that the Housing Shareholders Advisory Group has done over a three-month period from February 2010 when the advisory group was appointed.

The group has identified a number of significant areas for improvement and has made a series of recommendations which we think will ensure New Zealanders have access to social and affordable housing in the future.

I wish to thank all of those who have contributed to the development of this report.

Alan Jackson

Dr Alan Jackson

Chair – Housing Shareholders Advisory Group

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Disclosure and conflict management

The members of the HSA Group (the members) were appointed by the Ministers of Finance and Housing as the responsible ministers for housing. The appointments were made because of the members' individual experience in business or the social housing sector. The appointments were made in accordance with Cabinet guidelines for this type of review.

All members were asked at the time of their appointment to declare any conflicts of interest which could impact on their involvement in this review. Several individual members are directly involved in the social housing sector and their potential conflicts of interest have been recorded.

The HSA Group considers that it has effectively managed the potential for conflicts of interest to influence this report. Each section of the report has been debated and discussed by the HSA Group at meetings attended by members. This discussion and debate ensured that no part of the report favoured any individual or organisation. The Chair has periodically queried members in regard to their interests during the preparation of this report.

Profiles of each member are provided at the end of this report.

Executive Summary

The Housing Shareholders' Advisory Group (the HSA Group) was established by the Ministers of Finance and Housing in February 2010. The HSA Group's objectives were to provide advice on:

- The most effective and efficient delivery model for state housing services to those most in need
- More productive and innovative ways to use current social housing assets to better support the objectives of government
- Transparent measures of how the above are to be achieved.

This report contains the recommendations of the HSA Group, and their supporting evidence and rationale. The HSA Group collectively agreed on the following vision for the future of social housing in New Zealand:

> ***We envision a future in which the public, private, non-government sectors and iwi all work in concert to ensure that every New Zealander has decent, affordable housing. It is a future where help for people with the highest level of need goes hand in hand with opportunity for those who are ready to move on. It is a future in which all providers of social housing play to their natural strengths, concentrating on the core activities that they do best.***

Underpinning this vision are four imperatives:

1. Empowering HNZC to focus on the 'high needs' sector
2. Develop third-party participation
3. Instigate initiatives across the broader housing spectrum
4. Clarifying sector accountabilities and delivery expectations.

The HSA Group's 19 recommendations, and business case provide specific advice on how to deliver these imperatives. In particular, leveraging the financial capacity available in Housing New Zealand Corporation's (HNZC) existing portfolio with the non-government sector will offer a chance to refocus social and affordable housing without additional Crown capital funding, at least initially, while at the same time better targeting subsidy provision across the sector.

In developing these recommendations, the HSA Group recognises that New Zealand's state housing today is on a sound footing relative to overseas benchmarks. In absolute terms, however, significant issues exist around the provision of dwellings to match tenants' needs, a lack of clarity about the effectiveness and efficiency of the current model and constraints on Crown expenditure. In addition, the environment is rapidly changing. New Zealand faces an overall shortage of affordable homes, affordability has decreased, and changes are emerging in the characteristics of who needs social housing and where they need it. Although many countries are wrestling with similar issues, New Zealand has yet to adopt some of the strategies observed offshore to address them. These strategies include:

- Curtailing the Crown's involvement as sole provider
- Diversifying the funding of social housing by increasing private-sector (i.e. Non-Government Organisation) participation
- Driving for more efficiency and impact in housing subsidies.

Given these challenges, the HSA Group strongly believes that the current model, including current subsidy arrangements, is not well positioned to respond to future challenges. In particular:

- There is a need to update policy-setting and expectations with respect to both
    - Historical expectations regarding the 'state house for life' policy
    - Ministerial expectations regarding stock numbers
- The lack of provision by third-party suppliers is limiting supply
- Important discontinuities in the broader housing spectrum are hindering tenants' movement out of social housing, namely
    - Misalignment of accommodation subsidies
    - Limited options between state and private sector housing
- Sector accountabilities lack sharp definition and this is resulting in variable progress across multiple fronts.

To some extent, then, HNZC is "fighting with one arm tied behind its back" in terms of being able to respond appropriately to the rising challenges. Equally, there is evidence that the organisation is, as a sole provider, delivering service on many fronts and significantly beyond its original charter.

We recognise that HNZC and the Department of Building and Housing (DBH) are aware of these challenges and are developing initiatives to move the sector forward. However, the HSA Group believes that the four major imperatives required across the sector do not lie under the auspices of any one organisation.

Each imperative is briefly expanded below followed by a summary of the HSA Group's recommendations.

1. Empower HNZC to focus on the 'high needs' sector

With new policy expectations for HNZC to provide accommodation for "those who need it for the duration of that need" and also flexibility in stock numbers, HNZC will be better placed to dynamically reshape its portfolio towards those 'most in need'. The reshaping will result in internally generated investment funds that can be reapplied across the portfolio. Securing maximum value will require many more avenues being explored than has been observed to date, such as leveraging land assets and new design-and-delivery models – both of which exist overseas. It is essential that portfolio reshaping be done with an eye to reducing residual concentration at a community level and developing the total affordable housing stock.

The HSA Group expects HNZC to encourage scale and where applicable regional and niche housing participants, (in conjunction with DBH when required). Equally, it should look to do the same in service provision (for example, tenant and asset management) relative to the sector. In summary, HNZC should see itself moving from being an 'integrated provider' to being an 'orchestrator' focused on optimum outcomes for high needs, social housing tenants.

2. Develop third-party participation

The envisaged outcome in five years is that an agency will have catalysed significant increases in new partnerships, funding opportunities and approaches for state and social housing as a whole. These changes will take the form of:

- Activity to support access to dwellings in the pre-housing sector, whether through housing, asset or capital transfer
- Joint ventures or other arrangements underway with third parties (such as social agencies, housing associations or Iwi) for supply of a substantial portion of the new social housing demand
- Appropriate outsourcing of risk, construction and project management for smaller development programmes
- Establishment of a stand-alone organisation for major urban renewal schemes in conjunction with local or regional bodies, community groups and appropriate third or private sector partners.

Importantly, two significant recommendations will 'kick-start' the development of scale and niche providers in the social sector through stock or funds transfer, depending on the needs of the organisation, and enhance sustainability by extending the availability of the Income-Related Rent subsidy to approved organisations in this sector.

3. Instigate initiatives across the broader housing spectrum

The HSA Group did not expect to step outside the primary focus of the brief. However, it quickly became apparent that additional intervention would be required to meet overall affordable and social objectives. In particular, intervention was necessary to create a realistic and achievable aspiration for tenants to move through social housing and on to greater independence, New Zealand cannot rely solely on the actions and initiatives of HNZC. HNZC, DBH and Treasury must share the task (and potentially share Key Performance Indicators too) of creating more homes and helping more families. A tracking tool is essential for the three agencies to take action, review progress, and follow up.

The HSA Group believes the following interventions are required on the demand and supply side:

- Review and as a minimum, improve alignment of accommodation subsidies
- A greater supply of houses, some funded in more innovative ways than to date, in order to bridge the challenge of funding more social homes entirely from the taxpayer's pocket

- A cheaper supply of houses by freeing up well-known constraints on development
- Greater flexibility in spending Crown funds to assist households, so that more families can be materially helped (rather than building one dwelling to house one family), as witnessed in the United Kingdom, for example
- A greater range of demand-side products to provide stepping stones through different tenures and tailored for different levels of income and need. One size will not fit all.

At least initially, the additional interventions can be funded through efficiencies.

4. Clarifying sector responsibilities

To secure the desired vision of the future, change is needed in terms of organisational arrangements, behaviour and priorities. At a minimum, four changes were identified:

- One organisation, most likely the Ministry of Social Development (MSD) to carry out assessment of tenant needs and administration of housing subsidies
- High level outcomes-based policy development to be centralised in DBH
- Specific accountability to be allocated for the development of third-party participation
- A delivery unit focused on effective social housing provision.

A range of potential organisational arrangements within the sector could be developed to deliver new social housing supply and manage demand. The report examines three of these in detail. The HSA Group believes that the sector will evolve into a structure with the Crown funder separated from multiple providers and considers that accelerating this change by refocusing HNZC now will significantly enhance the prospect of reaching the future vision.

Finally, the HSA Group has proposed a small number of Key Performance Indicators to function as a monitoring tool for future delivery.

An indicative business case resulting from these recommendations suggests that there is significant leverage within the sector to deliver high-impact outcomes over the next five years. Specifically, the anticipated outcomes are:

- A run-rate of 2,000 – 2,500 per annum new affordable dwellings at the end of five years
- Greater efficiency in the allocation of subsidies to meet a tenant's circumstances for as long as his or her need exists
- The development of third-party providers, particularly in the high social needs segment
- Significant progress in improving on 'fit for purpose' dimensions within the portfolio

- Initiatives in the marketplace that materially improve housing affordability and transition to greater independence.

In presenting its advice, the HSA Group has not sought to solve every issue within the affordable and social housing sectors. However, it has established a realistic roadmap built along simple themes. The HSA Group is confident that embracing its vision and embarking on the roadmap will result in significant improvements to social and affordable housing outcomes in New Zealand, and will achieve these without denying anyone ‘a roof over their head’.

Summary of Major Initiatives and Support Recommendations

Initiative I: Empowering HNZC to focus on the ‘high needs’ sector

Recommendation 1: The Ministers set policy expectations that emphasise best match of dwelling to tenant needs.

Recommendation 2: HNZC develops new policies to manage its tenant base and their needs.

Recommendation 3: Introduce new tenancy agreements for those entering the state housing portfolio in future to enable support to be provided for the duration of the need.

Recommendation 4: HNZC actively manages the portfolio of dwellings to match future demand.

Recommendation 5: Use multiple supply choices available to provide new state housing stock.

Recommendation 6: HNZC explicitly develops scale and niche service third party providers to the sector.

Initiative II: Driving involvement of third-party suppliers

Recommendation 7: Work with non-governmental sector groups and Iwi to develop the ‘pre-housing’ and ‘cost-based’ sectors that can deliver more intensely supported housing for high needs individuals.

Recommendation 8: Transfer either capital or dwellings to selected non-government organisations (NGOs) to initially meet 20% of this sector’s need in five years, thereby developing a limited number of scale and niche providers.

Recommendation 9: Support with IRRS, not AS, payments to develop financial viability of NGOs serving the ‘high needs’ segment.

Recommendation 10: Embrace new development and funding approaches to leverage capital and for the provision of new dwelling stock in the state and affordable housing portfolio.

Recommendation 11: Establish location specific urban renewal agencies as limited life and purpose joint ventures between the Crown and local government separate from HNZC to create the necessary conditions and develop the land to the point that private sector developers are willing to acquire the land and undertake further development.

Initiative III: Initiatives across the broader housing spectrum

Recommendation 12: Charge HNZC / MSD / DBH with reviewing and aligning IRRS and the Accommodation Supplement as part of broader MSD interventions.

Recommendation 13: DBH and the private sector should lead a major initiative to develop accessibility products for affordable home ownership in this sector that are designed to have significant take-up in the marketplace.

Recommendation 14: HNZC, DBH and Treasury must co-operate to produce co-ordinated policy to agree:

- The extent of the affordable housing shortage
- Broad interventions needed to develop this segment, inspired by some of the offshore examples provided here
- Specific programmes to underpin the delivery of new affordable homes and products to provide relevant assistance to more families.

Initiative IV: Future sector arrangements

Recommendation 15: MSD to assess tenant needs and administer both IRRS and AS subsidies.

Recommendation 16: Responsibilities for planning policy and support around affordable housing supply issues should be in one organisation, most likely DBH.

Recommendation 17: Clear accountability for the development of third-party involvement within state housing and across the broader housing spectrum.

Recommendation 18: Establish a unit specifically charged to deliver and administer state-owned dwellings and services to those whose 'need is greatest'.

Recommendation 19: Evolve the sector structure to create a funding organisation, responsible for the development of the affordable housing sector, (referred to as the Affordable Housing Agency (AHA)) and a delivery organisation (referred to as the Crown Housing Company (CHC)) as the preferred option for future sector arrangements.

Introduction

Shelter is one of the most basic human needs, but a home is much more than the place where we hang our hat: it gives our lives stability and permanence and contributes materially to our physical and social wellbeing. Owning a home has always been at the core of the Kiwi dream. Yet the availability of healthy, affordable housing is dwindling in New Zealand. An increasing number of people are renting a home because they cannot afford to own one, and, even with Government support in place, some people with the highest needs are missing out on shelter.

The Housing Shareholders' Advisory Group (the HSA Group) was set up by the Ministers of Finance and Housing in February 2010. Our objectives were to provide advice on:

- The most effective and efficient delivery model for state housing services to those most in need
- More productive and innovative ways to use current social housing assets to better support the objectives of government
- Transparent measures of how the above are being achieved.

We were also directed to have regard to the Government's objectives for social housing. These are:

- That New Zealanders have access to housing that meets their needs and is affordable
- That assistance be available to those most in need for the duration of their need, and be delivered in a cost-effective manner
- That a suitable business environment be created for investment in affordable housing by providers, including non-governmental organisations.

While we have focused primarily on the provision of subsidised housing through the state housing portfolio and the Accommodation Supplement (AS), it became clear in the course of our study that we needed to look more broadly at the housing spectrum. In particular, we have looked at the question of affordability and at ways to involve the private and non-governmental sectors in the provision of supported housing.

Our investigation followed three broad avenues:

- Analysing the effectiveness and efficiency of Housing New Zealand Corporation's management of its assets
- Understanding the patterns of supply and demand in social housing, and in New Zealand housing more broadly
- Drawing lessons from social housing programmes in place overseas.

The HSA Group conducted its review over five weeks in February and March 2010. A secretariat and working team supported the advisory group with research and analysis.

The short time-frame available to us limited our ability to engage thoroughly across a complex sector. However, we were able to consider a wide range of data and information from sector participants. We also met with a number of stakeholders, and with several overseas providers and experts.

Our recommendations have been developed on the basis of both investigation and experience supported by analysis. This report contains a series of initiatives that can bring social and affordable housing in New Zealand a significant step forward.

1. New Zealand's Social Housing Context and Model

> "The future of social, or non-market, housing is high up on the public policy agenda in every Western country. Governments are having to grapple not only with the impact of the global credit crisis in terms of falling house prices and unwanted sub-prime stock, but also with the consequences for investment in social housing and estate regeneration. Moreover, an economic downturn will add to public housing waiting lists, increase housing welfare costs, and narrow housing choice."
>
> Paul Hackett, Director, The Smith Institute

1.1 Definitions

We have adopted the definition of **affordable housing** used by the Centre for Housing Research Aotearoa New Zealand (CHRANZ), which is that housing is affordable when a household spends no more than 30% of its gross income on housing costs, whether for rent or mortgage.[1]

Social housing is a form of affordable housing. In New Zealand, we understand the term to mean the provision of assistance with housing to those who cannot otherwise meet their own housing needs. This assistance can either be 'in kind', through the provision of a dwelling, or 'in cash' through the transfer of subsidies to increase housing affordability. In New Zealand, social housing is primarily delivered centrally. Key agencies are the Housing New Zealand Corporation, the Ministry of Social Development (MSD), and local councils, with a small number of non-governmental organisations (NGOs), and some community groups that operate in HNZC dwellings.

1.2 Current providers of social housing in New Zealand

Social housing forms part of a broader housing spectrum, which spans a continuum from those who need housing and do not have it to those who own their own homes.

[1] CHRANZ Fact Sheet: *Affordable Housing in New Zealand*. 30 October 2006

Figure 1: The housing continuum in New Zealand

The housing continuum ranges from those without a roof through to those who own their own homes

	Extreme needs		State housing	Private sector	
Definition	Sleeping rough or in improvised dwellings	Living in caravans, campgrounds, substandard housing, boarding houses	Inhabitants of state houses	Renting a private dwelling	Owning a private dwelling
Number	~300 urban homeless ~500-1,000 in rural improvised housing	~8,000-20,000 in temporary accommodation • 1,500 HNZC houses rented to community groups	~67,700 households	467,300 households • 280,000 renters on Accommodation Supplement	1,082,200 households • 42,822 owners on Accommodation Supplement

Note: Showing housing data as at 30 June 2009
Source: HNZC Tenancy Managers; HNZC database; MSD; Interview with City Missioners; NZ Council of Christian Social Services; HNZC HIF Information; CHRANZ Community Housing Report 2004; Census 2006

We have adopted the definition of homelessness which Statistics New Zealand will use from the next Census. According to that definition, homelessness refers to living situations where people with no other options to acquire safe and secure housing: are without shelter, in temporary accommodation, sharing accommodation with a household or living in uninhabitable housing.

Homelessness is notoriously difficult to measure. Until the next Census is conducted and a more accurate estimate of homeless numbers can be obtained, this report relies on estimates drawn from a number of sources including conversations with the City Missioners for Auckland and Christchurch and a short essay on 'Homelessness - the invisible housing problem' from the New Zealand Council of Christian Social Services.[2]

In New Zealand, the number of people who have no shelter at all is very small, and is likely to be less than 300. The number of people in temporary accommodation that is unsuited for long-term habitation is harder to quantify, and may range from 8,000 up to 20,000. This group includes a number of people, mainly Māori, living in sub-standard housing in rural areas. Some people in temporary accommodation occupy HNZC homes that are rented to community groups – for example, women seeking refuge and at-risk youth. Most groups on the Community Group Housing programme are funded by the Ministry of Health, District Health Boards, or Child, Youth and Family. Providers of temporary accommodation fall into two categories: a small group of private providers (for example, owners of campgrounds or boarding houses), and a much larger group of non-governmental organisations (for example, City Missions, city night shelters or Salvation Army emergency accommodation). Some of

[2] See www.nzccss.org.nz.

this group get assistance by way of the Accommodation Supplement, but the majority does not receive any housing assistance.

HNZC also provides approximately 67,700 households with dwellings. 60,500 of these, or 89%, pay Income-Related Rents,[3] and receive some degree of support through the Income-Related Rent subsidy (IRRS), which makes up the difference between a tenant's Income-Related Rent and a property's market rent.

Beyond state housing, the private sector provides rental accommodation to approximately 480,000 households. More than half of private tenants receive the AS.

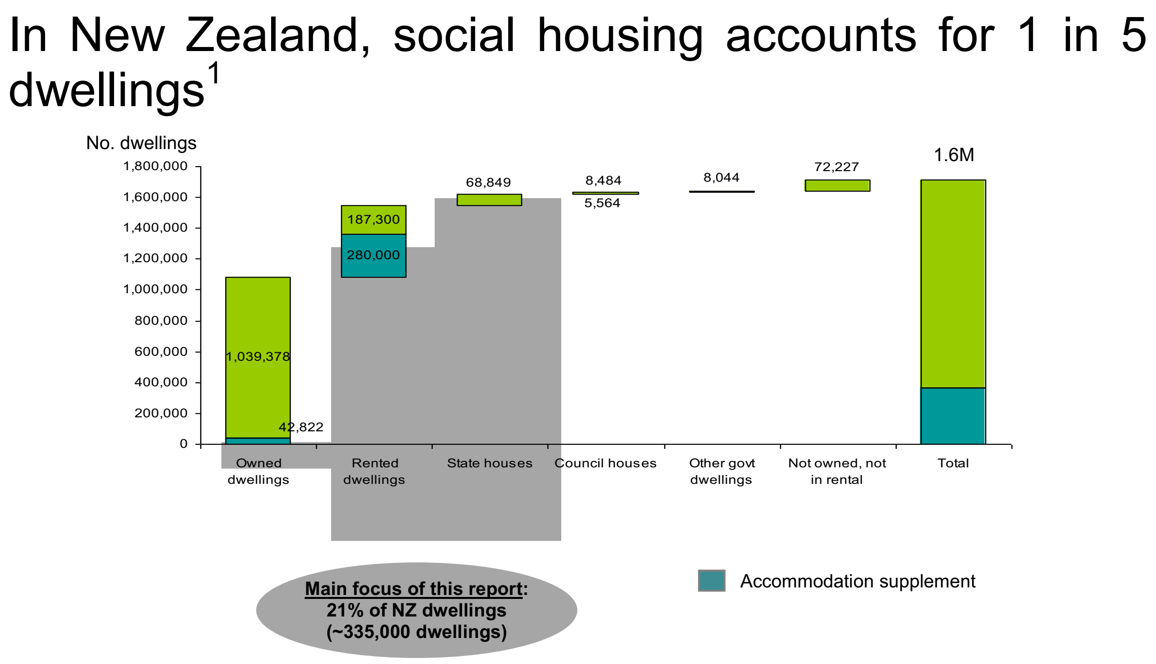
Finally, 990,000 households own their dwelling. Approximately 4% of homeowners receive the AS to defray mortgage costs.

1.3 Current recipients of social housing in New Zealand

For the purposes of this report, we examined two groups receiving social housing assistance: recipients of the AS and tenants in HNZC state housing.

[3] The Income-Related Rent is rent paid by a state house tenant on a low income to HNZC. The Income-Related Rent is set at 25% of a tenant's net income up to the New Zealand National Superannuation threshold; thereafter, 50 cents of every dollar are paid until the market rent of the tenant's dwelling is reached.

Figure 2: Composition of New Zealand's housing stock, 2008/09



1 Some non-governmental organisations also supply social housing, generally on a small scale. The largest of these appears to be the IHC who, in 2009, housed 3,600 service users in 1,105 properties. Of the other 50-100 providers in the sector, the typical provider manages 20 units.

Source: HNZC, MSD, Statistics NZ; IHC Annual Report 2009

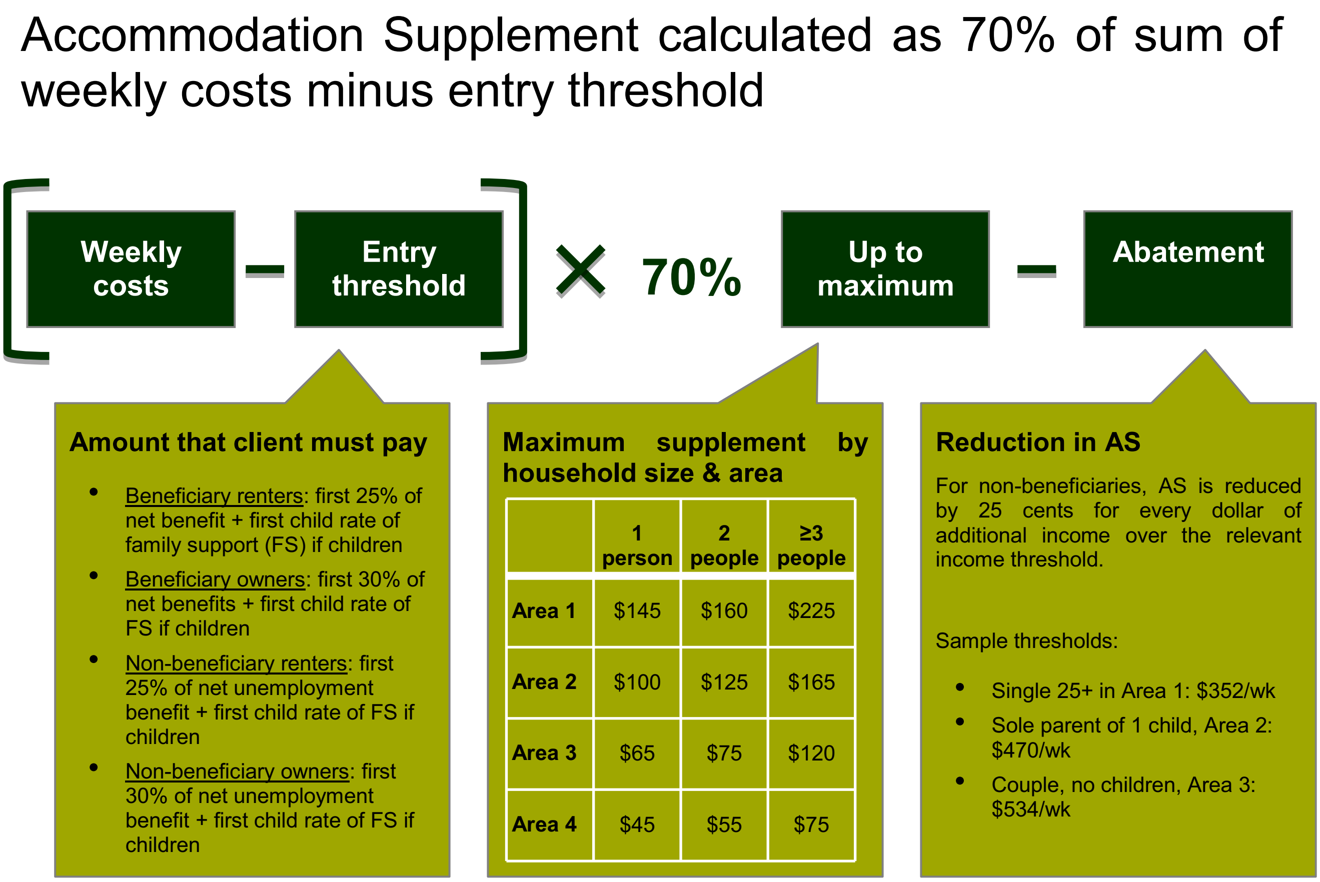
1.3.1 Recipients of the Accommodation Supplement (AS)

The Supplement is designed to assist New Zealand residents with the cost of board, rent or a mortgage. The quantum and trend in the annual AS spend are outlined in a later chapter.

In December 2009, almost 323,000 people were receiving the AS; as it is paid to individuals, some households may include more than one recipient. The AS is paid both to tenants who have lower levels of need than those in State housing and to some with similarly high (or higher) levels of need. The latter group of individuals may be unwilling to apply for a state house, be on the waiting list for a state house, or live in areas without state houses.

The rate of AS paid to an individual is set at 70% of the sum of his or her weekly costs minus an entry threshold.

Figure 3: Accommodation Supplement formula



	1 person	2 people	≥3 people
Area 1	$145	$160	$225
Area 2	$100	$125	$165
Area 3	$65	$75	$120
Area 4	$45	$55	$75

The Supplement is capped, and its maximum rate depends on the area in which a recipient lives and the size of his or her household. For the purposes of the Supplement, New Zealand is broken into four 'areas', reflecting different tiers of market rent. For non-beneficiaries, the amount paid is reduced by 25 cents for every dollar earned over a set income threshold.

1.3.2 State housing tenants

The level of rent paid by state house tenants is tied to their income under the IRRS arrangement. They pay a maximum of 25% of their net income in rent to the point where their earnings are the equivalent of National Superannuation. At this point, 50% of each dollar earned is taken in rent until the market rent is reached. Following historical tradition, there has been a policy not to terminate the leases of tenants in good standing who abide by the conditions of their lease, providing secure tenure.

HNZC uses a social allocation system to prioritise applications for housing. Five factors are applied to determine an applicant's need.

Figure 4: Risk criteria assessed in the Social Allocation System (SAS)

Affordability	**Rating is 4 (worst) through to 1 (adequate)** • Calculated on the ratio of residual income to a notional benefit
Adequacy	**Rating is 4 (house is condemned, or should be) OR 1 (adequate)**
Suitability	**Rating is 4 (worst) through to 1 (adequate)** • Calculated on difference between bedrooms available and bedrooms needed given composition of household/s
Accessibility	**Rating is 4 (worst) through to 1 (adequate)** • Calculated as a qualitative assessment of both funds for start-up/ transaction costs and discrimination difficulties
Sustainability	**Rating is 4 (worst) though to 1 (adequate) for each 5 sub-criteria** • Sub-criteria: financial management, change in household circumstances, social functioning, lack of tenure security, personal/medical needs. Top score on any one sub-criterion is what counts

The five factors are scored, and applicants are assigned to one of four categories:

A. *At Risk* – households with a severe and persistent housing need that must be addressed immediately

B. *Serious Housing Need* – households with a significant and persistent need

C. *Moderate Need* – households that experience moderate disadvantage that is likely to compound over time

D. *Low Level Need* – households that are disadvantaged, but may be able to function in the market.

Applicants are assigned to a 'waiting list', and housing is allocated to households in order of priority from A through to D as it becomes available. The average time taken to house an A applicant in June 2009 was 29 days; the average for B applicants was 73 days. HNZC does not view housing Cs and Ds as its core business and these applicants are rarely housed. Applicants in these categories only receive housing in areas with a high supply of social housing, such as Southern region, where over a quarter of households housed in June 2009 were Cs and Ds.

In general, the state housing portfolio comprises three categories of tenant; those who are *unable* to manage in the private sector; those who *cannot afford* to manage in the private sector; and those who *may be able to afford* to live in the private sector. This later category subdivides into those who are paying the full market rent for their properties and those who are paying at least 60% of market rent.

Figure 5: Portfolio segmentation

HNZC tenancy managers say about half of those in the portfolio would not manage in the private sector

Segment	High-needs dependants	Managing in the middle	Nearly there	Market renters
Characteristics	Have demographic or behavioural characteristics making private sector housing unlikely • Disabled (~6%) • Mental illness (~10-20%) • Anti-social (~10-15% fewer in small areas) • Large families (1,282) • Poor life skills (40%)	Living on benefits. Pay 25% of income and receive IRRS subsidy to make up difference to market rent • Might move up a category in future	Some economic power – able to pay at least 60% of market rent	Already paying market rent. Likely to be in employment and attractive to private-sector landlords
# households	~ 30,500 – 37,500	~19,000 – 26,000	≥6,500	5,000
	45-55%	28-38%	10%	7%

Source: HNZC Tenancy Managers; HNZC database

The number of those with the highest level of need is increasing: for two reasons: first, the accelerating gap between rich and poor in New Zealand has increased the absolute number of people living in poverty. Next, de-institutionalisation in the 1990s and a reduction in psychiatric day care increased the number of people in the community who face problems in managing a mental illness.

1.4 A history of social housing in New Zealand

1.4.1 Development phases

New Zealand can look back on a century-long tradition of social housing, beginning with the Workers' Dwellings Act introduced by Richard Seddon's Liberal government in 1905. Over the century that followed, three phases of policy-setting are evident in New Zealand and its European and other Western counterparts. While there is variation within individual countries, the three phases reflect common global trigger points such as the Depression of the 1930s, two World Wars and the economic crisis of the 1970s.

Reform typically came to the European and Western housing sectors in the 1970s in the wake of the oil crisis. Elsewhere, in places like New Zealand and The Netherlands, the reforms were not felt for more than a decade, responding to the later economic crisis of 1989 and the ensuing recession and changes in Government.

Figure 6: Three broad phases to social housing

	Housing the Poor	Golden Age	Reform
Time Period	1800s to World War 1	1950s- 1970s	Post crises of 1970s (and early 90s)
Target	The most needy, typically the urban poor in inner-city slums	Broadly based, benefiting more income groups, triggered by returning soldiers, marriages	Europe stays broadly targeted but Commonwealth, NZ trend to residual needs
Funding	Private finance, philanthropic contributions. State participation rises as C19th starts	Central, local government. Subsidies are on producer side, targeted at assets	Reforms shift housing responsibility and admin from Government. Also a move to consumer subsidies.
Subsidies focus	N/a	General subsidies targeted at assets eg $x per Y houses	Personal subsidies targeted at individuals' incomes
Supply change	Localised	Significant supply increases – "golden age" of social housing	Dwindling new builds, more spend on redevelopment and backlogged maintenance
Political context	Liberal capitalism	Welfare state after WW2	Post welfare state

New Zealand's experience fits this pattern:

1. Philanthropic, local efforts to assist the urban poor.
2. Mass construction around the time of the Second World War, funded by the State. In New Zealand, this push began a little earlier than overseas, with 32,000 state houses built between 1937 and 1949, and continued through the late 1970s, with Crown funding responsible for approximately two-thirds of residential construction, through state housing and subsidised loans.
3. Reforms to contain the costs of social housing by shifting the emphasis to consumer subsidies and devolving direct involvement from central government. In the 1990s, New Zealand's social housing policy changed dramatically, with a shift to a demand-side approach. State house rents were raised to market rates, and the Accommodation Supplement was introduced to subsidise rent payments for those in the private sector and in state housing, and to subsidise mortgage payments. The Supplement covered only 65% of the difference between a tenant's rent and the market rent, so that tenants' expenditures on rent rose: state house rents rose by 106% from 1990 to 1999 (by contrast, rents in the private sector rose over the same period by only 23%), and, by the late 1990s, approximately 60% of state housing tenants were paying more than 30% of their income in rent. In 2000, the Labour Government reinstated income-related rents.

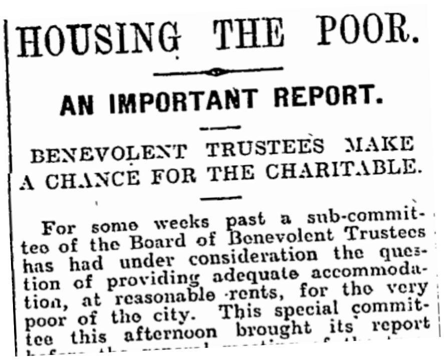
Not only the model of social housing provision had changed. As the Salvation Army's 2007 report 'The Kiwi Dream' makes clear, the role of social housing in New Zealand changed markedly in the second half of the twentieth century:

> "In New Zealand the change of focus for state housing was from one of providing good quality social housing to working families to providing subsidised rental accommodation for welfare recipients. This shift represented

a changing role from one of improving living conditions for mainstream groups to providing affordable housing for fairly marginalised groups."[4]

Figure 7: Evolution of social housing in New Zealand

	Housing the Poor	Golden Age	Reform
NZ Situation:	**Benevolent Institutions, charities, 1905 Workers Dwelling Act**	**Peri - WW2 build at a high level and sales very modest even under National**	**Labour builds; National sells, uses market rents. No decentralisation but consumer subsidies launched**


HOUSING THE POOR.

AN IMPORTANT REPORT.

BENEVOLENT TRUSTEES MAKE A CHANCE FOR THE CHARITABLE.

For some weeks past a sub-committee of the Board of Benevolent Trustees has had under consideration the question of providing adequate accommodation, at reasonable rents, for the very poor of the city. This special committee this afternoon brought its report

EVENING POST JULY 1907

"It is with small regret that the Patterson family are moving out from their below-road basement flat in Wellington. It is far too small for man, wife and two small children …

This time it's a shift to a new state house. For Mrs Paterson this is the sixth shift in 3 years. Like many servicemen's wives, she has lacked a real home, so for her it is an eventful day…"

NZ Film Archives 1945

"It's a win-win. Someone moves into home ownership, someone else moves into the replacement [state] house off the waiting list"

Minister Heatley 2009

1.4.2 Objectives of reform

Social housing reform was underpinned by three objectives:

1. *To curtail the State's role in housing*: this reflected not only pressures on spending, but also a belief that the housing shortage had largely been addressed. Injecting public funds into a well-supplied market risked inefficiency. Some governments also subscribed to a philosophical position - blended from neo-liberalism, public choice theory and institutional economics - that the State was not best placed to deliver housing.

2. *To attract private funding*: the State had long been responsible for the lion's share of the cost of creating new, good quality supply. In the 1980s and 1990s, many countries shifted away from this model to encourage greater private sector involvement. In the United Kingdom, the Housing Acts made it easier for Housing Associations to access private loans. In The Netherlands, the 1995 'brutering' or 'wash up' agreement not only wiped all central liabilities from Housing Associations' balance sheets but also underwrote them to reassure private lenders. In Canada, the emphasis shifted from funding housing programmes to offering indirect assistance through financial instruments, reducing capital costs for private developers and encouraging banks to offer home loans on smaller deposits.

[4] Salvation Army Social Policy and Parliamentary Unit, *Rebuilding the KIwi Dream*, June 2007.

3. *To increase the efficiency of the State's investment in social housing*: this marked a departure from general supply-side subsidies (like capital grants to local authorities to build a certain number of houses) toward demand-side subsidies targeted at individuals based on their income and housing need. This approach, backed by research at the time, sought to target need more precisely while increasing consumer choice.

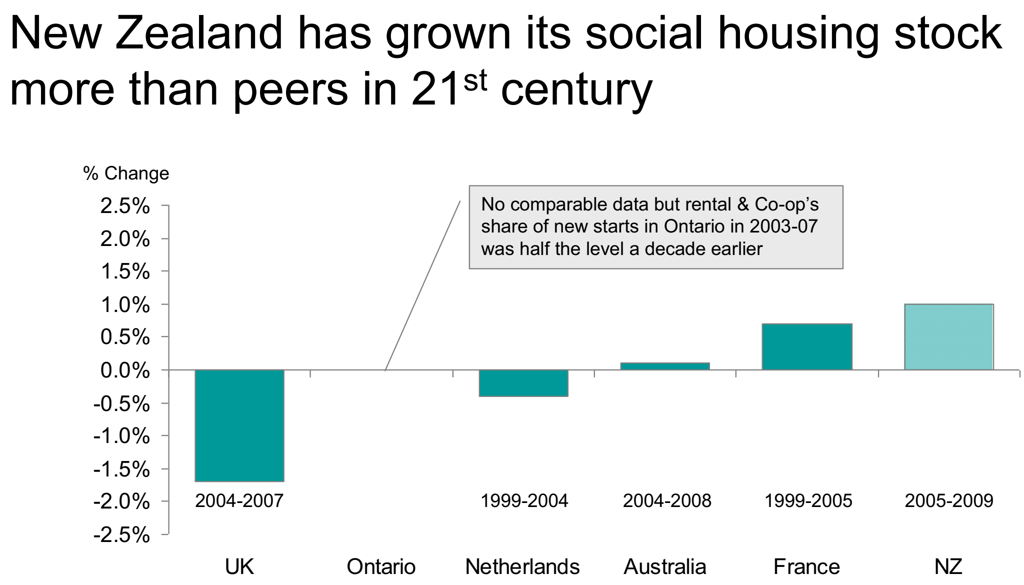
To demonstrate the extent of the shift, in the United Kingdom, grants to Housing Associations have fallen by almost half, from 100% or more for new construction in the 1970s to 60% through the 1980s and 1990s and down to nearer 50% today. Over the same period, the Right to Buy programme moved about 1.8 million council houses from the social stock into private ownership (to meet the preference for home ownership), which further weakened the social portfolio.

1.4.3 New Zealand's comparative international position in social housing

Over the last decade, New Zealand has focused significant attention and resources on social housing. In 1999, the incoming Labour Government halted sales of state houses and instituted a programme of supply increases. On the demand side, it reverted to income-related rents for State tenants, thus increasing the level of subsidy paid beyond that available to low-income renters in the private sector, for whom it retained the AS.

Offshore, Canada and the United Kingdom have recognised the need to engage on the supply side to deal with housing shortages. They are committing significant resources to try to cover the long-term shortfall and to meet rising demand. The United Kingdom is aiming for one million affordable homes by 2020 out of a total of three million new homes; near-term building tranches include the £1.5 billion to build 100,000 affordable homes by 2011 and a further £1.7 billion to add 4,500 homes and regenerate ten urban areas. Canada's Economic Action Plan builds on the Government of Canada's commitment in 2008 of more than C$1.9 billion, over five years, to improve and build new affordable housing and help the homeless.

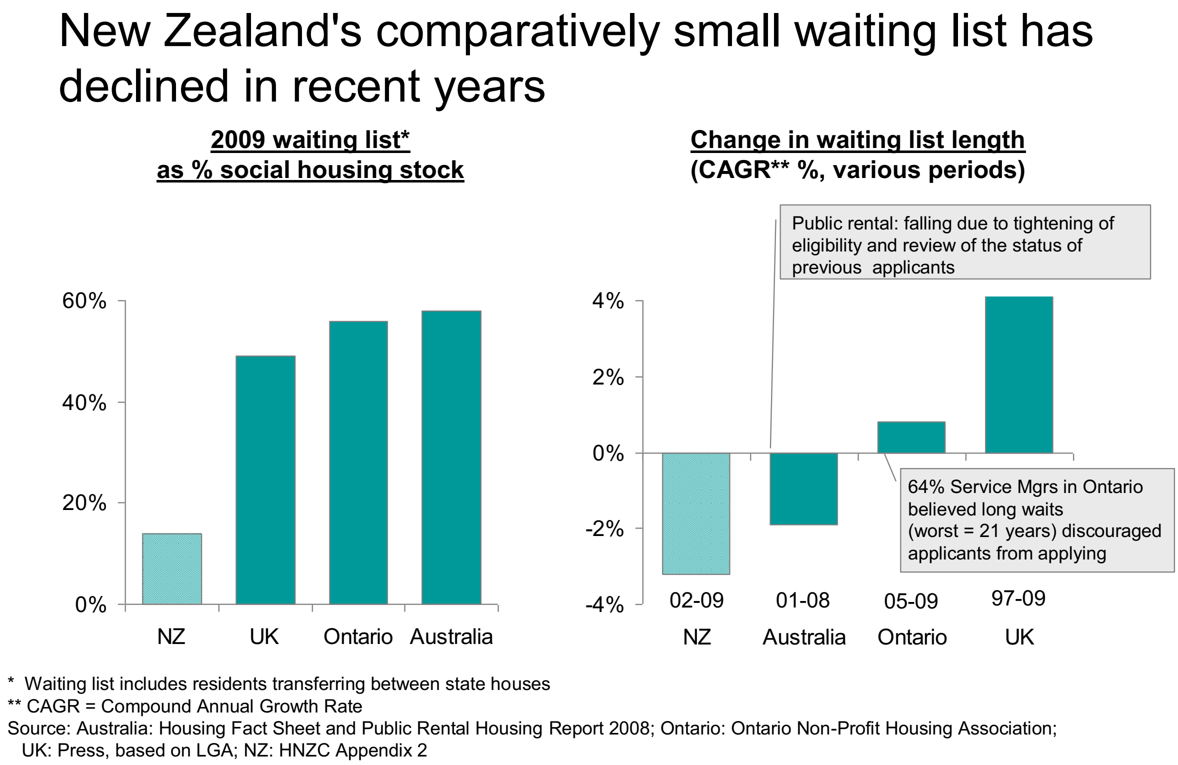
Figure 8: Change in social housing stock in 21st Century



Source: Australia: Housing Fact Sheet; Ontario: Ontario Non-Profit Housing Association 2009 report; UK: National Statistics; NZ: HNZC 2009

A distinguishing feature of New Zealand's social housing sector is the size and trends of its waiting list, which is much smaller than overseas and has declined without any change in standards or eligibility criteria. Depending on their location, many high-priority applicants in New Zealand, unlike their counterparts overseas, have a realistic chance of being allocated a house. While the waiting list may not reflect the full depth of housing need, this is considered less of an issue in New Zealand than in countries where the length of the list materially discourages families from signing up.

Figure 9: International comparison of waiting list size and trends



1.5 Summary

Three key objectives drove the reform phase in housing both internationally and, to some extent, in New Zealand. These were:

- To curtail the state's involvement
- To diversify the funding of social housing by increasing private sector participation
- To drive for more efficiency and impact in housing subsidies.

These objectives have met with varied success in the peer countries reviewed. While The Netherlands has largely succeeded in ending the state's involvement in housing, New Zealand, like many other countries, continues to focus on the effectiveness and efficiency of its social housing and is in the early stages of diversifying funding.

The unmet need for social housing in New Zealand is not, or not yet, as great as that measured offshore, and New Zealand has not needed to commit resources to providing social housing on the scale of the United Kingdom and Canada.

Nonetheless, there is no room for complacency. The stresses seen offshore have already reached New Zealand, even if their impact has been less severe. New Zealand will need to face these challenges with the kinds of interventions observed offshore in order to maintain, and ideally lift, its current level of social housing.

2. Increasing Challenges

Although New Zealand enjoys a comparatively strong position in social housing in terms of international benchmarks, we believe that the current delivery model is not well positioned to meet future challenges. These challenges arise from current and future market trends, namely an insufficient supply of all housing, declining affordability and a changing demographic profile that requires different housing solutions.

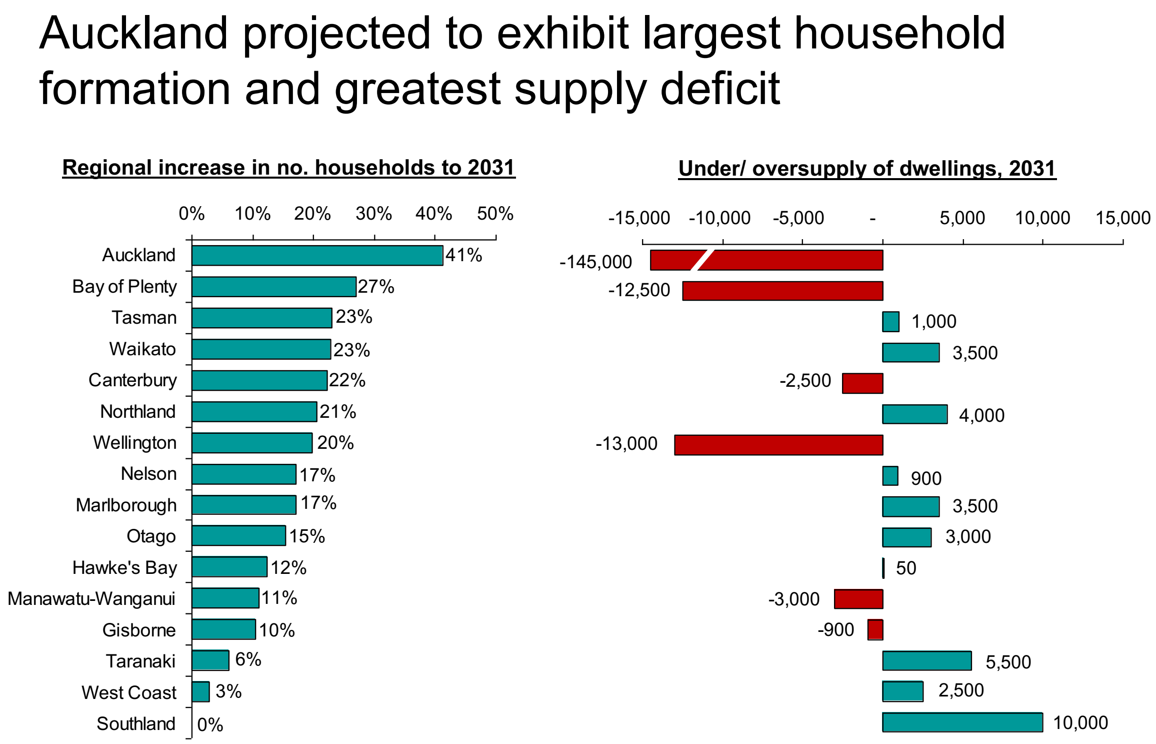
The pressures on New Zealand housing are building, especially in key regions like Auckland. New Zealand lacks sufficient housing stock, particularly affordable housing. In recent years, all of the drivers of the cost of new homes and the price of existing homes have risen, outstripping increases in household income. For those who can afford to purchase a home, finance has become more expensive. The result has been a decline in the proportion of New Zealanders who own their own homes, and a concomitant increase in the number of people renting.

2.1 General housing supply

New Zealand is already experiencing a housing shortage and the problem is set to worsen. Taking a stock approach to assessing housing shortages, preliminary estimates by the Department of Building and Housing indicate that New Zealand's total housing stock, excluding unoccupied dwellings, was 1.547 million dwellings in June 2009, representing a shortage of approximately 70,000 dwellings. The housing shortage is concentrated in specific regions, and is worst in Auckland.[5]

[5] DBH, Draft Housing Report, 2010. The report is still in progress, and the figures stated are not final.

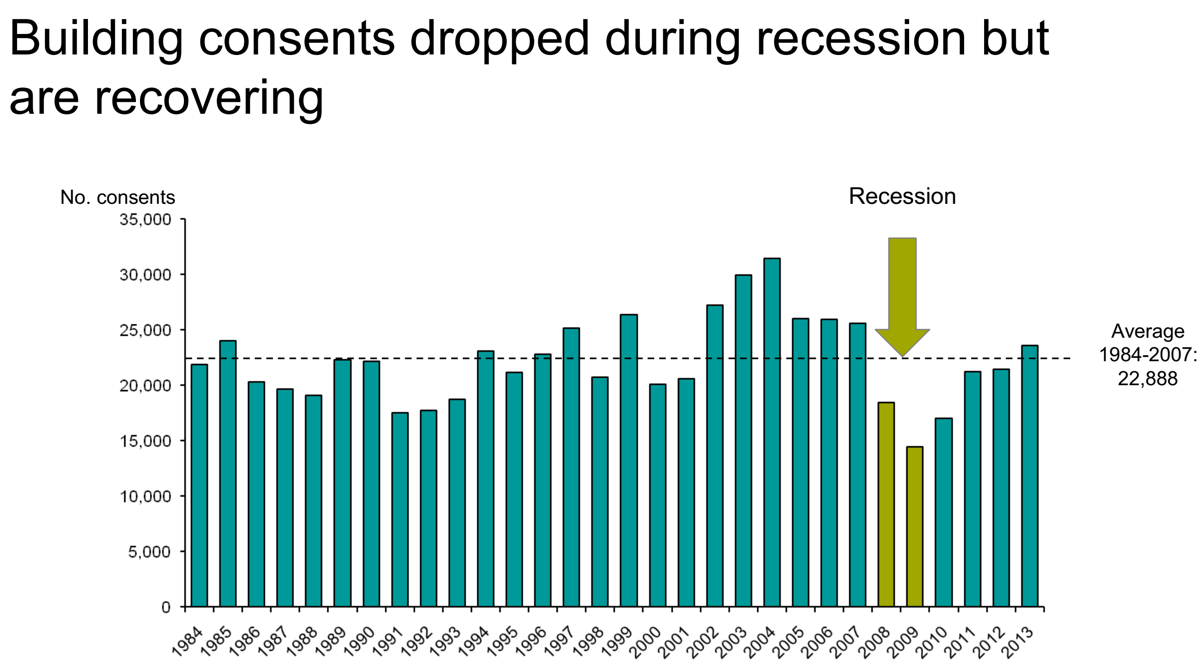
Figure 10: Preliminary forecast in regional populations and over- or undersupply of housing



Source: Draft Housing Report, DBH, 2010 (stock view taken of dwelling numbers)

For the past two decades, construction has been reasonably steady: on average, 23,000 building consents were issued annually from 1987 to 2007. In the past two years, however, consents have declined: only 14,425 consents were issued in 2009, approximately one-quarter (3,700) in Auckland. Even if more consents were issued, there are limits on the land available for development.

Figure 11: Building consents issued in New Zealand, 1984-2013E



Source: Department of Building and Housing (1984 - 2009 data); Infometrics, J. B. Were (2010 - 2013 projections)

2.2 Declining affordability

Affordability is a crucial piece of New Zealand's housing puzzle. Traditionally, New Zealanders have aspired to own their own homes.

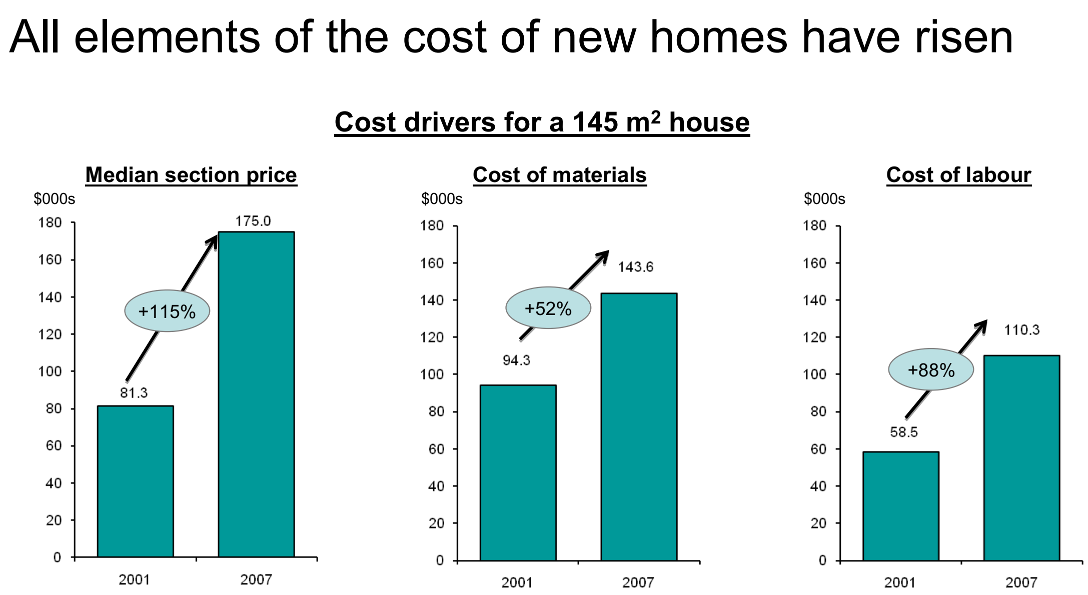
In recent times, rapid increases in house prices, outpacing income growth, have seen the rate of home ownership decline to a 50-year low. A growing number of New Zealanders are tenants, not out of choice, but because they cannot afford to own a home.

2.2.1 Cost drivers of affordability

New Zealand's decline in housing affordability has been driven primarily by increasing costs of housing. Both the cost of construction and the price of existing homes rose.

In any given year, new homes add about 1.2% to the national housing stock. From 2001 to 2007, the overall cost of construction increased more than 83%, along with all of its sub-components.

Figure 12: Cost of building a home, 2001-2007



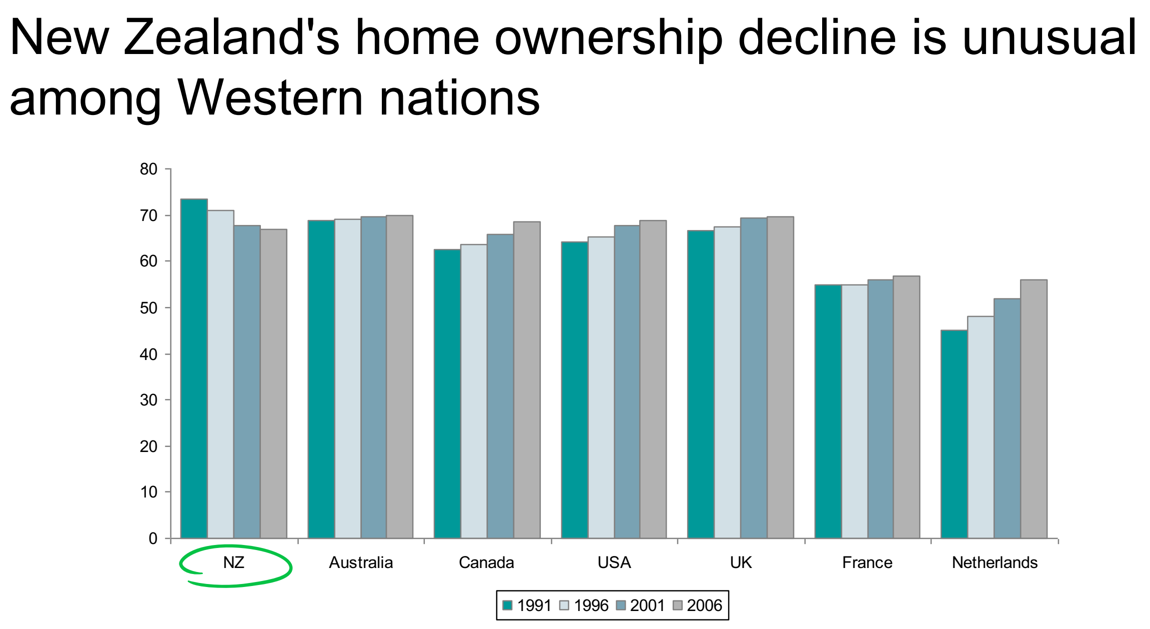
Source: Department of the Prime Minister and Cabinet,
Final Report of the House Prices Unit: House Price Increases and Housing in New Zealand - March 2008
(DBH, Real Estate Institute of New Zealand)

Real house prices are accelerating faster than incomes. To measure affordability, the World Bank compares house prices with household gross incomes, with a ratio exceeding 3.5 considered unaffordable. In New Zealand's main centres, the median household income is no longer enough to enable the purchase of a home at an affordable price. Currently, median households are spending between 37% and 45% of gross household income to finance ongoing homeownership, well above an international best-practice spending benchmark of 30%. First home buyers, in particular, are finding it difficult to purchase.

The cost of borrowing has also risen. For a decade and a half from 1950, mortgages could be fixed through the State Advance below 5% for the duration of the loan, capping a family's spending commitments. Now, loans are generally fixed for two-year intervals, forcing families, as the New Zealand Housing Foundation (NZHF) and Queenstown Trust have said, to 'borrow short and invest long'.[6] New Zealand interest rates have tended to outpace those overseas, so that New Zealand mortgagors have borne higher costs than their peers. By the end of 2007, the cost of financing a house purchase in New Zealand was approximately 40 % higher than its average level in 1990, taking the amount of deposit needed into account.[7]

Rising costs on the supply side have seen rates of home ownership decline. New Zealand is unusual among its Western peers in that the proportion of those owning their own home has declined over the last two decades. In 1986, 73.7% of New Zealand residents owned their homes; in 2006, the figure was 66.9%. The Centre for Housing Research, Aotearoa New Zealand (CHRANZ) projects that the number will fall further over the next decade, to reach 61.8% in 2016. Rates of home ownership are highest among New Zealanders of European descent, 70% of whom own their homes, and lowest among Māori and Pacific Islanders (43% and 34%, respectively).

Figure 13: Home ownership as % all occupied dwellings



Source: National statistics based on 1991, 1996, 2001 and 2006 Censes in each country

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[6] *Homeowner Partnerships: A Proposal to Government. New Zealand Housing Foundation and Queenstown Lakes Community Housing Trust*, October 2009.

[7] Coleman, Andrew. 2008. 'Inflation and the Measurement of Saving and Housing Affordability,' *Motu Working Paper* 08-09.

The effect of rising costs of home ownership and declining rates of ownership has been to push more people into the rental market. In the last decade, the number of bonds deposited by private landlords with the DBH (a proxy for tenancies in the private market), rose from 211,900 in February 2000 to 356,193 in February 2010, an increase of 5% per annum.

DBH notes that whereas in the past renters have generally been young people flatting, today it is seeing an increase in the number of people renting because they cannot afford to own.[8] These people form the intermediate market, which consists of households who:[9]

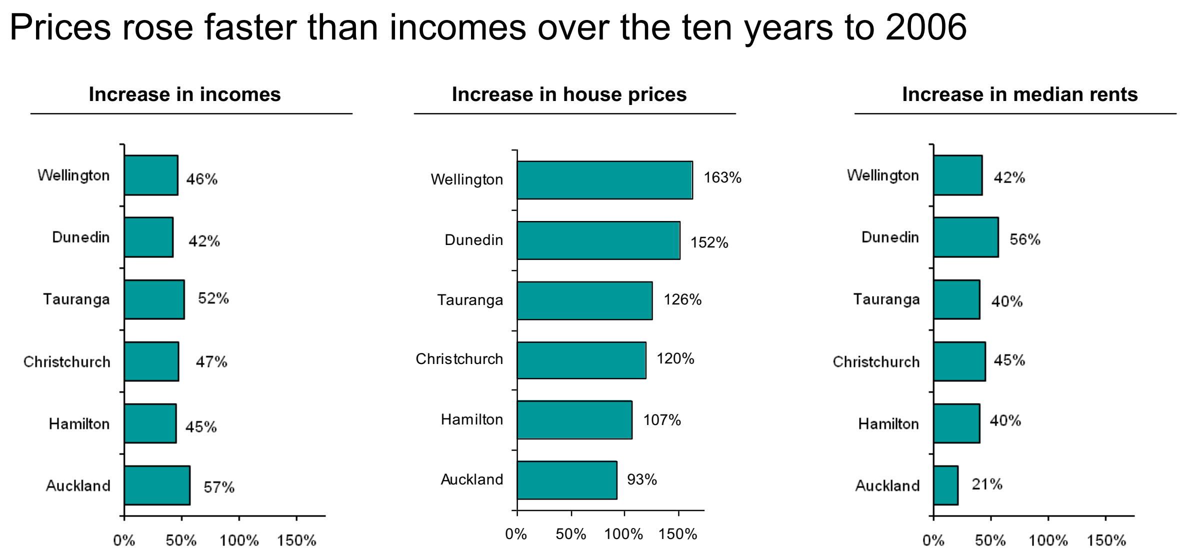
- Are currently renting
- Have at least one member in paid employment
- Cannot afford to buy a home on a deposit of 10% and a debt servicing ratio of no more than 30% of income.

In 1996, 70,300 households were in this category, according to DTZ; by 2006, that number had increased by 266% to 187,300. More than a third of New Zealand's intermediate market (36%) is in Auckland, with 14% in Canterbury and 12% in Wellington. More than half of those in the intermediate market (59%) are aged 20-39, and are therefore potential home buyers. The NZHF and Queenstown Trust note an additional factor exacerbating poor affordability: banks have raised minimum deposit requirements to 20%, further postponing the time at which many New Zealanders will be able to apply for a mortgage for a first home.

[8] DBH, *Draft Housing Report*, 2010.

[9] DTZ, *Intermediate Housing Report*

Figure 14: Factors affecting affordability, by city (1996-2006)



Source: Darroch Research

Rental costs have also risen, although they have generally kept pace with incomes, and many householders show increasing stress: nationally, renting households spend an average of 28% of their income on housing costs, with 49% allocating at least a quarter of their income to housing and one in five spending 40% or more of their income on housing-related costs. Rent-related stress is greatest in Auckland, where 23% of renting houses pay 40% or more of their income towards housing. Pressures on rental households are worsening, too: the number of households spending at least 30% of their income on housing has almost tripled in the last 20 years.[10] With a high percentage of spending tagged for housing, these households will find it difficult to accumulate savings.

Evidence of overcrowding also indicates unmet demand for housing: in 2006, 10% of New Zealand's resident population (389,600 people) were living in conditions requiring an additional one or more bedrooms; of those, 131,000 people were living in conditions where they were short two or more bedrooms. Crowding is particularly acute among Pacific peoples, 40% of whom live in crowded conditions, and in Auckland.[11]

2.3 Changing demographic profile

In recent decades, the composition of the typical New Zealand household has changed dramatically. The two-parent nuclear family is no longer the dominant family

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[10] *Department of the Prime Minister and Cabinet,* Final Report of the House Prices Unit: House Price Increases and Housing in New Zealand*, March 2008.*

[11] Ministry of Social Development, The Social Report, 2009.

structure. By 2031, the number of households comprising a single person is predicted to rise from 23% (in 2006) to 30%.[12] The number of large families may also increase: the proportion of four-, five- and six-bedroom dwellings increased by 5.3% from 1996 to 2006, which may indicate growth in demand by more populous households or reflect a wealth effect.[13] Overall, the average household size is projected to decline from a current mean of 2.6 to 2.4 by 2031.[14]

New Zealand's population is also ageing, due to the combined factors of baby boomers moving into retirement, longer life expectancy and low fertility.[15] In 2006, 495,603 New Zealand residents, or 12.3% of the population, were aged 65 or older. By 2031 that will have more than doubled, reaching 1,079,600.[16] Darroch Research estimates that 65% of the long-term demand for housing will come from households aged 65 and over. Many in this age group are entering retirement with low or negative wealth, and their situation has been exacerbated by recent losses from leaky homes and the impact of the financial crisis.

2.4 New Zealand social housing is starting to show signs of stress

Pressures on social housing in New Zealand are severe, and are set to increase. This section focuses on these pressures. First, there is not enough state housing to satisfy demand, especially in key areas, and the housing stock is mismatched to demand. Second, the state housing model itself is under pressure. Finally, increases in Crown expenditure on social housing are unsustainable: in real terms, spending almost doubled from 2001/02 to 2008/09, driven primarily by the cost of housing.

2.4.1 Inadequate supply overall

HNZC's state housing portfolio supplies some 67,700 households with cost-effective, well-maintained housing. The stock is dated, however: trenchantly described by a tenancy manager we interviewed as 'old, cold and mouldy'. Almost three-quarters (73%) of houses were built before 1981, with concomitant higher maintenance costs, and only 11% of houses were built in the last 20 years. HNZC's energy-efficient retrofitting programme, which improves the warmth and energy efficiency of homes built before insulation became compulsory in 1978, has only reached around 14,000 state houses, or 20% of the stock. While reliable data on property condition has been difficult to obtain, there is general agreement that some HNZC housing stock is either of low quality or nearing the end of its useful life.

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[12] Statistics New Zealand, projection on the basis of 2006 census data.

[13] Department of Building and Housing, *Draft Housing Report*, 2010.

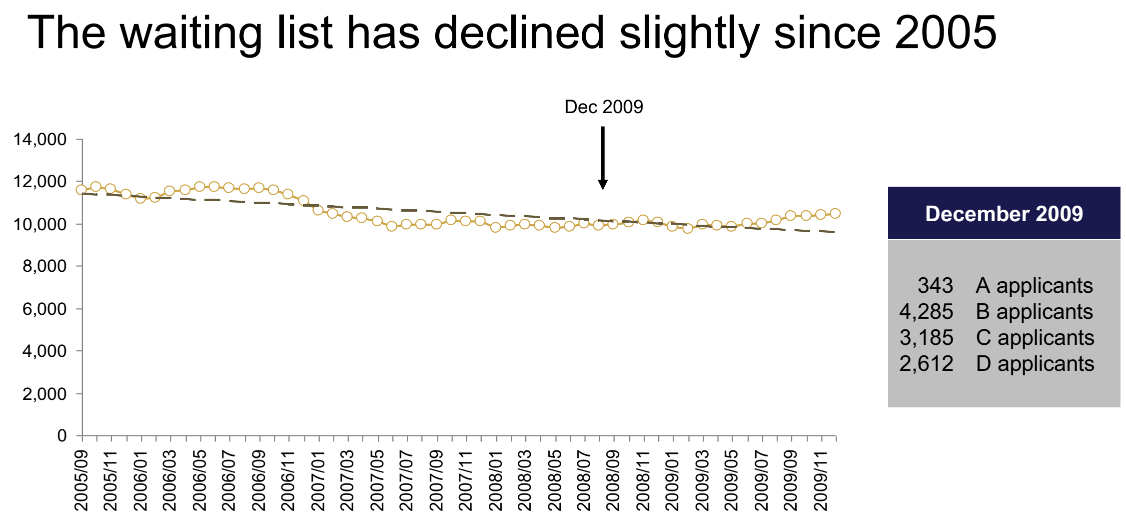
[14] Statistics New Zealand

[15] Statistics New Zealand, *The Changing Face of New Zealand's Population*, 2000.

[16] Statistics New Zealand, *New Zealand's 65+ Population*, 2007

In June 2009, HNZC owned or leased a total of 69,173 properties, including community housing. This stock represents a shortage: In December 2009, 10,430 applicants were registered on the waiting list. Waiting lists were longest in South Auckland (1,910 applicants) and Central Auckland (1,418 applicants).

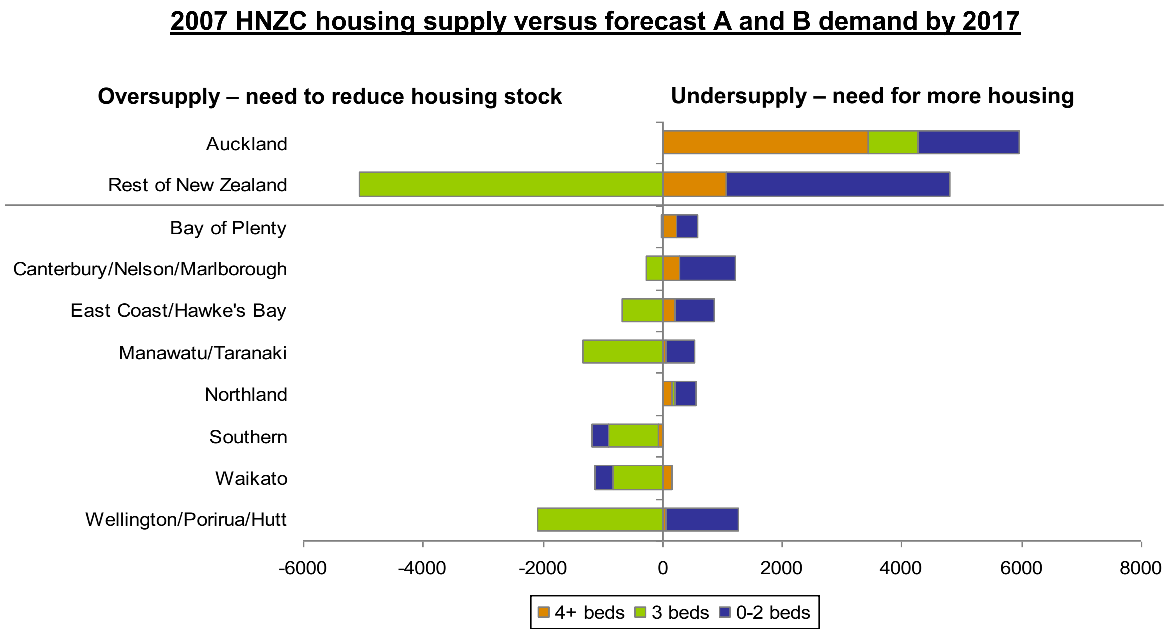
Figure 15: Number on HNZC waiting list, 2005-2009



Source: Social HNZC Waiting List Dec 2009 A-D

In 2007, HNZC identified that, in terms of meeting demand for A and B applicants over the next decade, it faced an undersupply of 10,760 properties (55% being in the Auckland region), and an oversupply of 5,603 properties in low-demand areas.[17]

Figure 16: Undersupply and oversupply of HNZC stock



Source: *HNZC Asset Management Strategy for 2007 to 2010*, 30 June 2007

[17] HNZC *Asset Management Strategy for 2007 to 2010*

HNZC's current stock has not kept pace with changes to the modern New Zealand family. Changing family dynamics has resulted in HNZC being left with an oversupply of three-bedroom houses and an undersupply of houses for single persons and large families. In the 2006 Census, 26% of state houses were occupied by a single adult without children, and a further 13% were occupied by two childless adults living together; yet 80% of HNZC's houses are two- or three-bedroom dwellings.

The mismatch of available housing with housing need is evident in an analysis of HNZC data (December 2009) showing:

- 2,711 properties (almost 4% of the portfolio) underutilised by two or more bedrooms
- 2,739 properties (almost 4% of the portfolio) where there is overcrowding – a figure which may significantly understate the extent of the problem
- 10,430 applicants on the waiting list
- <1% vacant properties (for which there is no demand due to size, condition, or location).[18]

2.4.2 HNZC's financials under strain

In recent years, HNZC has operated with limited flexibility over its portfolio, undertaking a large number of activities over and above those of a normal landlord.

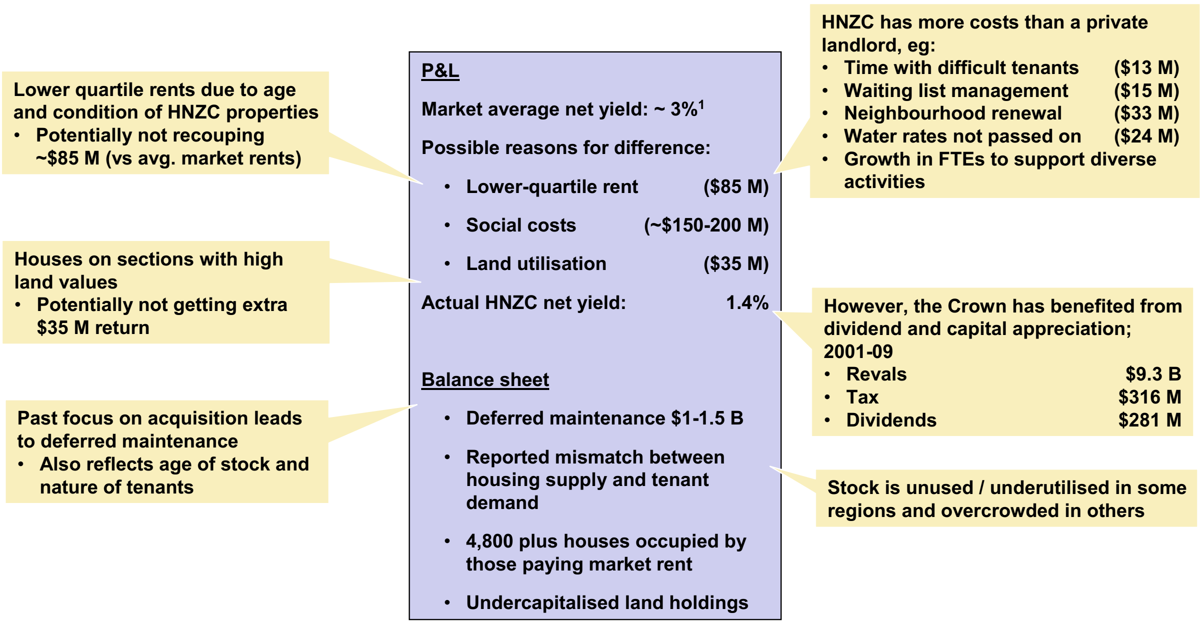
Pressures are apparent on two dimensions – a bundle of extra costs and rental limits that reduce the expected bottom line, and balance sheet issues. The balance sheet issues are twofold:

- A burgeoning maintenance liability, partly due to the diversion of funds to deliver state house numbers, the pre-eminent key performance indicator (KPI)
- A 'lazy balance sheet' with respect to land values and the rental returns realised.

HNZC recognises these issues and has already moved to secure additional efficiencies in the operating area. However, given the current expectations and funding constraints, pressures will continue to build, most likely at a faster rate than HNZC can address on its own.

[18] HNZC internal data

Figure 17: Estimates of drivers of economic outcomes for HNZC, 2009/10

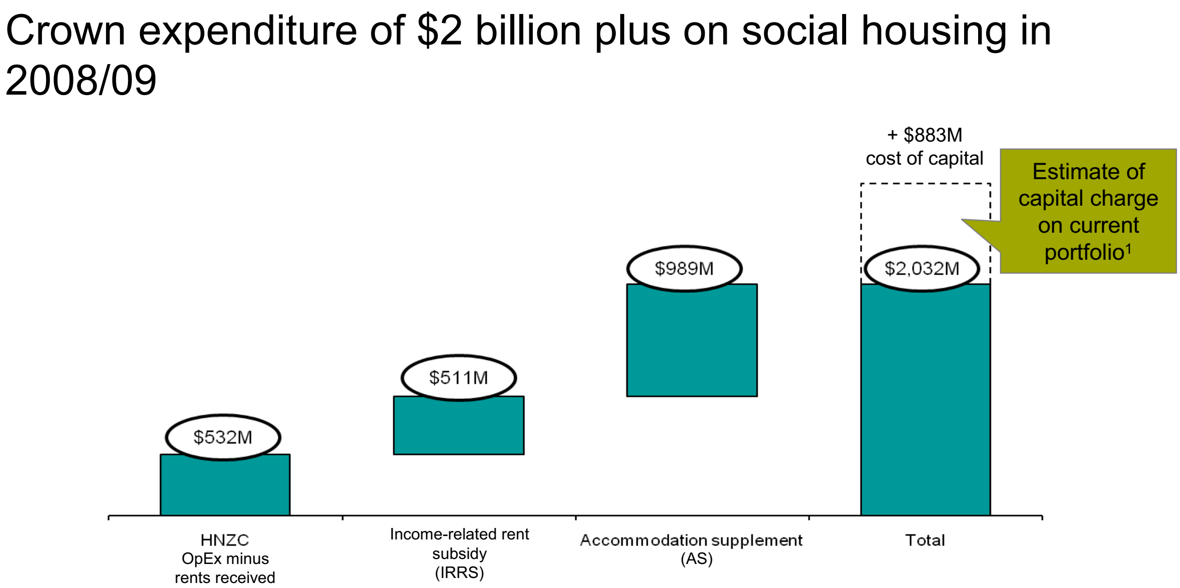


1 before capital gain
Source: HNZC Financial Information 2009-10

2.4.3 Government reaching funding limits

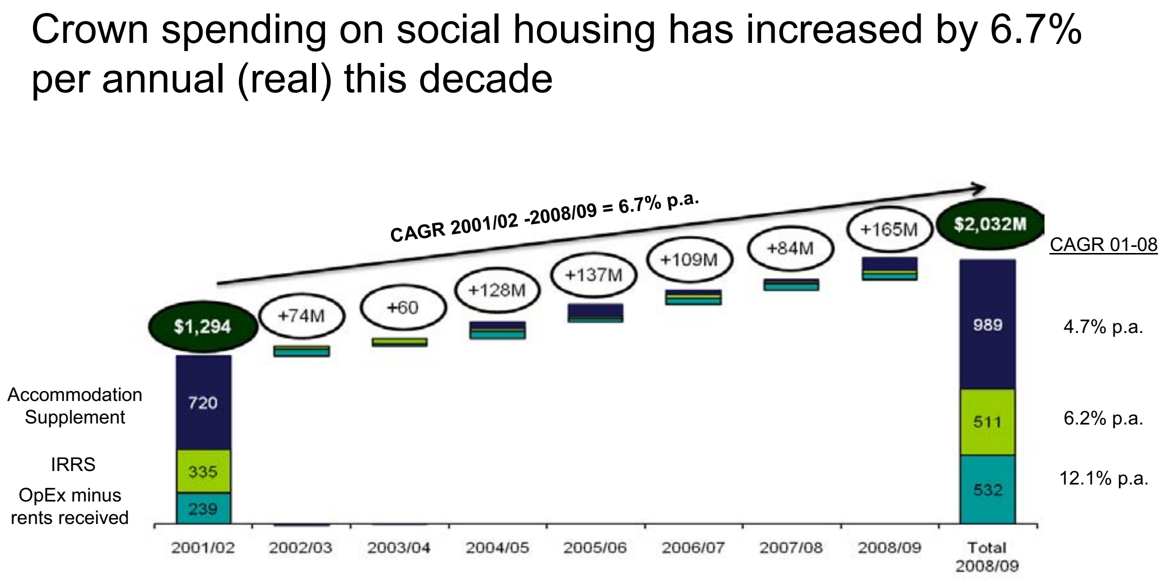
Crown expenditure on social housing in New Zealand has been increasing steadily for the past decade, driven largely by the increase in house values that have also affected the broader housing market. The expenditure is unsustainable: if current trends continue, Crown spending on social housing will be $3.6 billion in 2016.

Figure 18: Crown expenditure on social housing in 2008-09



1 The capital charge is a proxy for the opportunity cost of capital embedded in the organisation
Note: Showing 2008-09 dollars
Source: HNZC (annual report), MSD

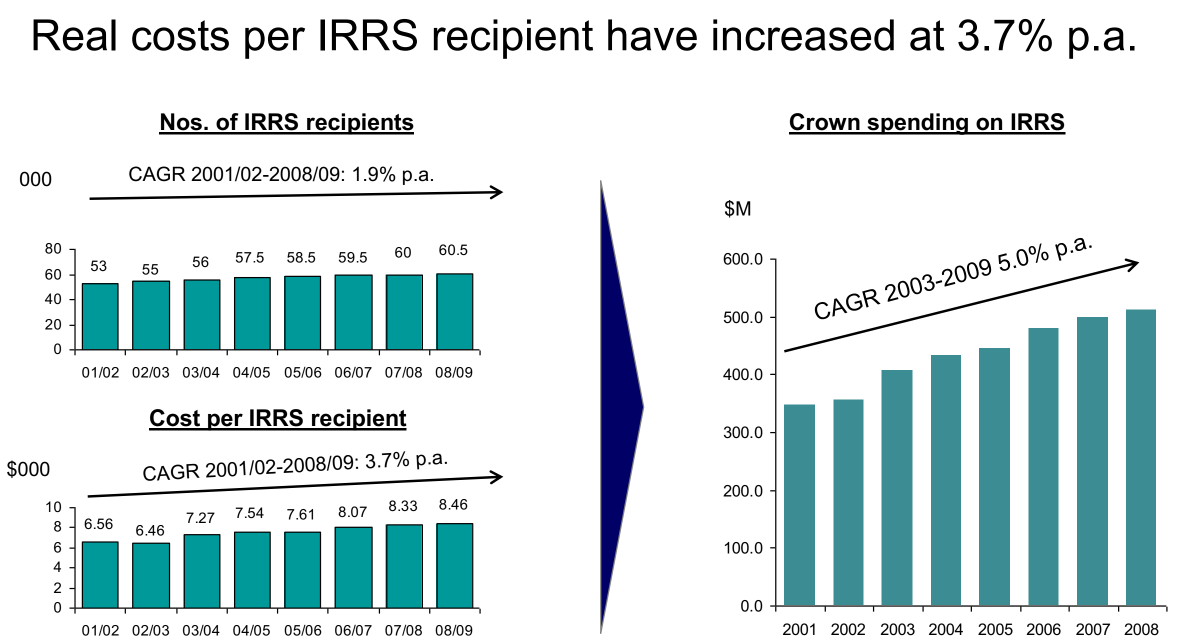
Figure 19: Spending on social housing from 2001/02 to 2008/09



Note: Showing 2009 dollars; CAGR = Compound Annual Growth Rate
Source: HNZC (annual report), MSD

One of the two main drivers of social housing expenditure is the IRRS, which makes up the difference between tenants' contribution to their rent and the market rent that is set for every state house. State housing tenants on low incomes pay a maximum of 25% of their net income in rent. The IRRS has grown because market rents have increased faster than tenants' contributions: for example, state house tenants' rental payments only increased at 1.7% per annum from 2000/01 to 2008/09, while market rents increased, on average, by 3.8% per annum. This caused the IRRS to grow by 5% per annum over the same period.

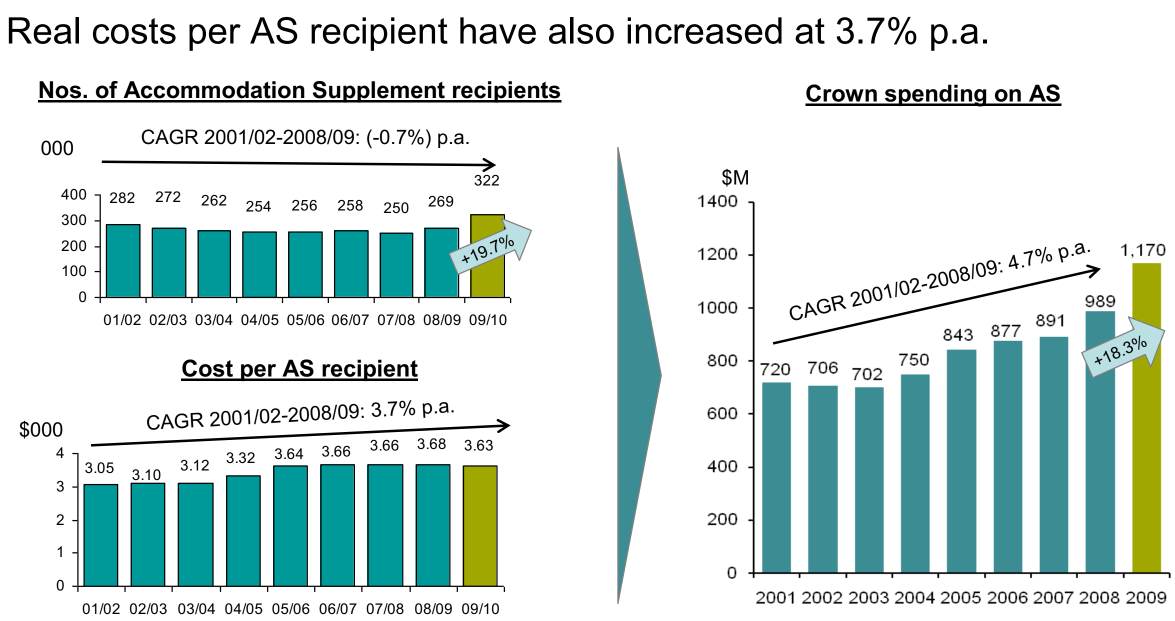
Figure 20: Drivers of IRRS spending increase, 2001/02 - 2008/09



Note: all figures in 2009 dollars; CAGR = Compound Annual Growth Rate
Source: HNZC

Spending on the other main social housing programme, the Accommodation Supplement, also grew during the same period. The drivers of spending on the AS are the number of recipients and the cost of their housing. The number of recipients remained essentially flat from 2000/01 to 2008/09, actually declining slightly by 6,000 people. Yet spending in the same period rose by 4.7% per annum, (from $720 million to $989 million), reflecting an increase in housing costs, primarily rental housing. More recently, a different driver of spending has emerged: spending on the AS leapt by 18% to $1.2 billion in 2009 as the recession hit and the number of AS recipients rose by almost 20%.

Figure 21: Drivers of AS spending increase, 2001/02 - 2008/09



Note: all figures in 2009 dollars; CAGR = Compound Annual Growth Rate
Source: HNZC

Conservative projections show that an additional $700 million to $1.2 billion may be needed to fund the AS in 2016, with total payments likely to more than double from today’s level of $989 million.

Table 1: Assumptions, 2016 AS spending projections

	2008 baseline	Low case	Mid-case	High case
No. in state housing	67,300	67,300	67,300	67,300
No. on AS	268,000	279,000 (historical increase of 0.5% p.a. continued from 2003 baseline)	334,000 (historical increase of 0.5% p.a. continued after 2009 spike)	
Cost per person on AS	$3,680	$6,090 (continues to increase at historical 6.5% p.a. measured during 2003/04 – 2008/09)	$6,320 (slight increase in pressure on housing – CAGR increase to 7.0%)	$6,565 (moderate increase in pressure on housing – CAGR increases to 7.5%)
Cost of AS	**$989 M**	**$1,700 M**	**$2,111 M**	**$2,192 M**

Source: Statistics New Zealand (30 June 2009 baseline projections), HNZC (December 2008 numbers)

2.5 Summary

While the recent fall in building consents appears to be reversing, New Zealand is not building enough new dwellings to close the supply gap, and the cost of purchasing existing stock is accelerating faster than incomes are rising, putting affordable housing out of reach for many.

Clearly the stresses seen offshore have already reached New Zealand, even if their impact has been less severe to date. Already, New Zealand has a crisis of housing affordability in home ownership: people on low to medium incomes cannot afford to purchase homes of their own. Moreover, there is a significant and worsening supply problem in key regions like Auckland, Northland, Hawkes Bay and Wellington. Finally, where social housing is concerned, the national housing budget is straining. Spending on social housing has reached $2 billion before the implicit subsidy of HNZC's cost of capital foregone is taken into account, increasing at an annual rate of almost 7%. On present trends, the combined cost of the IRRS and the AS could reasonably increase from $1.5 billion in 2008/09 to $2.8 billion in 2016/17.

New Zealand will need to face these challenges with the kinds of interventions observed offshore in order to maintain, and ideally lift, its current level of social housing.

3. Current Model Not Well Positioned to Respond

While New Zealand social housing starts from a position of relative strength versus its international counterparts in terms of homelessness and waiting lists, there is no room for complacency. Pressures include a lack of supply, increasing demand, decreasing affordability and a changing household profile.

All of these pressures are evident within HNZC. Until recently, HNZC's operating paradigm has been that of a 'one-stop shop'. Many of HNZC's activities go beyond what would be expected of a normal, even social landlord, yet their costs and effectiveness have become blurred. There is a belief within HNZC that the model must change, a view endorsed by Government.

Changes to the model must address the following four areas of concern:

1. **Policy-setting and expectations constrain HNZC's effectiveness**. In particular, planning horizons influenced by electoral cycles, an explicit focus on the number of houses and an implicit expectation that HNZC tenants enjoy a 'house for life' have reduced the number of levers with which HNZC can manage its business.

2. **A lack of provision exists from third-party suppliers**. There is no question that New Zealand materially lags international benchmarks with regard to third-party activity, provision and funding in the sector. Given future financing constraints, this issue must be addressed through new approaches and the explicit development of scale and niche providers.

3. **Discontinuities exist in the broader housing spectrum**

   i. **Misalignment of subsidies**. The basis of supportive accommodation options is not aligned. Accommodation support regimes are not integrated or aligned, with recipients with similar needs receiving different levels of support depending on where or whether they can access housing.

   ii. **Limited housing options between the state and private sector**. If social housing is to be provided for 'as long as the need exists', then more options are needed along the housing spectrum from state and subsidised housing through to home ownership. Such options already exist to a greater extent offshore.

4. **Sector accountabilities are not sharply defined**

   DBH, MSD and HNZC all have responsibilities to deliver outcomes across the sector. In some instances, this has created a situation where accountabilities overlap or are blurred. Particular issues are:

   - No overarching responsibility for affordable housing supply
   - The funder and supplier are integrated
   - Policy functions and implementation are dispersed

- As an integrated provider, HNZC is hard to externally assess in terms of efficiency and effectiveness
- Performance expectations are not prioritised or transparently reported.

Each of these constraints is discussed below. The net effect, it will be argued, is that the current model has run its course and significant intervention is required.

3.1 Policy-setting and expectations constrain HNZC's effectiveness

While Government policy and Ministerial expectations have provided guidance and orientation, they have also imposed significant constraints in the face of rapidly-changing market needs. There is evidence that these constraints have limited HNZC's ability to cater optimally for tenants with the highest level of need. Moving forward, the operating environment must establish reasonable expectations without imposing limitations on their delivery.

3.1.1 Historical expectations regarding the 'house for life' policy

Historically, tenants in good standing have been able to remain in their houses for as long as they desired. This 'house for life' expectation has meant that generally all tenants within the state house portfolio can choose to remain in their existing house regardless of their changing circumstances; indeed, 22,000 tenants, or 32% of the portfolio, have been in the same state houses for at least ten years. The policy has applied equally to high-needs tenants, to tenants on low incomes and to the 4,865 tenants who are paying the full market rent for their properties, and who thus may be able to afford housing in the private sector. It is important to note that the policy is not a matter of law: like private landlords, HNZC has the power move tenants out provided that it gives adequate notice under the Residential Tenancies Act 1986.

The policy has placed two restrictions on HNZC's ability to provide housing to the neediest tenants. First, it has made it difficult to resolve the problem of underutilisation. For example, tenants are able to remain in a property even if the family size has shrunk. Secondly, it has meant that tenants who are paying market rent, and who may therefore be capable of managing in the private sector, potentially with support from the Accommodation Supplement, stay in the portfolio while others whose need is acute are not housed.

The latest Ministerial Letter of Expectations to HNZC, dated 10 March 2010, foresees a departure from the 'house for life' policy: it states an expectation that the Corporation will "assist the movement of those tenants that are able to have their housing needs met by other providers", and adds that HNZC should "explore options to facilitate and incentivise the exit of market renters from state housing over time".[19] The Corporation is currently developing strategies to deliver to tenants "for as long as their need exists".

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[19] Hon. Maurice Williamson, Acting Minister of Housing, Annual Letter of Expectations to Housing New Zealand Corporation, 10 March 2010.

3.1.2 Ministerial expectations regarding stock numbers

HNZC is currently subject to a Ministerial expectation that it grow the size of the housing portfolio to 70,194 by 30 June 2012. This stock target has distorted HNZC's behaviour in a number of unanticipated ways.

First, HNZC has no incentive to sell houses, because reducing its stock numbers in the short term will make its target harder to reach. While it might otherwise make sense to sell houses in areas of low demand and use the proceeds to buy houses in areas of high demand, doing so would set HNZC's progress back in terms of reaching its target. This is compounded by the fact that purchasing a single house in an area of high demand would need to be financed by the sale of several houses in areas of low demand. This makes it difficult to recycle the stock to adapt to demand.

Second, the target imposes a disincentive to reduce the concentration of state housing in areas with a high density of HNZC stock. At the same time, it creates an incentive for HNZC to buy new state houses in bulk, rather than selectively acquiring properties in areas where the remainder of houses are in private ownership. Both practices contribute to "residualisation", where tenants with high needs and on low incomes remain concentrated in tracts of social housing.

Finally, the stock target has resulted in a postcode lottery, where high-needs 'B' applicants in populous areas like South Auckland wait a long time for housing or may not be housed at all, while their counterparts in less populous districts are housed much more swiftly.

3.2 A lack of provision exists from third-party suppliers

The 'one-stop shop' model poses problems for all key players in social housing:

- For the Government:
  - It cannot establish contestability for its funds in housing, which risks lower efficiency. Several times in interviews and discussions with HNZC employees and broader market participants, the HSA Group heard the phrase "we [HNZC] do it our way", suggesting a rigidity of approach to housing needs and challenges
  - To the extent that HNZC does not seek non-governmental or private partnerships to share the funding burden, the Government must fund all new supply beyond HNZC's internal funding capacity. (Note that a small proportion of HNZC dwellings are accessed by lease from private landlords and do not appear on the balance sheet)
- For HNZC, all Crown programmes and initiatives relating to housing devolve onto it as the sole provider of substance. A list of these varied obligations is provided in Chapter 4. Delivering on all these risks distraction from core activities and hidden cross-subsidising

- For third parties, there are issues in accessing housing from a near-monopoly provider facing pressing supply shortages of its own. NGOs have reported:[20]
    - Frustrations working with HNZC particularly in terms of lack of long term funding and the red tape involved in accessing the funding in sector programmes
    - That their expertise (such as social care, private funding access) is not always leveraged
    - Few incentives for HNZC to pursue partnerships and thus limited experience of how to foster them.

Specific areas in which the 'one-stop shop' risks inefficiency and ineffectiveness include:

- Aspects of tenancy and asset management work have not been subjected to market place testing to consider alternate methods of provision
- Risk is not placed with the organisation with the skills and experience to manage it most effectively
- Development delivery is not tailored to the scale, risk and mix of the projects
- HNZC may not always be the best organisation to deliver non-core work.

3.3 Discontinuities exist in the broader housing spectrum

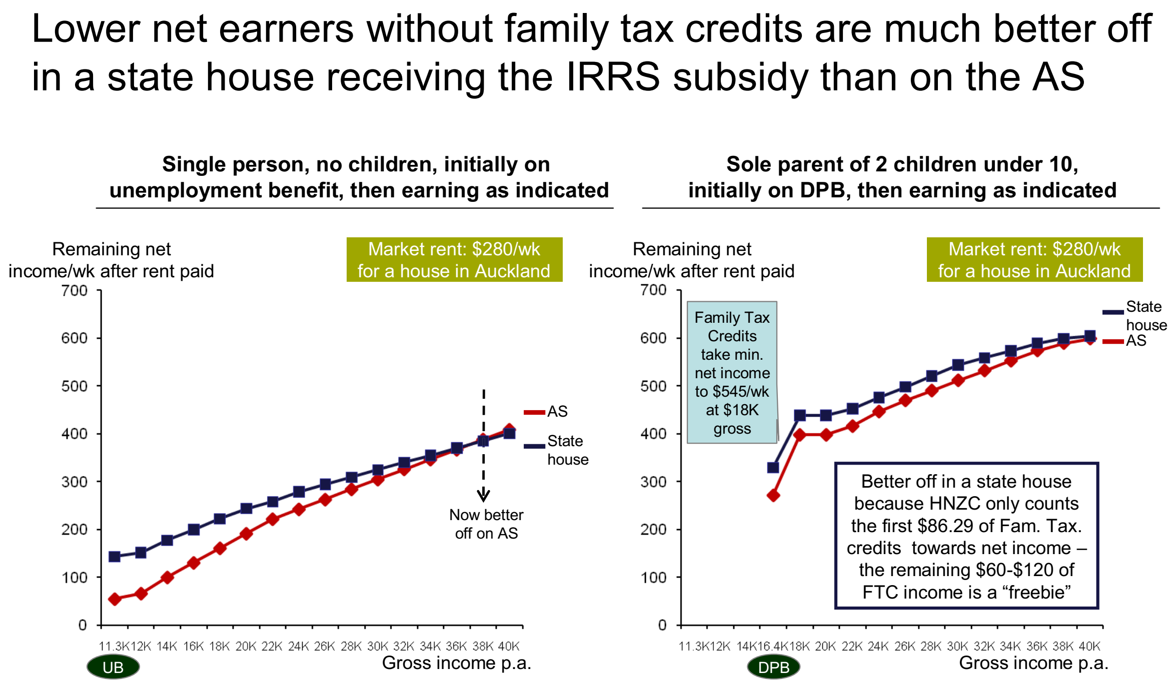
The HSA Group did not set out to review interventions across the broader housing spectrum. However, in the course of our research it became clear that without responding to some of the additional issues described in this chapter, our recommendations would be unable to support the fundamental changes needed.

3.3.1 Misalignment of subsidies

Although both the AS and the IRRS provide a sliding scale of support for low-income tenants, the subsidies themselves are not aligned. Indeed, as the following diagram makes clear, the difference can be as much as $88 in weekly net retained income.

[20] CHRANZ, *Affordable housing – the community housing sector in NZ*, 2007

Figure 22: Misalignment of Income-Related Rent subsidy and Accommodation Supplement



Source: HNZC, MSD

Discrepancies between the two forms of support make a material difference to how people with high needs are able to manage. We spoke with one non-governmental provider of social housing for people with intellectual disabilities and mental illness. He explained that his clients, who received an AS, did not receive enough support to pay the rent, and were frequently forced to choose between paying for medication and paying the rent. If those tenants had been in state housing, they would have been eligible for an IRRS, and both problems would have been alleviated: their contribution would have been capped at 25% of their net income, which would have left them with enough disposable income for medication, and it would have been paid directly to the landlord, who would not have borne the brunt of tenants’ decision not to pay the rent in full.

3.3.2 Limited housing options between state and private sector

The transition from the public to the private sector is a pathway that many people wish to take at certain points in their lives. Yet New Zealand not only has relatively few equity products to assist those who cannot afford to buy homes to do so, it has also little take-up from the options so far available. Current offerings include:

- The **Welcome Home** loan scheme enables borrowers with a maximum yearly income of $85,000 (or three or more borrowers with a maximum gross income of $120,000) to borrow up to $200,000 without a deposit, and a maximum of $280,000 (or $350,000 for those living in certain high-priced areas). However, in all but three areas in New Zealand, $200,000 is not enough to purchase an average lower-quartile house. Moreover, the amount actually available to a potential purchaser is likely to be lower than the maximum: a sample couple with two children, earning $45,000 per annum and owing less than $50 a week in debt, would be eligible for a Welcome Home loan of only $120,000, which is insufficient to buy an average lower-quartile house in any area.[21] From the start of the scheme in 2003 to November 2009, 5,589 households had made use of the Welcome Home programme, an average of 931 households a year.

- Also funded from Welcome Home monies, **Kainga Whenua** is a HNZC programme that began in February 2010. Its purpose is to enable New Zealanders who have a licence to occupy multiple-owned Māori land to build, purchase or relocate a house there. Only those who have no other access to finance for that purpose are eligible. Successful applicants, who may earn no more than $85,000 per annum, (or, for three or more buyers, $120,000) can receive 100% of the house building costs or the purchase price of the house, up to $200,000. No deposit is necessary for a loan below $100,000. It has not been possible to obtain projections of how many households this scheme will help, but without skilled support the numbers are not expected to be high.

- From 1 July 2010, the **KiwiSaver First Home Deposit Subsidy** programme will entitle individuals and couples with a combined gross annual income of no more than $100,000 (or, for three or more joint applicants, $140,000) who have contributed at least the mandated minimum percentage of their income to KiwiSaver for three years to a subsidy of $1,000 for each year of contribution to the scheme, up to a maximum of five years, provided that the house purchased costs no more than $300,000 (or $400,000 in high-cost areas), that they intend to live in the dwelling and that it be an applicant's first home. HNZC expects the scheme to cost the Crown $5 million in the 2010/11 financial year; at a Crown contribution of at least $3,000 for each qualifying household, this suggests that at most 1,667 households will be assisted in that year.

- **Shared Equity** is a scheme which began as a two-year pilot in July 2008, operating in regions where people earning between $55,000 and $85,000 per annum generally cannot buy a first home because prices are too high. The scheme provides a second, interest-free mortgage to those who can afford a 5% deposit on their home, but who cannot afford a 100% home loan for a lower-quartile house in their area. The number of loans available is restricted, with a ballot used to select applicants. The scheme has had a very low take-up, with only 75 eligible applications received by December 2009, and only 31 of those receiving approval. HNZC expects to discontinue the scheme when the pilot concludes in July 2010.

HNZC thus has three continuing programmes to facilitate home ownership by those on low incomes. However, the restrictive nature of these programmes, their low take-up, and the fact that 58% of those who are renting are thought to be unable to afford

[21] Real Estate Institute of New Zealand.

to purchase a home[22] indicate that bridging programmes to home ownership are reaching only a fraction of those who aspire to own a home.

Beyond HNZC, the options for accessing ownership are limited, although a myriad of papers have been written on the subject by a range of organisations including the DBH. New Zealand Housing Foundation (NZHF), is a charitable trust that specifically targets areas of the New Zealand housing sector that require support. Among its core objectives is that of increasing affordable home ownership by developing new home ownership products that provide a pathway to home ownership for households who would otherwise be long-term renters. These products currently include:

- A **shared ownership scheme** for households with a minimum $10,000 deposit and access to a 'normal' mortgage for between 60 and 85% of a home's purchase price
- A **home equity creation scheme** for those with no deposit and credit issues at the bank. Occupants are granted a secure five years' tenure at market rent and can use 75% of the property's (expected) value increase over that period as a deposit to buy the house.

NZHF has built 70 affordable homes in West Auckland using a mix of public grants and private and philanthropic funds. Although worthwhile, their contribution remains a drop in the bucket and the scalability of such schemes is not yet known.

While New Zealand's products to increase accessibility to homeownership are limited, the AS is a widely used tool for supporting sustainability of tenure among mortgage holders. While it is paid to 4% of the country's 990,000 owner-occupiers, or 42,822 households, few other transition products were identified.

3.4 Sector accountabilities are not sharply defined

Five areas of concern exist and are briefly expanded upon below.

i. **No overarching responsibility for affordable housing supply**. The major tenet of the HSA Group is that a supply-side problem exists in the provision of affordable housing and subsequently of social housing. Despite its importance, affordable housing has not yet received sufficient attention from the government or its agencies. Lowering the costs of land and construction by solving the well-known problems that exist on the housing supply side represents substantial opportunities for taxpayers and households alike. The HSA Group believes that unless the issue of affordable housing supply is addressed directly, issues relating to social housing will worsen and the initiatives proposed in this report will be of limited effectiveness.

ii. **The funder and supplier are integrated**. HNZC acts as assessor and provider for tenants applying for state housing. Pre- and post-state

[22] Darroch, Research Report: Private Rental Market Update, March 2010.

housing tenant pathways are not transparent, but we feel strongly that combining the roles of funder and supplier clouds the true extent of social need, compounds some of the mismatch issues discussed above and contributes to the lack of development of third-party suppliers at the 'high social needs' end of the spectrum.

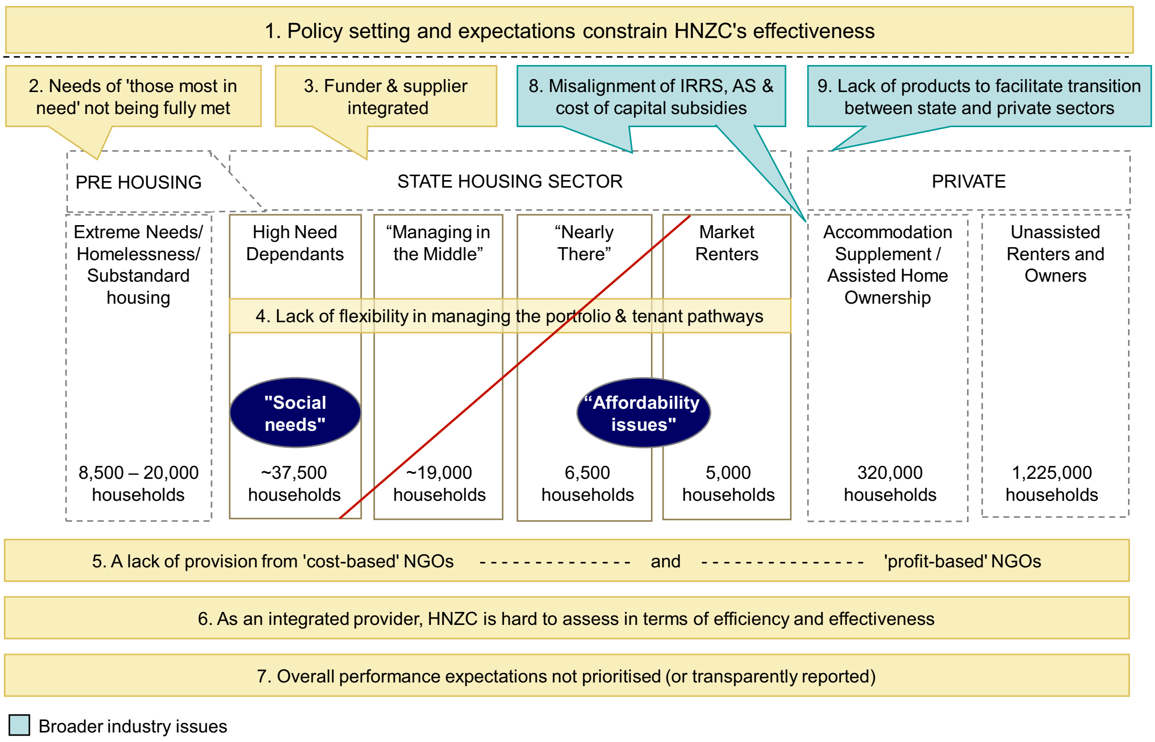
iii. **Policy functions are dispersed**. Policy is currently carried out under the auspices of both HNZC and DBH and possibly also in MSD. This leads to duplication and inefficiencies and a reduction in the impact of the messages inherent in new policy. In future, the overarching outcomes-based policy direction and responsibility should reside in a single agency leaving strategy, business planning and research within the organisations responsible for delivery. Potential arrangements are discussed in Chapter 7.

iv. **As an integrated provider, HNZC is hard to assess externally in terms of efficiency and effectiveness**. As the primary Crown's social housing agency, HNZC has attracted a myriad of associated functions and activities. These range from policy to new equity products, from single houses to urban renewal projects. At the same time, the core activities face intense demand and supply pressures. To date, clearly linking costs and outcomes and reporting them transparently has not been a priority but it will need to be addressed in future as pressure builds to unbundle activities.

v. **Performance expectations are not prioritised or transparently reported**. HNZC has more than 200 performance indicators, many of which are flagged as KPIs and it effectively delivers on many. However, no organisation with such a large number of indicators can deliver effectively against its shareholders' overarching expectations. This is particularly the case where the organisation has a combination of social and economic goals.

In summary, Figure 23 identifies the areas of concern which affect the ability of HNZC and the broader sector to meet future challenges.

Figure 23: Difficulties facing HNZC and the sector in meeting future challenges



3.5 A vision for social housing provision

Before developing recommendations to address the challenges facing HNZC and the sector, the HSA Group agreed upon a vision for the future delivery of dwellings, products and services to the social housing sector and the broader affordable housing segment.

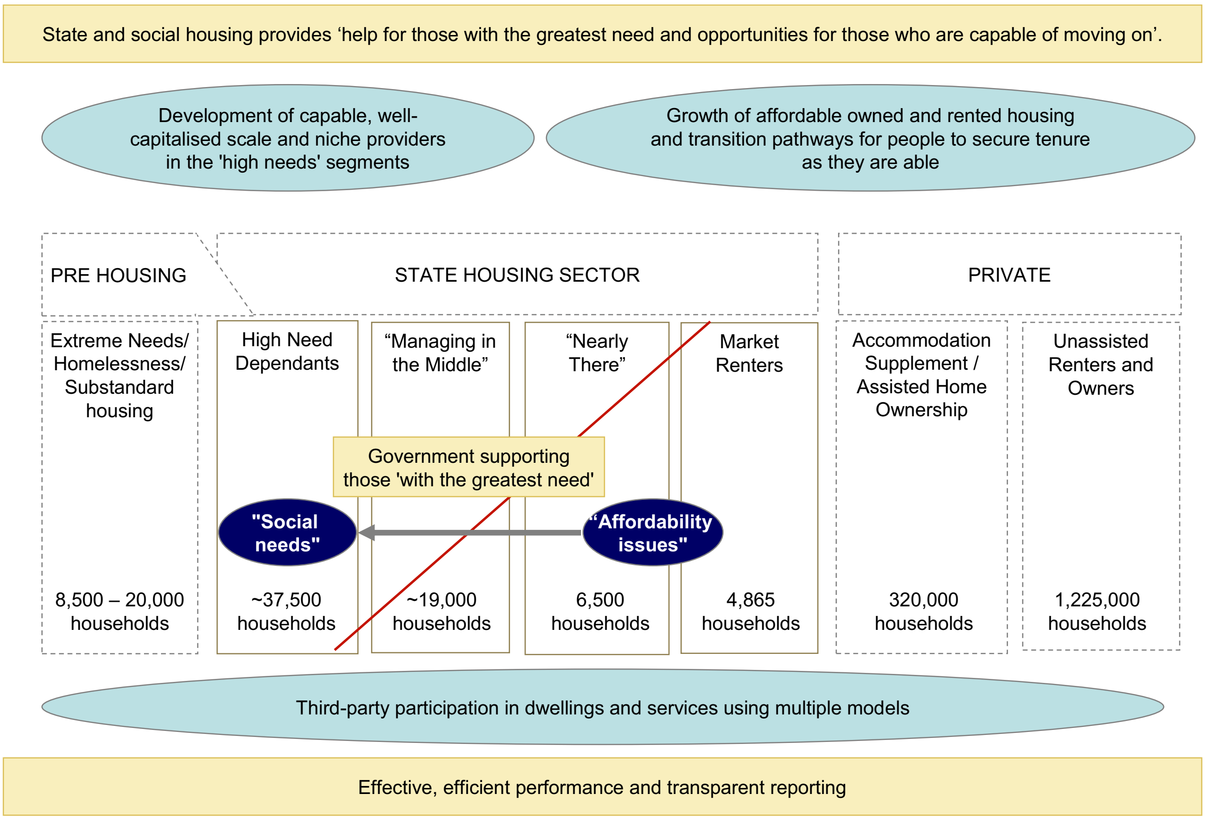
> ***We envision a future in which the public, private, non-government sectors and Iwi all work in concert to ensure that every New Zealander has decent, affordable housing. It is a future where help for people with the highest level of need goes hand in hand with opportunity for those who are ready to move on. It is a future in which all providers of social housing play to their natural strengths, concentrating on the core activities that they do best.***

In developing its vision, the HSA Group identified four desirable outcomes. These were:

1. Continued improvement in the affordability of home ownership in New Zealand
2. Within the social housing sector, providing 'help for those with the greatest need and opportunities for those who are capable of moving on'
3. Increased third-party participation across all segments in the social/affordable housing spectrum

4. Effectiveness and efficiency of delivery.

Figure 24: HSA Group vision for the future provision of social housing



3.6 Summary

As stated, New Zealand social housing starts from a position of relative strength versus its international counterparts with many other countries experiencing more significant issues in terms of homelessness and waiting lists. However, there is no cause for complacency, as New Zealand is subject to a lack of supply, increasing demand, decreasing affordability and a changing household profile.

The impact of these demands is evident within HNZC. Until recently, HNZC's operating paradigm has been that of a 'one-stop shop' – the analogy would be, as we have said, 'fighting with one hand tied behind one's back' across many fronts. Many of HNZC's activities go beyond what would be expected of a normal, even social landlord, yet their costs and effectiveness have become somewhat blurred. There is a clear belief that the model must change, and in light of recently communicated Government expectations, will do so.

To achieve a new delivery model for the future, a number of challenges have to be addressed, and to some extent HNZC has started along this pathway. However, we believe some fundamental changes must be addressed both within the social sector and across the broader housing spectrum in order to realise shareholder expectations of delivery, investment and efficiency.

4. Empowering HNZC to Focus on the 'High Needs' Sector

The state housing portfolio houses a large number of tenants who would be unable to manage in the private sector. In our view, these tenants should become the prime focus of the body charged with managing the state housing. This includes tenants already in the portfolio and potential high-needs tenants who are yet to apply for a state house tenancy, but who are homeless or in transient accommodation like boarding houses or who are living in substandard housing, often on Māori rural land. To refocus exclusively on people with high needs, HNZC's core business must be delivery. To enable it to deliver effectively, policy constraints must be removed so that it can undertake more flexible and proactive portfolio management. In order to address the housing and social needs of its current and future tenants, HNZC will need to think beyond being the owner and provider of state houses to creating broader housing solutions in cooperation with the private and other non-governmental sectors.

4.1 Creating policy expectations

We recommend removing the single annual target for the number of houses in the state housing portfolio. Instead, fluctuation should be permitted as HNZC rebalances its stock to meet need. This will enable it to adapt its stock regionally, divesting houses in low-demand regions and purchasing or leasing houses in areas of high demand, like Auckland. It will also enable HNZC to adapt the mix of its houses, shedding some of the oversupply of three-bedroom houses and acquiring both smaller dwellings for single-person households and accommodation with five bedrooms or more for larger families and multigenerational households.

> ***Recommendation 1. The Ministers set policy expectations that emphasise best match of dwelling to tenant needs.***

In addition, given the long-term nature of housing assets and the time-frames needed to initiate and complete development projects, policy consistency is required beyond electoral terms. This is to be encouraged through whatever mechanisms are available, especially for projects that have long horizons, for example the Tamaki Transformation Programme.

4.2 Delivering flexibility in tenancy management

The Ministers of Finance and Housing have stated that HNZC's purpose is providing housing and housing-related services "to those in greatest need, and those whose needs are unable to be met by the private housing sector".[23] Clearly, a waiting list applicant allotted a state house is in need at the time of allocation. However, circumstances may change that reduce that level of need. For example, tenants may

[23] Hon. Maurice Williamson, Acting Minister of Housing, Annual Letter of Expectations to Housing New Zealand Corporation, 10 March 2010.

become able to afford private sector rents, large families may shrink, or separated couples may establish relationships. When the initial need is gone, a tenant's long-term presence in a state house deprives those who are in greater need – hence the over 4,600 A and B applicants on HNZC's waiting list[24] – of accommodation.

> ***Recommendation 2. HNZC develops new policies to manage its tenant base and their needs.***

No existing tenant should have his or her lease simply terminated. Here, we have been guided by the principle of '**offer, not push**'. While it would, in theory, be possible for HNZC to reassess all sitting tenants at the time of their annual rent review and give tenants adequate notice, we do not support this option.

In reviewing the levers available, a monetary value for the 'virtual property right' of existing tenants needs to be considered. These implied property rights arise from two sources: the lower cost of rental often provided by the IRRS over private-sector alternatives and the avoidance of a number of costs (e.g. water, degree of repairs and maintenance) capitalised over the life of the expected tenancy. Accordingly, there is an inherent pool of funds available to design support or transition schemes, meaning that options exist to provide incentives for people to relocate by paying their removal costs, legal costs, re-establishment expenses and so on. This involves redefining and extending the existing 'Pathways Option Service' being developed and rolled out by HNZC.

Secondly, we propose that a new tenancy agreement be created. In developing these new tenancy agreements, consideration should be given to flexible, renewable tenancies and to tenancies which are not tied to one property. New types of tenancies, like the 'taster tenancies'[25] currently operating in Auckland, can be trialled. Toward the end of the term of a new tenancy, tenant circumstances should be reassessed and leases renewed if the requisite need still exists; if not, new housing options should be offered.

> ***Recommendation 3. Introduce new tenancy agreements for those entering the state housing portfolio in future to enable support to be provided for the duration of need.***

4.2.1 Active portfolio management of the housing stock

The most important expectation on HNZC will be to provide access to appropriate housing to meet tenant demand as defined. HNZC's biggest asset is the strong

[24] As at December 2009.

[25] '*Taster tenancies*' are a project run by HNZC with Auckland City Mission clients. The tenancies have an initial term of three months, and may be terminated thereafter by either party. They allow people who are unsure whether they are ready for a tenancy to 'try one out for size'. Importantly, a client whose tenancy is terminated is not disadvantaged on a subsequent application.

balance sheet of the existing state housing portfolio. This will need to be aggressively managed through:

- Divesting properties and portfolios where there is low demand or which are not 'fit for purpose'
- Unlocking the value of the underlying land, often in partnership with others
- Addressing the imbalance of urban and rural properties, i.e. new schemes for leased land.

It will take time to rebalance the portfolio, but a 'mass sell-off' of properties, as happened in the 1990s, should not occur: it is envisaged many of the homes will remain within the social stock, but under different ownership arrangements. However, HNZC should now have the degrees of freedom not previously available. There is also flexibility in the portfolio to realise an improvement fund from recouping value on the following types of property and land:

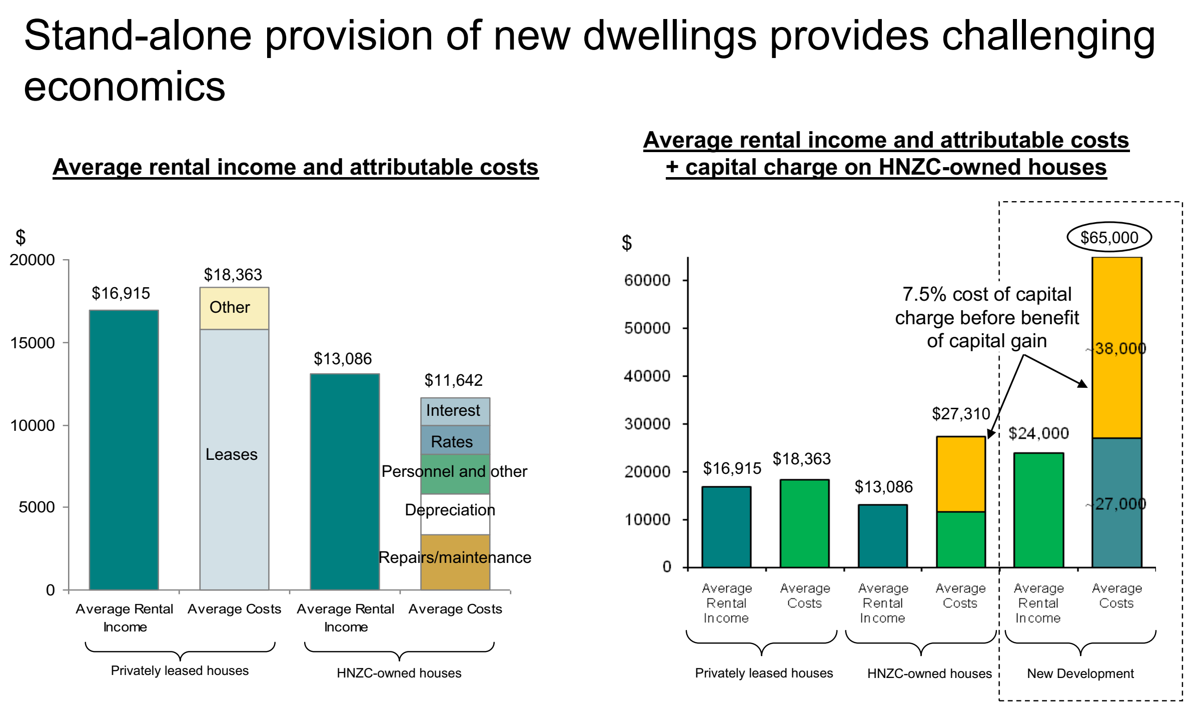
- Approximately 11,500 homes rented at or near market rent
- About 2,500 properties, with a total value of approximately $1 billion, that appear to be under occupied
- Within the portfolio, and not necessarily in addition to the categories listed above, houses with a book value of over $400,000 that represent approximately $1.7 billion of the portfolio
- Potentially $1 billion of land that is undercapitalised.

Again, the HSA Group wishes to stress that we are ***not envisaging the termination of existing tenancies for termination's sake***. New pathways, options developed and natural turnover and the use of more than $1 billion of under-utilised land will provide ample room to manoeuvre without disturbing existing tenants. Having released capital, HNZC will be in a position to reinvest in strengthening the portfolio, and in potentially assigning funds or stock to develop other providers.

> ***Recommendation 4: HNZC actively manages the portfolio of dwellings to match future demand.***

Clearly, enhancing the portfolio going forward does not mean HNZC must build or own every home. To illustrate the importance of this point, a comparative set of the economics of the channels, as utilised by HNZC, is shown below:

Figure 25: Comparison of costs and returns of housing options



Source: Analysis of HNZC data

It is clear from the above analysis that going forward any organisation cannot simply use capital to construct a dwelling that delivers such an unsatisfactory return. The cost of capital, potentially offset to some extent by future capital gains, must be taken into account when considering development options.

It is the strong view of the HSA Group that simply buying stock on the open market is the least preferred option in markets with existing supply deficits – in fact, the priority is to increase the affordable housing stock. Instead, HNZC must use all levers available, in particular:

- Introducing new forms of investment, e.g. institutional investors owning multiple properties
- Leveraging third-party funding, e.g. joint ventures, partnerships
- Using new construction processes
- Adopting new construction techniques, including reviewing the 'decent housing' specification.

During our deliberations, we received considerable input concerning enhanced contracting and delivering models and designs that would allow additional value for money.

Recommendation 5. Use multiple supply choices available to provide new state housing stock.

In addition, an overarching objective of housing policy going forward is to reduce social stock concentration and residualisation – a KPI has been developed to this effect. In following future development pathways, HNZC is strongly encouraged to use this as a clear planning consideration.

Finally, the HSA Group recognises the challenge for the Government here and that the realignment of the portfolio needs to go 'hand in hand' with a five year business plan that indicates enhanced housing outcomes for individuals and families. The parameters of the business plan are outlined in Chapter 7 and the HSA Group is confident that there are real pathways that can be developed that focus on better outcomes for current and future tenants. This can be done without increasing the waiting lists for those 'most in need'.

4.3 Development of sector capabilities

Given its size and importance in the housing sector, HNZC also has the ability to develop scale and niche providers that support the segment. Clearly, this is aligned to a number of initiatives flagged above, but it also extends to the development of capabilities and the supply of services.

Recommendation 6: HNZC explicitly develops scale and niche service providers to the sector.

As previously discussed, HNZC undertakes a broad range of activities. These are represented in Table 2:

Table 2: Programmes and services currently delivered by HNZC

CURRENT FUNCTIONS	CURRENT PRODUCTS AND SERVICES
Needs Assessment	• Social Allocation System
Tenancy Management	• Tenancy Allocation
Subsidy Administration	• Administration of Income Related Rent subsidy (including IRRS assessment) • Debt Management • Income Related Rent Audit • Annual Income Re-assessment • Community Group Housing Rent Relief Programme
Asset Management	• Housing Modifications (suitable homes services) • State House Acquisitions, Upgrades and Divestment (including fiscal stimulus) • Auckland City Pensioner Housing (acquisition and upgrade) • Community Group Housing Acquisitions • Relocations • Lease Programme
Urban Development & Community Renewal Projects	• Tamaki Transformation Programme - HNZC's contribution is upgrading its houses within this programme • Other Community Renewal Projects
Land Development	• Housing Development Projects - Hobsonville - McClennan - Weymouth

Home Ownership	• Shared Equity Home Ownership pilot • Mortgage Insurance Scheme - Welcome Home Loans • Home Ownership Education - Options and Advice • KIwiSaver Deposit Subsidy and Joint Evaluation Strategy • Financial Assistance to owners of non-weathertight homes • Gateway
Health-Related Programmes	• Healthy Housing • Energy Efficiency Retrofits and Heater Installations
Social Services and Associated Subsidies	• Specialised Tenant Support - Case management - Debt management - Household action plans - Rent relief - Suitable homes service • Refugee and Migrant Services • Special Housing Action Zones interest subsidy • Rural Housing – Essential and Infrastructure Repairs • Rural Housing loans – Dwellings Repaired
Facilitation of Third Sector Growth	• New Zealand Housing Foundation • Housing Innovation Fund (Māori Demonstration Partnerships with Iwi) • Community Owned Rural Rental Housing Loans Interest Subsidy • Wellington City Council Social Housing Assistance
Policy & Research	• Housing Policy Advice and Ministerial Support • Centre for Housing Research Aotearoa New Zealand (CHRANZ)

In 2008/09, the total cost of these functions was $908 million (total operating expenditure), with approximately 93% of staff involved directly or indirectly in the management of the portfolio.

Many of these functions are delivered as an integrated package into the marketplace and are effectively cross-subsidised, i.e. additional social services that reduce the returns (return on capital or net yield). Without a level playing field, in terms of transparent costs of service and with equal opportunities for competing providers, it is very difficult for alternative providers to compete with HNZC in-house service provision – for example, in-home social support services. The continued growth observed in outsourcing is occurring as organisations seek to focus on their core areas of expertise and secure a combination of lower costs and higher service levels. A 20% plus increase in efficiency is a reasonable benchmark as outsourcing is introduced in similar situations.

4.4 Summary

HNZC will be better placed to assist those with high needs if it operates under a policy expectation to accommodate "those who need it for the duration of that need", and has greater flexibility in stock numbers and, where appropriate, investment certainty. The reshaping of its operating portfolio will result in internally generated investment funds that can be reapplied across the portfolio and potentially across the broader housing spectrum. To secure maximum value, many more avenues will need to be explored than has been observed to date. This will include partnerships and joint ventures, leveraging land assets, new designs and delivery models – as has been seen overseas. It needs to be done with an eye to reducing residual concentration and developing the total amount of affordable housing stock.

Just as we expect HNZC to develop scale, and where appropriate niche and regional, housing participants, it should look to do the same in service provision (for example, tenant and asset management) relative to the sector. In summary, HNZC should see itself moving from being an ‘integrated provider’ to being an ‘orchestrator’ focused on optimum outcomes for high needs, social housing tenants.

5. Driving Involvement of Third-party Suppliers

To date, New Zealand's social housing delivery model has been centralised and consolidated in the public sector. To some extent, this has possibly achieved scale benefits in a country with low population and wide geographic spread. However, this appears to have inhibited other sources of supply in that social housing is delivered almost entirely by HNZC; only two percent of social housing is run by community groups in dwellings provided by HNZC, and local authorities also play a small role.

The community housing sector, comprising Iwi and non-governmental organisations, is small and fragmented. Many participants do not own housing assets and lack the skills needed to manage such assets effectively. The sector is funded in a variety of ways, including private sector and philanthropic loans, private donations and co-operative funds. In this regard, it draws on a much wider range of funders than HNZC.

5.1 Lessons from overseas: developing participation by NGOs

The situation in New Zealand contrasts with many European countries. There, NGOs, have had much longer to develop and form a viable core for modern alternatives to the public-sector landlord. The United Kingdom and The Netherlands, for example, have both capitalised on the legacy of nineteenth century philanthropists' housing associations and developed them into major modern housing deliverers. Offshore efforts to decentralise housing supply and to encourage a variety of housing providers and support service providers have brought several benefits:

- Support for more locally promoted projects
- A greater proportion of NGO funds invested in creating affordable housing supply
- Higher contestability for Crown funding
- Greater chance of the best-fit organisation delivering the asset or service to a particular needs group.

A degree of separation between central government funders and state/provincial/local providers has long been evident in countries as different as Canada, the United Kingdom, Germany and The Netherlands. In the wake of the housing reforms of the latter part of the twentieth century, the formality of this separation increased, as did the governance and organisation structures to support it.

An example of the rise of contestability can be seen in the United Kingdom where the reforms of the 1980s increased the number of housing providers and in particular gave critical mass to the NGO housing association sector. Significant asset transfers bulked up the small housing associations and a number of brand new housing associations were also formed. A new class of Registered Social Landlords (RSLs) developed as a result, each built around a critical mass of housing assets and backed by the implicit revenue funding of demand-side income subsidies such as the Housing Benefit.

Over a period of twenty years, the United Kingdom has refined its mechanisms for interacting with the RSLs and with the private developers. The Housing & Communities Agency is now designed to handle a high volume of projects efficiently through initiatives such as downloadable instructions, standardised templates, electronic submissions and a stated refusal to engage in price haggling. At the same time, the Agency seeks maximum leverage of the supply-side funds it spends in the Government's National Affordable Housing Programme (NAHP). In 2008 and 2009, the NAHP grant rate was about 50% for new supply of rented dwellings, and 15-20% for homes destined for home ownership.

There is also evidence of reaching those with the highest needs through non-government organisations focusing specifically on these groups. For example, in Ireland, to complement the Residential Accommodation Scheme in which local authorities rent private sector properties for lengthy durations and install tenants off their waiting lists, the Dublin authorities have contracted settlement and tenancy support services from Focus Ireland. Focus is a homeless charity already providing a range of after care services for the young, prisoners, homeless etc. It uses its expertise to help these types of tenants transition successfully from care and custody to their permanent accommodation.

5.2 Recommendations

A series of interventions across the housing spectrum are proposed, firstly to leverage the investment and activities of the Crown and secondly to develop scale and meaningful engagement with alternative providers in these sectors.

5.2.1 Develop the non-governmental sector

Australia has targeted 35% of social stock to sit in third-sector hands by 2014. The stimulus programme currently underway will create 80,000 affordable homes and it is expected that a sizable proportion will be owned by not-for-profit housing associations. Reforms to support this objective have begun, and more are under discussion. Broad objectives are in line with success factors seen overseas, namely improving regulation and governance of the third sector and building up asset bases from transferred stock on which to secure commercial loans. Consolidation and mergers in Australia are creating leading NGOs around which to build scale operations.

Accordingly, to secure progress in New Zealand, three recommendations have been developed:

> ***Recommendation 7: Work with non-governmental sector groups and Iwi to develop the 'pre-housing' and 'cost-based' sectors that can deliver more intensely supported housing for high needs individuals.***

This can be achieved in the following ways:

- Incentivise the future HNZC to actively develop the NGOs

- Determine the specific needs of different community and NGO groups
- Brief the policy unit to identify ways to 'kick-start' NGO participation in the 'high needs' sector, either through capital injections, stock allocations or other initiatives dependent on the nature of the organisation.

The HSA Group recognises the fragmented and generally undercapitalised nature of providers of social housing and services – we refer to these as 'cost-based' NGOs as opposed to 'profit-based' NGOs that tend to operate at the other end of the housing spectrum. It is vital that these providers are able to develop their expertise and skills so that they can play a significant future role in housing, supporting and, where capable, transitioning high needs individuals. To that end, two additional recommendations are proposed. The first injects a balance sheet into the social sector, or simply transfers tenancies, not capital, to these organisations, depending on the requirements of the NGO, and the second seeks to provide increased sustainability to the sector by increasing the rental return.

Recommendation 8: Transfer either capital or dwellings to selected non-government organisations (NGOs) to initially meet 20% of this sector's need in five years, thereby developing a number of scale and niche providers.

Recommendation 9: Support with IRRS, not AS, payments to develop financial viability of NGOs serving the 'high needs' segment.

These initiatives need to be transitioned with a programme of 'approved organisations' in place for national, local and regional bodies. Examples of such arrangements exist in the United Kingdom as well as in Australia, and these should be considered for application to New Zealand.

Community groups in New Zealand have proposed a number of similar actions to enable them to better meet the needs of their customers. Based on offshore observations, these are worthy of consideration and include:[26]

- Transfer of a critical mass of assets to the sector, *provided* that appropriate skills and governance are in place
- Crown subsidies to support the flow of valuable but inadequate private funding
- Appropriate regulation and supervision arrangements.

[26] CHRANZ 2007 report, *Affordable housing – the community housing sector in NZ*

5.2.2 Secure broad-based participation to inject new skills and capital

Recommendation 10: Embrace new development and funding approaches to leverage capital and the provision of new dwelling stock in the state and social housing portfolio.

Delivery mechanisms for developments should be determined depending on scale, mix, and risks associated with the development project, not on who owns the land. Areas for potential improvement in delivering smaller projects include:

- Pre-Contract
  - Pre-approving panels of consultants (engineers, architects, etc.) who bring specific sector expertise
  - Pre-approving design and build contractors (regardless of who owns the land)
- Contractor management:
  - Establishing clearly-defined milestones and payment stages for these contractors
  - Outsourcing of project and contract management (*but* retention in HNZC of development management and development opportunity identification)
  - Risk management: devolving construction risk onto contractors
- Cost management: extracting scale benefits in procurement from local and international materials suppliers
- Approvals process: streamlined through closer, more direct working relationships with Territorial Local Authorities.

In the HSA Group's view, HNZC would be best placed to retain

- Urban design and house performance policies and standards (which challenge traditional thinking)
- Asset Management Plans and Strategies to identify development opportunities
- Development management.

5.2.3 Whānau Ora

The Government is about to embark upon a new way of funding social services called Whānau Ora. Preliminary announcements have indicated that initially there will be 20 providers and this number will increase as the programme is rolled out across communities. Whānau Ora is a key part of the 2010 Budget soon to be released. The aim of Whānau Ora is to provide wrap around services in an integrated way focusing on the total needs of the family within their community, hapu and Iwi. Service providers will work with whānau across a range of social service areas including health, education, employment, training, social and cultural development and housing. Providers will be taking a longer term view and have a broader focus on the needs in the community and housing will be a key driver for improving whānau well being. It will be necessary to integrate funding from Crown housing subsidies to ensure that Whānau Ora outcomes are optimised.

5.2.4 Create separate entities to undertake urban renewal projects

A material part of the HNZC state housing portfolio is located in highly concentrated areas like Tamaki, Mangere, Otara, Porirua and Aranui. These high concentration state housing areas have contributed to the residualisation of tenants, have increased the cost of tenancy and portfolio management and created a wide range of social and financial costs borne outside the social housing system. The social transformation of these areas will require a physical transformation.

Urban Development Agencies and Urban Regeneration Companies have both proved successful overseas with notable examples in Australia and in the United Kingdom, as cited in the Report and Recommendations of the Urban Taskforce 2009.[27] These international lessons and precedents strongly suggest that if large scale community/urban renewal is to occur then an appropriately structured, focused and resourced delivery entity is a pre-requisite.

For example, Bonnyrigg in Western Sydney, is a 30-year public-private partnership (PPP), including 15 years of development, to be delivered in 18 stages for A$733 million. The private consortium has four partners including St George, Australia's largest community housing provider who will take the lead in tenancy management. The consortium will also deliver finance, design, construction, maintenance and facilities management.

The social transformation of areas with a high concentration of social housing will require a physical transformation. The HSA Group suggests that such urban redevelopment is undertaken separately from HNZC in location-specific, time- and purpose-limited urban redevelopment vehicles. It has reached this conclusion for the following reasons:

1. The skills required for these activities are specialised and are difficult to incorporate effectively inside a large social housing owner
2. For increased effectiveness, local communities should be encouraged to take ownership of the renewal process and outcomes
3. The key inputs required to achieve successful urban development are not contained solely within the Crown's assets and activities. The active involvement of local government and its contribution of assets and maybe powers to the project is necessary. Such contributions will be much easier inside newly established vehicles.

[27] *Report and Recommendations of the Urban Taskforce*

Private sector partners familiar with risk and project management of large scale renewal and with PPPs have not engaged with HNZC to date. Slow progress on large, challenging urban renewal sites such as the Tamaki Transformation Programme suggests that HNZC may have room to grow in terms of introducing new skill sets. Public/private partnerships also assist in funding, where the scale of investment to address redevelopment of poorly maintained estates is beyond the public funding capacity.

Recommendation 11: Establish location specific urban renewal agencies as limited life and purpose joint ventures between the Crown and local government separate from HNZC to create the necessary conditions and develop the land to the point that private sector developers are willing to acquire the land and undertake further development.

The HSA Group notes the work of the Urban Taskforce 2009 in this area. The Report of the Urban Taskforce 2009 provides useful thinking about ways in which urban redevelopment agencies have been structured. By way of a location specific example, the HSA Group provides the following broad principles for the creation of a Tamaki urban redevelopment agency:

a. Transfer of all Crown and local government owned land in the Tamaki area

b. Equity ownership of government versus local government proportionate to value of assets contributed

c. Government and third party social housing providers have the right to purchase units resulting from development

d. The agency has the power to create new zoning and land use plans for Tamaki

e. The agency has powers of compulsory acquisition

f. Limited ability to borrow money – say up to 25% of the land value

g. Not able to incur construction cost or end product price risks

h. Governed by a board of, say, five people – two appointed by government, two appointed by local government and the chairperson agreed by both. Of the five, at least three would preferably come from the private sector

i. 10-year life, after which remaining assets are sold and equity returned to the Crown and local government.

The HSA Group's view is that, unless the Government takes such steps, the social and urban redevelopment of places like Tamaki is unlikely to fully deliver the desired outcomes.

5.3 Summary

If these recommendations are adopted, the HNZC of the future will have catalysed significant increases in new partnerships and new funding opportunities and introduced more innovative approaches for New Zealand state and social housing as a whole, such as:

- Activity to support access to dwellings in the pre-housing sector, whether through tenancies or asset transfer
- Joint ventures or other arrangements with third parties for supply of a substantial portion of the new social housing demand
- Appropriate outsourcing of risk and construction and project management for smaller development programmes
- Establishment of stand-alone organisations for major urban renewal schemes in conjunction with local or regional bodies, community groups and appropriate third sector partners.

In addition, two of the recommendations will help ‘kick-start’ the development of scale and niche providers in the social sector through stock or funds transfer to enhance sustainability by extending the availability of the IRRS to eligible suppliers.

6. Initiatives Across the Broader Housing Spectrum

Although the HSA Group did not set out to look at interventions across the broader housing spectrum, in the course of our research it became clear that our recommendations could not deliver fundamental change without acknowledging and responding to some of those broader issues. In particular, we sought out successful interventions overseas when considering what might be suitable for the New Zealand context. The broader issues considered by the HSA Group fall into three categories:

- First, the misalignment of existing subsidies may create conflict of interest or disincentives. We recommend seeking greater alignment in a way that does not distort tenant benefits between state and alternative housing options
- Second, we are concerned that there are few products available to those seeking to transition to private housing, and those few have had low take-up. If people are to leave social housing, they must have somewhere to go
- Third, New Zealand does not have enough affordable housing now, and the situation is projected to worsen. Meeting the challenge will require concerted action by the government not only to facilitate the engagement of the private sector but also to better leverage its balance sheet and the value of its subsidies.

6.1 Aligning existing subsidies

As discussed, a major discontinuity exists within the sector in that the basis of government housing assistance is not aligned. The impact is very significant, as it clearly affects a tenant's economic situation and their 'dwelling of choice'. It is not possible for the HSA Group to analyse these subsidies either from first principles or to achieve better alignment but we believe that this is a priority going forward. In our view, the review needs to cover the following areas:

- The appropriateness of the construct of the IRRS and AS accommodation benefits and how they are paid, i.e. to tenant or landlord
- Alignment of the benefits to remove significant distortion
- The possible introduction of additional graduation to the IRRS payment from, say, a reduced level of 20 % to 30 % as income levels rise.

Recommendation 12: Charge HNZC / MSD / DBH with reviewing and aligning IRRS and the Accommodation Supplement as part of broader MSD interventions.

6.2 Enhancing transition between state and private sector housing

The challenge New Zealand faces of developing successful 'intermediate' products to assist households towards independence is one it shares with many offshore peers. It is worth noting that the 'intermediate' housing group as analysed in the United Kingdom by The Place Team[28] actually comprises a diverse set of needs including those who:

- Require temporary (short to medium term) support or subsidy to access and/or maintain a tenancy but could be enabled to access/maintain some sort of market housing in the future
- Require rented housing now with aspirations/expectations to move from renting to part or full home ownership at some point
- Require a form of shared equity housing
- Require the mobility of private renting but desire to build up an asset/equity linked, perhaps to residential property
- Cannot afford to pay a market rent but expect to do so in a few years.

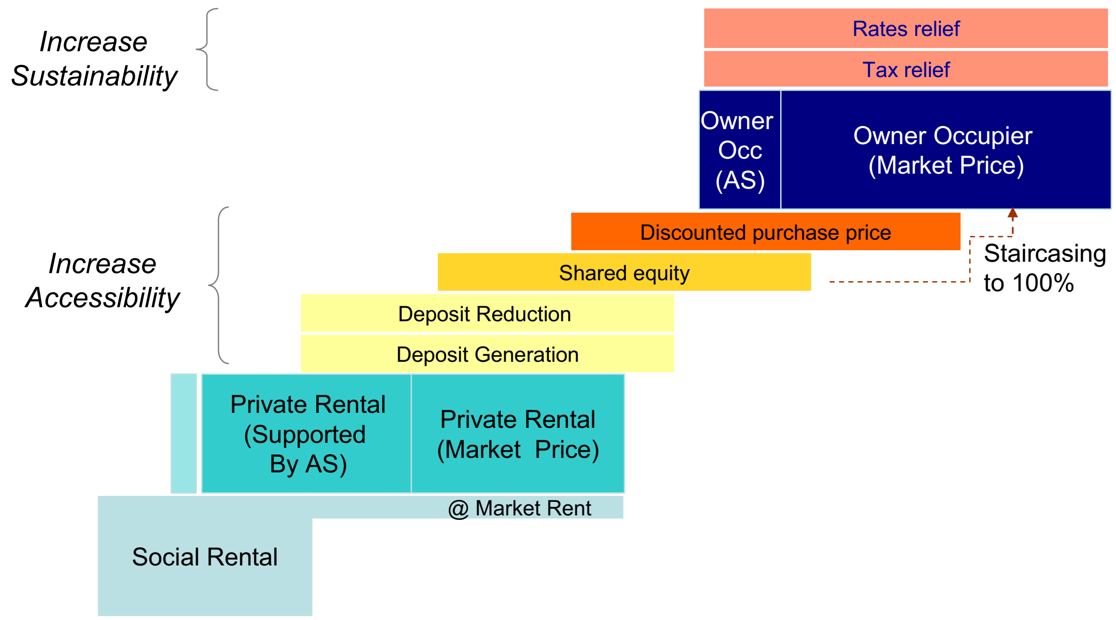
The Place Team's paper continues, "A permanent social tenancy is unnecessary and often undesirable to many in this group yet they often occupy existing stock and/or join waiting lists for social housing because of an acute lack of choice in suitable alternative affordable housing supply options."

A wide variety of products and interventions have been introduced to increase access, by targeting different parts of the home ownership equation. Some focus on the deposit and ways to create or reduce it. Others seek effectively to lower the purchase price, whether outright or for a period of time. Some have also focused on practical assistance to sustain mortgages by reducing the ongoing mortgage payments through tax rebates or other means.

A schematic continuum for products that support a pathway to greater independence for those currently in social housing is shown in Figure 26.

[28] *Strategic Place Making: a Joined-Up Approach* by The Place Team; this paper dated 1 March 2010 by Julie Cowans was given to a member of the HSA Group during a visit to New Zealand by Julie and David Cowans in April 2010

Figure 26: Products to pull social tenants through to sustainable home ownership



Examples of offshore products that enhance home-ownership *accessibility:*

Deposit generation:

- The United Kingdom's **rent-to-buy scheme –** for tenants with sufficient cash flow to service regular payments but not to fund a deposit, this scheme lets rents count towards a deposit for a fixed period of time
- The United Kingdom's **Savings Gateway –** piloted twice since 2001, it successfully encouraged saving and will launch United Kingdom-wide in 2010. Low income earners and beneficiaries are eligible for this cash savings scheme
- The United States and elsewhere – **sweat equity** is a way for aspiring homeowners to contribute free labour on low-skilled construction work in order to raise a deposit (or to reduce purchase price). For those unable to save, this is a way to generate a deposit.

Deposit reduction:

- In Canada - the Crown agency for housing (CMHC) offers **mortgage loan insurance products** to reduce lender risk in the event of borrower default. Its insurance products are available across Canada with no set maximum loan amount for home ownership and are available for rental, retirement and nursing home developments.

Lower purchase price:

- In the United Kingdom – **shared equity schemes** are designed for those who cannot afford to buy outright, even at a discounted price. The United

Kingdom has a number of such products for aspiring homeowners in different situations, for example:

- **Social HomeBuy** is for current tenants unable to afford their council or Housing Association homes under the Right to Buy or Right to Acquire routes. The Social Buy scheme is an intermediate path to ownership in which tenants buy at least 25% of their home and pay a rental charge of 3% on the remaining capital value

- **New Build HomeBuy** is for key workers, current social housing tenants and those in priority need on waiting lists. These people have the opportunity to buy 25 - 75% equity in a new Housing Association home* often created by requirements on private developers to include affordable homes in their development

- In the United Kingdom – **a cash incentive scheme (CIS)** offers sitting council tenants a cash grant to encourage them to buy on the open market and thus free up a house for another social tenant on the waiting list. Councils do not have to participate, but must meet the grants from their own funds

- In Australia – a **First Home Owner's Grant** was introduced in July 2000 as a national scheme to offset the impact of the introduction of GST. A one-off grant of up to A$7,000 (much higher in recent times) is payable to first home owners that satisfy eligibility criteria. Other similar national schemes that are additive for any application include Commonwealth Boost (ended 2009), First Home Plus Scheme (duty exemption up to A$17,990 in NSW) and state-based grants, e.g., the NSW First Home Buyers Supplement.

Examples of products that enhance home-ownership *sustainability:*

- In the US – **tax relief on mortgage interest** can be deducted on mortgages up to US$1 million. High income is needed to make this deduction worthwhile; however, as otherwise the standard tax deduction would apply. The United Kingdom wound similar deductions back to zero in 2000, but The Netherlands, Sweden and Switzerland still permit them

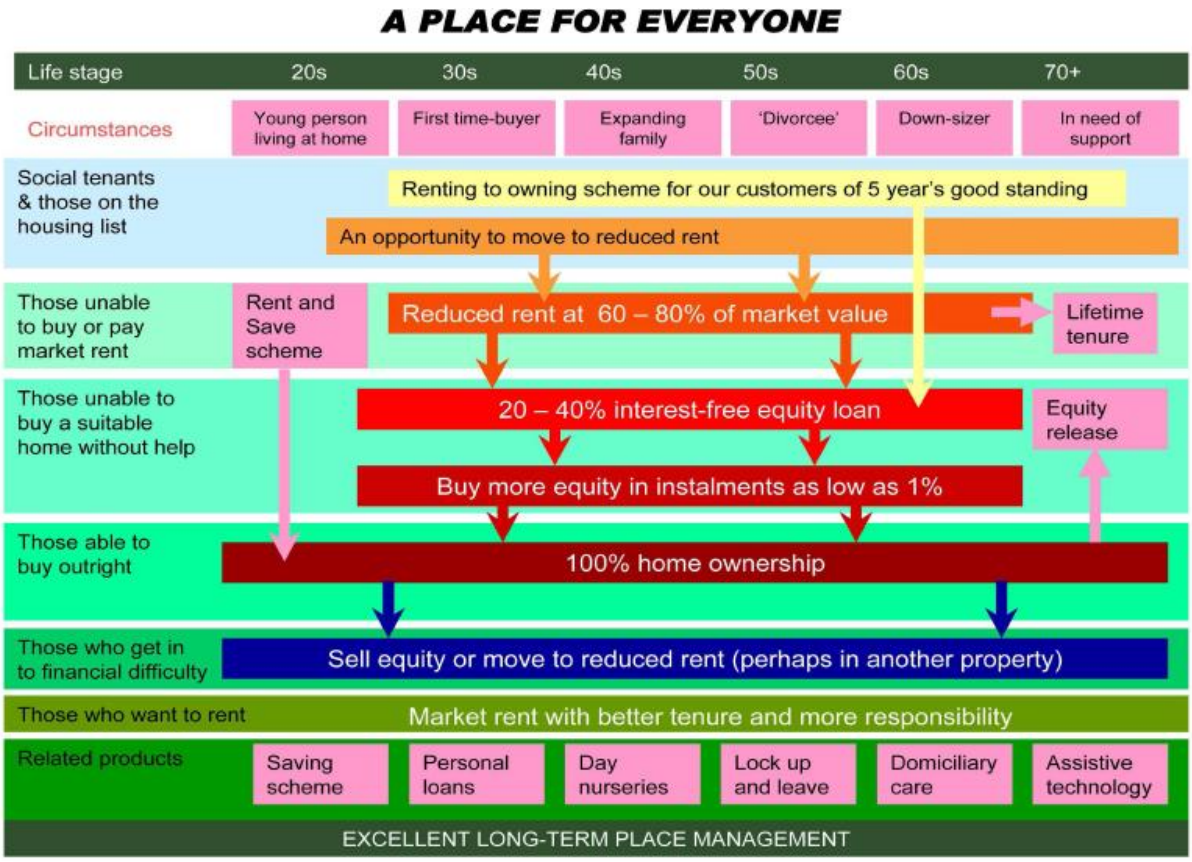
- In the United Kingdom – **mortgage support schemes** have arisen to help sustain mortgage holders in the recent economic downturn. These include:

  - **Support for Mortgage Interest (SMI)** which is for households where all have lost their jobs or are on means-tested benefits. It kicks in after 13 weeks and pays interest on the first £200,000 of a mortgage

  - **Homeowners Mortgage Support (HMS)** which applies in the case of wage reduction or partial job loss. Interest payments can be deferred for up to two years, backed by a government guarantee. Deferred payments must be repaid and will accrue interest meanwhile and the household must still be able to cover 30% interest payments. This is only for mortgages under £400,000

Putting the diverse needs of the intermediate householders together with this wide array of access and sustainability products, it is possible to create a multiplicity of pathways. David Cowans, CEO of Places for People, United Kingdom's largest Registered Social Landlord, shared the following schematic with HNZC during his April 2010 visit to New Zealand.

Figure 27: Pathways through to suitable long term tenure, by life stage and situation



Source: 'Making a Difference' – a presentation delivered to HNZC in Auckland, April 2010 by David Cowans, CEO of Places for People

Recommendation 13: DBH and the private sector should lead a major initiative to develop accessibility products for affordable home ownership in this sector that are designed to have significant take-up in the marketplace.

The emphasis in any product development should be on levers that will make a material difference:

- Clarity about the need it will serve, the size of the segment, in terms of whether it is worth committing development to

- The accessibility of the proposed product in relation to:
  - Conditions such as size of deposit, years of good standing as a tenant, past credit history score etc
  - True affordability given median house prices, household income, debt servicing costs
- Potential to positively impact both supply and demand side – in Canada, CMHC's mortgage loan guarantees reduce deposit size for aspiring owners and reduce financing costs for developers
- The role of the private sector, particularly financial institutions, in efficiently designing, managing and distributing products and potentially reducing the need for the Crown to finance products directly.

A combined private-public sector approach is critical to developing such products in the marketplace, and a comprehensive menu of options that cover the whole of the spectrum over a sustained period of time is required. That said, the HSA Group believes the best option for sustainable home ownership in New Zealand going forward will be a mix of products that offer:

- Shared equity through shared home ownership and rent-to-buy options
- 5-10 year fixed rate starter (lower interest) loans

These are products New Zealanders can relate to and will provide households with an opportunity to have a 'stake in the ground and their community'.

6.3 Incentives to encourage supply of affordable housing

As already discussed in this report, New Zealand is facing an overall shortage of affordable housing. This is despite the fact that New Zealand has added affordable homes faster than comparable western nations. The major metropolitan centres and retirement growth locations face particular pressures (Auckland, Wellington and Bay of Plenty). In addition there are shortages in more remote rural areas, for example in Northland, East Coast and Bay of Plenty on Māori land.

The Crown, through HNZC, is currently funding 100% of each new build. To date, options to invest the same capital in ways that assist a greater number of households (as seen overseas and described below) have not been an integral part of the strategy.

The private sector is adding supply, but its costs are rising more quickly than inflation and incomes. The likely ongoing rise in commodity costs will continue to impact building materials. More pressures arise from the Resource Management Act, which constrains the release of land for building, slows approvals and leaves developers unable to control the timing of the release of their product into the market. The costs of consolidating fragmented parcels of land in the metropolitan areas has great scope to undermine development feasibility. While the residential property development sector has attracted a lot of negative publicity recently, its efficiency and profitability are important to ongoing housing supply.

Further, there is no possibility of downward pressure on private sector rents from lower state housing rents (reflecting the historically lower costs of production of most of this sector).

Rising input costs translate in the private sector into higher rentals and a higher price of ownership. This means that the homes being produced by the private sector are not affordable. Affordable new supply requires a subsidy of some kind if it is to be serviced by low rents such as those associated with IRRS tenants.

Possible Government initiatives around the tax treatment of depreciation on rental properties may decrease the private sector's appetite for providing dwellings and rental properties. Internationally, the treatment of depreciation is used as a lever to encourage the supply of affordable housing.

At least three broad approaches have been adopted offshore to increase the supply of affordable housing and the numbers of families assisted:

- Spend the supply-side cost of one house in more flexible ways to meet the needs of multiple families
- Leverage the strength of the Crown's balance sheet to reduce the risk to private investors and to encourage the flow of cheap funds for housing
- Incentivise private developers and landlords to create affordable homes or to make them available to the state.

Each option is discussed in greater detail below.

6.3.1 Flexibility in supply-side spend

It is traditional to allocate an amount of money to developing one dwelling for one household. The HSA Group were struck, however, by the simple but innovative examples from the United Kingdom on how the same amount of money might be applied effectively in other ways.

Quoting once more from "Strategic Place Making: a Joined-Up Approach" by The Place Team (March 2010) in the United Kingdom:

"Enabling access to Affordable Housing Options

United Kingdom advocates of the Housing Options approach aim to help more households with their housing needs, rather than simply build more traditional social housing units.

The range and nature of state subsidy for Housing Options vary dependent on local circumstances but examples of efficient and effective use of public funding include:

- *Short-term rent support (rent subsidy for, say, four or five years on a private tenancy – with a rent guarantee in return for five-year security of tenure from a private sector landlord, as in Ireland[29])*
- *Interest free loans for a home ownership deposit, repayable on re-sale*
- *Interest free shared equity stake on which rental payments begin after, say, five years to gradually reach market levels in 10.*

Below are crude examples (prepared for the London Borough of Hammersmith and Fulham in mid-2009) of the potential use of proceeds from the sale of one local authority apartment at £240K which traditionally has been used to house one household. The example highlights the advantages (in terms of numbers of households assisted) of a Housing Options approach over the traditional approach.

Utilising £240,000 for a social housing unit for one household OR:*

Option 1. PRS rent subsidy - subsidise the rent of PRS tenancies by £200 per month for 20 households for five years, OR

Option 2. First time buyer deposits - provide interest free £10,000 loans for home ownership deposits for 24 households, OR

Option 3. Equity stakes - buy a local authority equity stake of £60k for 4 households OR

Option 4. "3 for 2" - lever a loan of another, say £360,000 to purchase 1.5 homes on the open market in opportunity-rich communities (rental income to repay loan) or to grant fund new development in partnership with other body OR

Option 5. Funds of £240,000 could fund 20 Moving to Opportunity Grants of £6,000 OR*

Option 6. A time limited direct household revenue (rent and service charge) support of £200 per month for 20 households for five years (perhaps with the flexibility to combine grant and monthly support and/or for longer period, tapering off, subject to review) AND provide three year funding for a Moving To Opportunity support worker (£120,000) to assist in their transition to independence from state support.

*(*sample value of two-bed tower block flat on deprived London Borough estate)*

[29] "Ireland" refers to the Irish Rental Accommodation Scheme in which the public authority secures private sector rentals and tenant nomination rights for a set period in return for guaranteed rent to the landlord, in some cases, an up-front grant which is progressively forgiven over the duration of the contract.

6.3.2 Leverage the Crown's balance sheet strength

Numerous offshore examples exist for means to access non-public capital for social housing supply:

- Indirectly via mortgage guarantees and guarantee funds, and also housing benefits – where the Crown's financial strength reduces private risk to attract loans
  - Canada – the Crown Agency, CMHC, developed mortgage loan insurance to assist the supply side by reducing financing costs for private and non-governmental developers (example: Résidence du Parc Jarry). Also includes proposal development funding to get projects off the ground
  - The Netherlands – the housing associations can attract private loans with the back up of three lines of loan guarantee, the final one being a government guarantee
  - The United Kingdom – the low premium over LIBOR[30] charged by major financial institutions to Housing Associations during asset transfer was the security of tenants' rental payments embodied in the Housing Benefit. The benefits (and public capital grants) are also a key factor in private developers being able to access private mortgage finance for developments including lower return affordable housing
- Indirectly via financial instruments and tax treatment that funnel cheaper funds into housing
- Austrian convertible housing bonds[31]. The six major banks sell bonds to customers such as pension funds who seek long term, low risk returns. The funds raised are reinvested only in affordable housing with mortgages 0.75% cheaper than other products. Bond buyers benefit from preferential tax treatment on the first 4% of returns and can declare them as a tax deductible expense. Austria is rare in Europe in having almost no housing shortage and a predominant focus on supply-side interventions
- In Canada – mortgage backed securities (MBS) work in a similar fashion to draw in cheaper funds. Funds return yields higher than government bond rates. CMHC mortgage insurance plays a key role in reducing the securities' risk.

[30] London Interbank Offered Rate

[31] AHURI December 2007 *International trends in housing and policy responses* (Lawson and Milligan) pp 79 and 131.

6.3.3 Incentivise private sector to develop and provide affordable housing

Examples of direct investment that has been successfully incentivised include:

- Germany's historically generous depreciation and tax treatment of investments in affordable housing. Private developers accepted these financial advantages and in return developed affordable housing. They accepted constrained rents and limited tenant allocation control for a period of 12-20 years[32]. After this time the house reverted to market rental and full developer control.

- Joint projects in which funds are matched or partly matched with private and charitable contributions. A Canadian example is the C$2.5 million redevelopment of the YWCA Kikinaw Residence in Regina, Saskatchewan, a 50-bed short stay facility for women in crisis. Public funding covered 60% and private and other donors including the YWCA covered the balance.

It may be reasonable to include the principle of 'planning gain' here. In the United Kingdom and elsewhere, private housing developments over a certain size are expected to provide a proportion of affordable homes. Granting planning permission increases the value of the land and the benefit of this accrues to the owner. Section 106 of the 1990 Town and Country Planning Act is an attempt to extract some of that value from the developer in the form of affordable homes.

6.4 Recommendations

The HSA Group has been struck by the severity of the affordable housing shortage and the negative future trends. Yet to date, nothing material has happened to shift the supply in the right direction.

Achieving such an important and challenging goal cannot be left to HNZC on the one hand or the private sector on the other. Instead:

Recommendation 14: HNZC, DBH and Treasury must co-operate to produce co-ordinated policy to agree:

- ***The extent of the affordable housing shortage***
- ***Broad interventions needed to develop this segment, inspired by some of the offshore examples provided here***
- ***Specific programmes to underpin the delivery of new affordable homes and products to provide relevant assistance to more families.***

[32] *Social Housing in Europe* 2007 Whitehead and Scanlon

6.5 Summary

To create a realistic and achievable aspiration for tenants to move on through social housing and out to greater independence, New Zealand cannot rely solely on the actions and initiatives of HNZC. HNZC, DBH and Treasury must share the task (and potentially shared KPIs) relating to the objective of more homes and helping more families. A tracking tool is essential for the three agencies to take action, review progress, and to follow up.

New and expanded demand- and supply-side interventions are required:

- A greater supply of houses, some funded in more innovative ways than hitherto, and in order to bridge the challenge of funding more social homes entirely from the taxpayer's pocket
- A cheaper supply of houses by freeing up some of the well-known constraints on development
- Greater flexibility in spending Crown funds to assist households, so that more families can be materially helped into multiple dwellings (rather than one dwelling to house one family)
- A greater range of demand-side products to provide stepping stones through different tenures and tailored for different levels of income and need. One size will not fit all.

7. Future Sector Arrangements

The strengths and weaknesses with the current sector arrangements were previously highlighted in Chapter 3. To address these issues, the HSA Group agreed that *as a minimum*, a number of activities need to be reallocated between existing sector organisations. This conclusion was underpinned by a review of comparable international systems, particularly in The Netherlands, Canada, the United Kingdom and emerging trends in Australia.

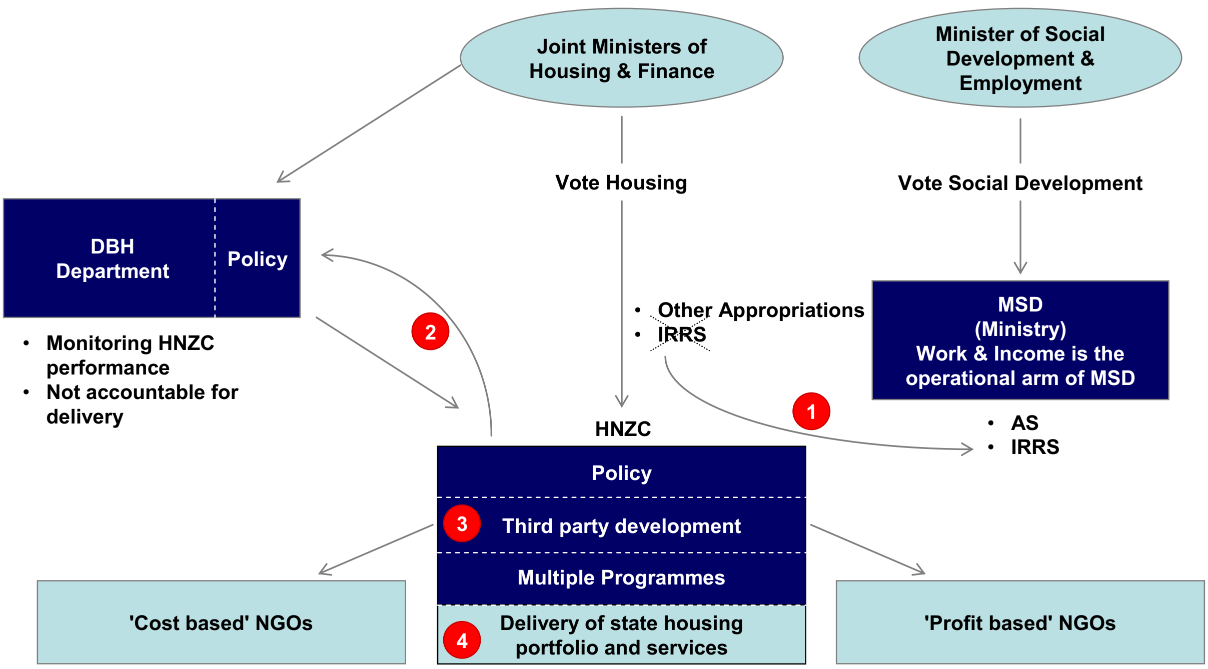
In this chapter, a number of options are reviewed, including the current sector structure, in terms of its ability to deliver the desired future outcomes. Each option has weaknesses but it is clear that as the opportunity for third-party participation increases there will be multiple suppliers competing for funds for both capital projects and provision of social services. To 'kick-start' this journey, the HSA Group has suggested sector organisation arrangements that devolve from the current HNZC organisation.

KPIs have also been identified to highlight progress towards delivery on priorities both from a macro level to specific targets.

7.1 Recommended organisational priorities

The current arrangements in New Zealand are illustrated below along with a summary of the four recommended initiatives.

Figure 28: Social housing sector arrangements and proposed changes



There are four major recommendations proposed.

1. **MSD assess tenant needs and administer delivery of housing subsidies to individuals (AS) and housing providers (IRRS and capital subsidies)**

   The rationale here is fivefold:

   - To expose the true size of the social sector
   - To realise economies of scale and scope in the delivery of demand-side subsidies
   - To prioritise those with the greatest need in dwelling allocation and provide options to others
   - To establish arrangements that can service multiple providers
   - To place responsibility for alignment of AS with IRRS with one body as part of broader interventions e.g., Whānau Ora, Strengthening Families.

Recommendation 15: MSD to assess tenant needs and administer both IRRS and AS subsidies.

2. **Centralisation of policy development.** The dual policy units of DBH and HNZC result in blurred responsibilities and accountabilities. Given the HSA Group's desire to develop not only the social housing sector, but also affordable housing and the broader housing spectrum, the HSA Group recommends that responsibility for the development of government outcomes-based policy objectives, the monitoring of the achievement of these objectives and their operational delivery should be clearly separated. DBH is the natural home of policy activity for setting high-level, outcomes-based objectives in respect of housing and monitoring the achievement of these objectives. The outcomes-based objectives developed by DBH would cover both the demand and the supply sides of the sector. Within the current sector structure HNZC, currently both the funding and delivery agency, would still clearly have a strategy and business development capability to ensure the best strategies to use the subsidies made available to it are properly implemented. To deliver on its policy brief, DBH will need to work in consultation with other departments and Crown agencies to develop a shared agenda including ten and twenty year rolling forecasts of social and affordable housing demand, likely sources of supply and the types of initiatives required to deliver on government expectations in this segment.

Recommendation 16: Responsibilities for planning policy and support around affordable housing supply issues should be in one organisation, most likely DBH.

3. **Charging a sector organisation with developing third-party suppliers.** This is reinforcing the expectation of the introduction and development of third-party providers and suppliers to the sector through a multitude of relationships. As noted above we would expect increasing participation of 'cost-based' and 'profit-based' NGOs in both new supply for the core state portfolio and in provision through joint-ventures and alliances of new affordable dwellings across the housing spectrum. Their involvement will bring both new capital and new skills to the sector. The current sector

structure creates a problem in identifying the most effective organisation to take this responsibility. Our recommendation in 2. above means that it is inappropriate for DBH to have responsibility for this outcome. However clearly in its current integrated funder and provider form HNZC has a conflict of interest in taking responsibility for this outcome. This sector structure problem is addressed later in this chapter.

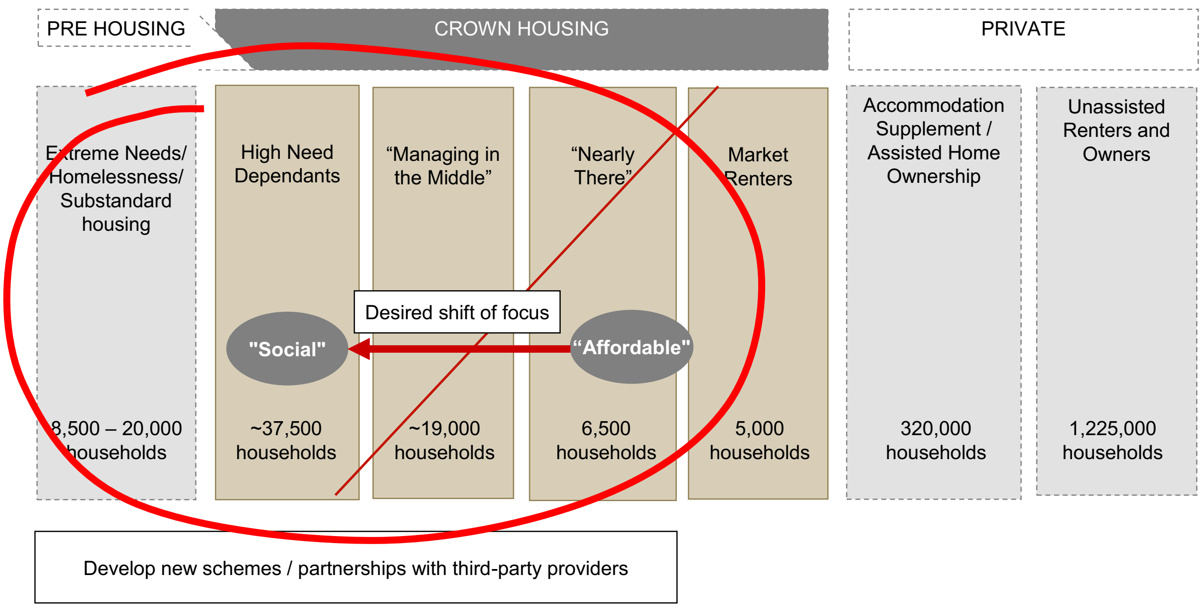
Recommendation 17: Clear accountability for the development of third-party involvement within state housing and across the broader housing spectrum.

4. **A delivery entity focused on state social housing provision and services.** HNZC has become the repository for a wide number of activities and functions listed previously. It is therefore very hard for the shareholding Ministers to evaluate the efficiency and effectiveness of the core activities around the management of the portfolio and the delivery of tenancy and support services. In this situation, funding and capital expenditure proposals are even harder to evaluate. In line with other recommendations that, over time, will provide greater diversity in tenant pathways depending on needs, it is envisaged that clients with only affordability issues are likely to find support through the AS. In addition, we would anticipate the emergence of new providers across the spectrum resulting in greater options for the funder (and therefore the tenant). Within this new regime, the HSA Group would recommend the delivery unit of HNZC focus at the social end of the spectrum i.e.

'those with the greatest need, for the duration of that need'.

This recommended refocusing is illustrated in Figure 29.

Figure 29: Recommended future focus on HNZC



Recommendation 18: Establish a unit specifically charged to deliver and administer state-owned dwellings and services to those whose 'need is greatest'.

The recommendations are likely to result in some reallocation of services and priorities to create a delivery organisation. Whether this is done within HNZC or across different organisations within the sector is reviewed in the following section. Irrespective of who delivers the services, the priorities for state housing should be at the social end of the spectrum.

7.2 Possible future sector arrangements

The priorities emphasised in this report are reflected in the preceding chapters, i.e.

- Empowering HNZC to focus on the 'high-needs' sector
- Driving involvement of third-parties
- Supply and demand interventions across the broader housing spectrum.

In discussing organisational arrangements, we highlighted the following organisational initiatives within the sector:

- MSD being the sole agency for needs assessment and accommodation benefits
- Centralisation of high level outcomes-based policy activities, most likely within DBH, emphasising the need to coordinate performance across the broader affordable housing spectrum
- Emphasising the need for responsibility and accountability of developing 'cost-based' and 'profit-based' NGO providers within the state sector and across the broader affordable housing spectrum
- Reinforcing focus on delivery of state housing to 'those with the greatest need, for as long as the need exists' and away from the affordable tenancy requirements which can be addressed through other mechanisms.

The question then becomes whether these priorities are best delivered upon within the current sector structural arrangements or if changes are required.

In considering options, lessons from comparable international benchmarks were reviewed.

7.2.1 Lessons from overseas

In The Netherlands, social housing provision now depends almost entirely on a group of around 400 cost-based Housing Associations, and funding is secured both from the internal resources of the Associations (singly and in aggregate) and from the private sector, with loans secured on the Associations' assets and supported by sector and, ultimately, Crown guarantees.

In Canada, responsibility for funding social housing was devolved to municipalities at the start of the new century. Since then, the role of the Crown agency for housing, CMHC, has steadily narrowed into specific expertise in financial instruments that support the flow of cheap funds into housing and accessible mortgage deposits to aspiring homeowners. Canada also possesses a much more diverse range of local providers than in New Zealand.

In the United Kingdom, many lessons can be gleaned from its years of experience in funder-provider models, some of which are being adapted elsewhere.

Lessons from these and other markets that are particularly relevant to the funder-provider issue are outlined below:

- Contestability for Crown funds requires diversity of providers beyond HNZC. In the United Kingdom, deliberate support for the growth of Housing Associations through the 1990s gave choice both to tenants and to Government in terms of preferred providers
- NGOs can successfully attract private funding. Three prerequisites are:
    - Regulatory transparency
    - Assets to secure the loans on – usually a critical mass of houses
    - Sector and government guarantees or at least an assured flow of operating payments e.g. in the form of demand side income subsidies
- Supply side incentives are needed to encourage affordable supply from the private sector. Demand side subsidies (such as vouchers and mortgage tax relief) have generally not been enough to reliably generate supply. The incentives may take various forms including tax relief for developers (as in Germany) and for investors in housing bonds (Austria) or capital and operational subsidies to bridge the shortfall in returns expected from below market rents and mortgage payment rates (the United Kingdom).

Perhaps the greatest lesson overall is that no country has yet satisfactorily resolved the challenge of policy development and effective delivery of social housing. There are no silver bullets, and regular attention is warranted to build and sustain a strong sector.

7.2.2 Options for future sector arrangements

A range of options exist to secure the outcomes required and incorporate the four priority initiatives outlined in Chapter 7.1. Three options are presented here for discussion:

Option 1: Assigning new delivery responsibilities to DBH

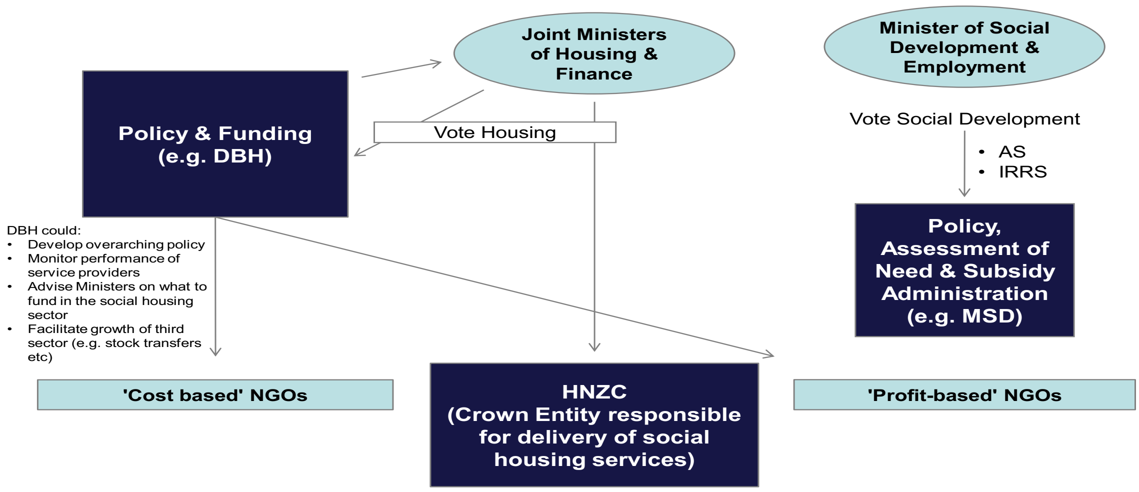
Option 2: Adapting the current structure

Option 3: Explicitly creating an agency responsible for driving the affordable housing agenda

Option 1: Assigning new delivery responsibilities to DBH

Figure 30 outlines possible modifications to sector arrangements under this option where DBH takes new delivery and supply roles.

Figure 30: Possible future sector arrangements: Option 1

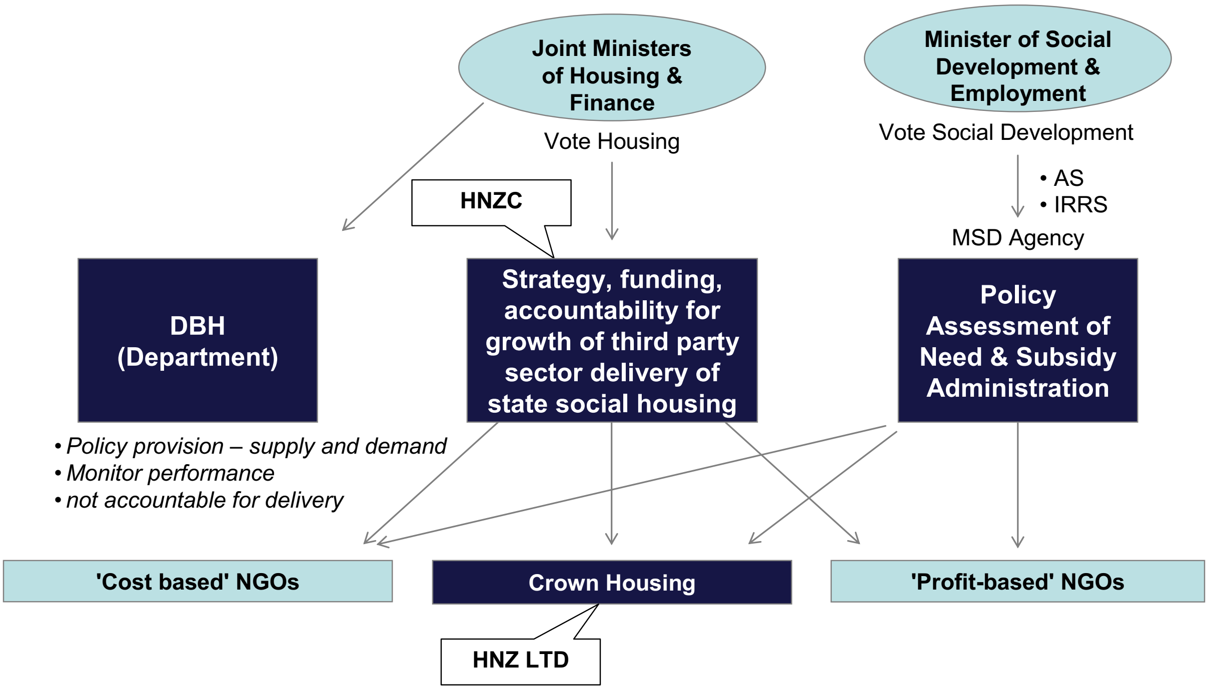


The strength of this option is that it avoids the creation of a new entity and groups the subsidy assessment and administration activities under MSD. The activities of HNZC are focused upon the state housing portfolios whereas the responsibility to develop third party providers moves to DBH and as such effectively does the Housing Vote. This would raise an issue around the skills DBH possesses, or should possess, over and above its policy and performance monitoring responsibilities. However having responsibility for the development of the third party sector clearly puts HNZC in a difficult conflict of interest position. The conflict is compounded by the funds flowing through DBH to the providers – many of whom it will be charged with developing or monitoring their performance.

Option 2: Adapting the current structure

Figure 31 outlines possible modifications to sector arrangements under this option.

Figure 31: Possible future sector arrangements: Option 2



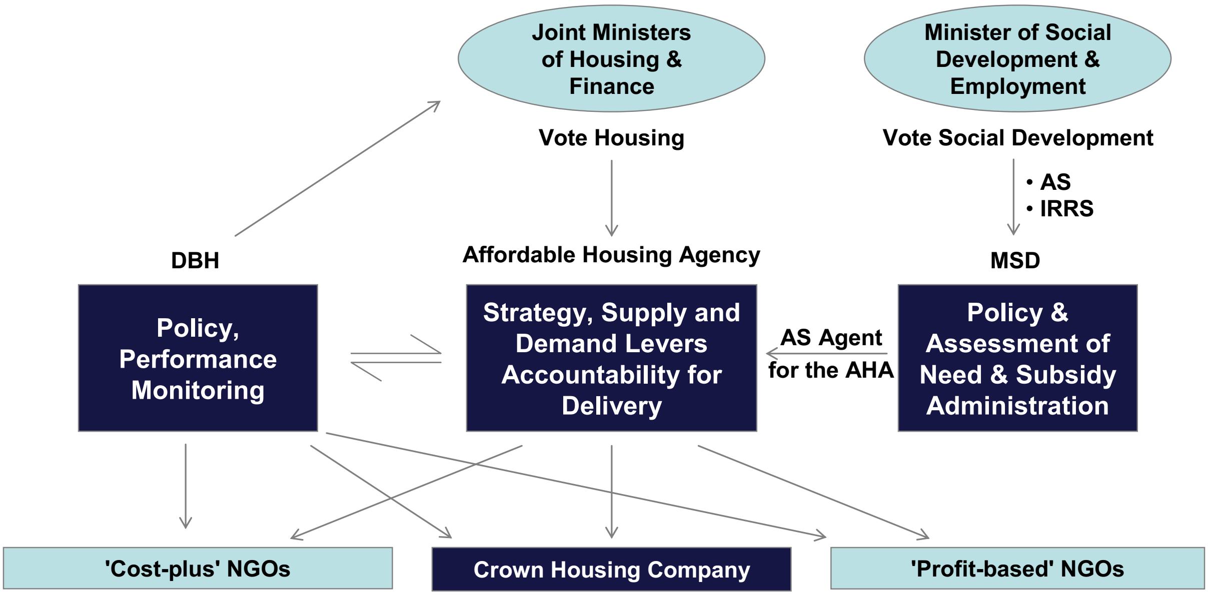
Under this option, increased organisation separation is created between HNZC, the parent organisation and HNZ Ltd, the organisation responsible for the delivery of the state housing portfolio i.e. analogous to a parent and operating subsidiary relationship. The overall responsibilities HNZC has today are similar except for the repositioning of subsidy assessment and administration with the MSD and operating high-level, outcomes-based policy responsibility with DBH.

Retaining the core state housing portfolio in HNZ Limited runs the risk that current practices continue and new initiatives that compete with HNZC's core activities are not pushed i.e. the development of new providers. Unbundling of activities would need to be progressed significantly and overall accountability for the development of the broader affordable housing spectrum would require a redefinition of HNZC's purpose, but it does start to move the sector in the direction recommended.

Option 3: Explicitly creating an agency responsible for driving the affordable housing agenda

Figure 32 outlines possible modifications to current sector structure by evolving HNZC into two organisations.

Figure 32: Proposed sector arrangements: Option 3



As this involves greater change, the roles of the major bodies proposed are outlined below.

- The creation of **The Affordable Housing Agency (AHA)** as the overarching body responsible for:
    - Driving the affordable housing agenda, particularly in the area of subsidy structure design and implementation (in conjunction with DBH/ Treasury/ CHC)
    - Developing scale third-party providers
    - Funding state social housing through CHC
    - Optimising the subsidy allocation across the housing spectrum
    - Driving effectiveness and efficiency in the social housing sector
- Contracting one of the agencies of **MSD** to act as agent for
    - Needs assessment
    - Subsidy determination (AS/IRRS)
    - Needs reviews
- Creation of **The Crown Housing Company (CHC)**
    - To deliver, either directly or in partnership with the Crown, a state dwellings portfolio optimised for those 'with the greatest need for as long as that need exists'.
    - Optimising the performance of the portfolio either directly or via partnerships
    - Providing tenancy and asset management services to state housing tenants

- Providing specialised tenancy support services, including outsourcing arrangements.

- The role of **The Department of Building and Housing (DBH)** is extended
  - Provide high level outcomes-based policy objective advice to government and exercise monitoring functions
  - Jointly work with MSD, AHA to deliver on the objectives outlined in this report
  - Jointly develop policy to support the delivery functions of AHA, DBH including 20-year rolling forecasts of affordable housing demand and supply plans and proposed interventions.

The strengths of this arrangement are in the formation of the Affordable Housing Agency that has explicit accountability for the funding of affordable housing and the social sector within it. It actively promotes third-party participants, avoids conflicts of interest and has an arm's length relationship with the Crown Housing Company. The Crown Housing Company has explicit delivery functions for state social housing provision. The arrangements reflect those in the United Kingdom and those evolving in Canada and Australia.

The perceived downside is clearly the creation of two entities from the one that exists today and there are likely to be additional considerations that need to be taken into account in developing a pathway forward.

7.3 Preferred option

There are some common features across all options. These are:

- No option will increase costs as each one offers synergy, efficiency and effectiveness gains
- All options will require collaboration and coordination across the four main agencies – DBH, MSD, AHA and Treasury – if the overarching health of New Zealand's affordable housing sector is to improve. Examples of Key Performance Indicators that may be reviewed and shared would be:
  - Percentage of households in lower-quintile income bracket paying more than X percentage (normally 30%) of gross income on housing costs
  - Dwelling purchase price/gross income (benchmark of affordability should be around 3 or 4).

Figure 33: Measuring the options against the four imperatives

	Option 1: **New Responsibilities for DBH**	**Option 2:** **Adapting the Current Structure**	**Option 3:** **Explicit Accountability for Affordable Housing Provision**
Empowering HNZC to focus on the ‘high needs’ sector	A competitive tension introduced through funding channelled by DBH away from HNZC	Creation of an ‘arm’s length’ unit delivery for Crown social housing HNZC retains a broad spectrum of activity and overall control	Explicit establishment of delivery unit for Crown social housing
Develop third-party participation	HNZC conflict of interest continues	HNZ Ltd has reduced conflict of interest	No conflict of interest
Instigate initiatives across the broader housing spectrum	Alignment of subsidies Limited incentives created to broaden options for the movement between state and private sectors	Alignment of subsidies Some increased focus on initiatives to support the movement between state and private sectors and develop affordable housing	Alignment of subsidies Strong incentives created to broaden options for the movement between state and private sectors and develop affordable housing
Clarify sector accountabilities	DBH has a potential conflict between setting the objectives, developing strategies to achieve the objectives, funding them and monitoring the achievement of the objectives	DBH, MSD and HNZC need strong co-operation to set objectives, developing strategies to achieve the objectives DBH monitors the performance of all parties with limited conflict of interest	Split between objective setting, strategy development and monitoring Clear accountability for development of the affordable housing sector DBH monitors the performance of all parties with limited conflict of interest

Given the challenges, there is a strong belief in the HSA Group that a significant intervention is required in order to achieve substantial and sustainable progress towards the future vision. To that end and given the expected evolution of the sector as alternate providers evolve, the HSA Group recommends option 3 with option 1 being a possible transition stage. As a minimum, if significant progress has not been achieved in three years, moving directly to a form of option 3 will significantly increase the chance of delivery success.

Recommendation 19: Evolve the sector structure to create a funding organisation, responsible for the development of the affordable housing sector, (referred to as the Affordable Housing Agency (AHA)) and a delivery organisation (referred to as the Crown Housing Company (CHC)) as the preferred option for future sector arrangements.

7.4 Supporting Key Performance Indicators (KPIs)

Rather than align KPIs with each organisation the following is a suggestion of measures aligned to supply, demand and delivery that will reinforce the principal recommendations in addition to providing key insights into efficiency and effectiveness.

On the ***supply side*** these would include:

- Number of social dwellings provided
- Percentage of dwellings delivered through third-party providers
- Ratio of private sector capital invested in social and affordable housing versus Crown investment
- Number of suburbs with high concentration of social housing (as low as possible).

On the ***demand side***

- Average cost of subsidy per dwelling
- Percentage of eligible households housed within X days
- Number of households exiting social housing subsidy to independent housing, or not returning for at least 12 months.

At the ***provider level***

- Supply of dwellings matches demand for duration of need
- Percentage of dwellings 'fit for purpose'
- 'Tenant/client' satisfaction
- Unleveraged net and gross yield.

These can then be aligned to organisations and cascaded down the management structures once a choice is made about the sector structure. However, it is important to ensure that a limited number of KPIs are chosen that really reflect the priorities going forward.

7.5 Summary

To secure the future vision, changes are needed in terms of organisational arrangements, behaviour and priorities. As a minimum four imperatives were identified being:

- MSD assesses tenant needs and administers housing subsidies

- Centralisation of policy development
- Specific responsibility for development of third–party participation
- A delivery unit focussed on effective social housing provision.

There are many organisational arrangements within the sector that could be developed to secure delivery. Of those discussed in detail, the HSA Group believes that the sector should quickly evolve into a new structural framework with a funder and multiple providers, and that starting on this journey sooner by developing the current HNZC structure significantly enhances the probability of securing the future vision.

Finally a small number of focussed KPIs have been proposed that provide a monitoring tool for future delivery performance.

8. Moving Forward

A number of wide-ranging recommendations have been proposed to best position the state and social housing agencies to meet future challenges and deliver on government expectations. These are summarised in Figures 34 and 35:

Figure 34: Overview of core recommendations

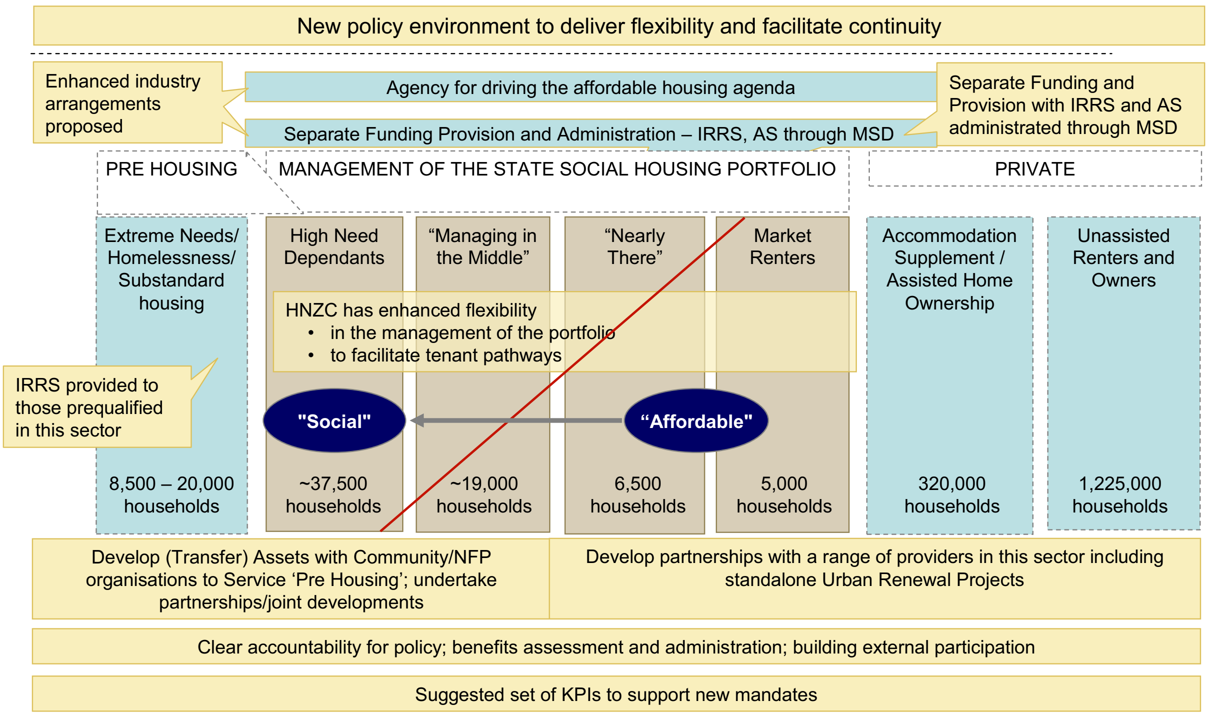
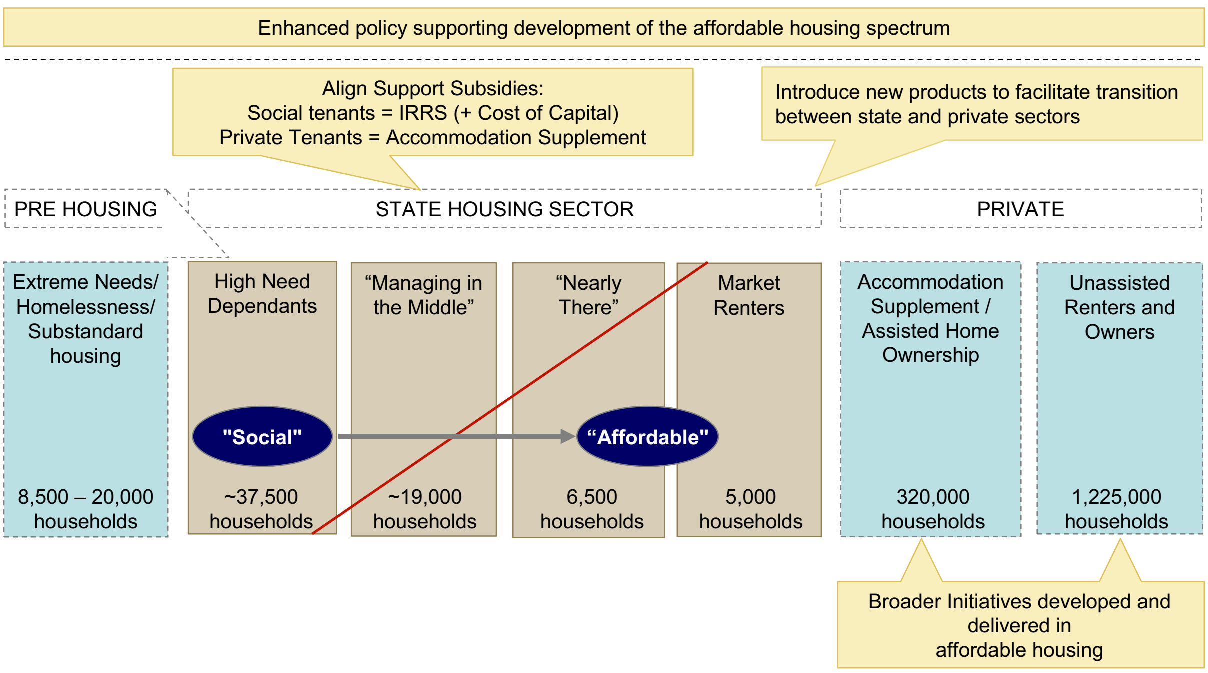


Figure 35: Overview of initiatives in the broader housing spectrum

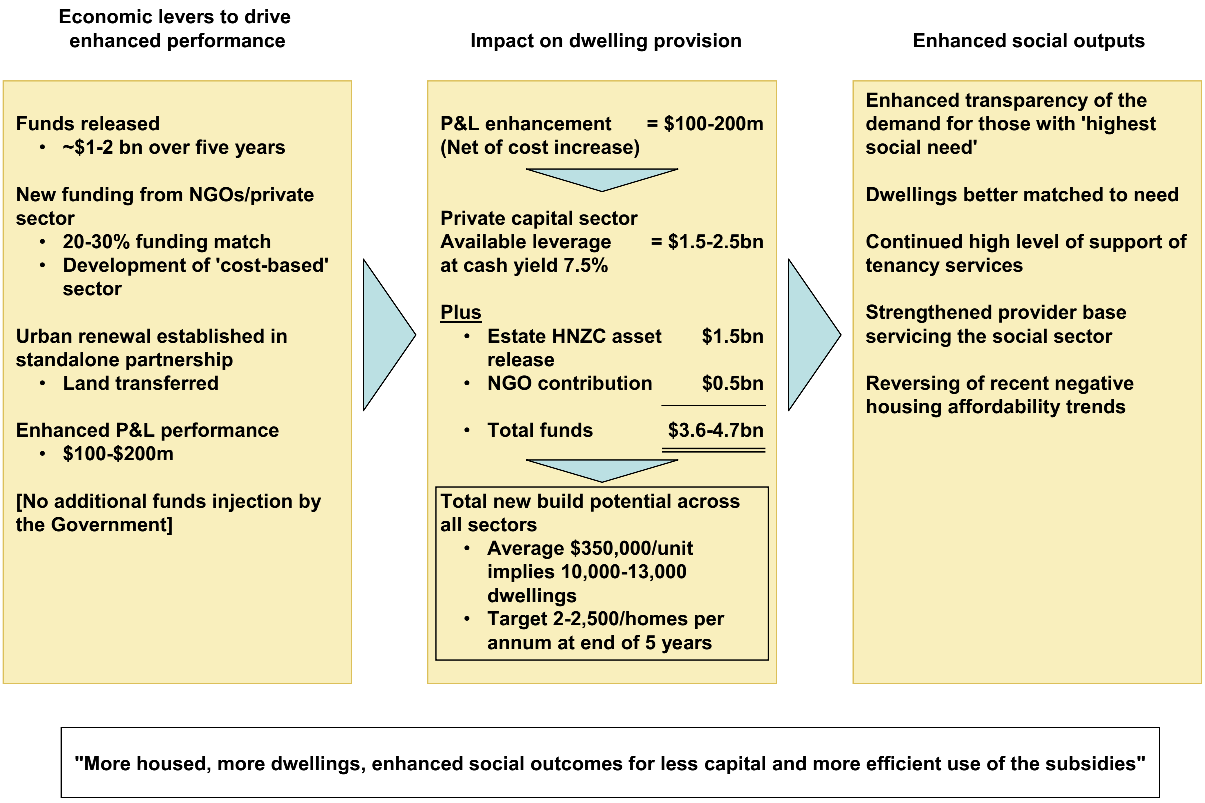


To complete the recommendations, we have provided an overview of a business case that seeks to deliver ‘more for less’, transition priorities and an indication of major initiatives that could be possible within a five year timeframe.

8.1 Overview of the business case

It is not possible for the HSA Group to present a detailed business case, but we want to highlight the key levers that are available to generate enhanced performance in the future and the range of outcomes that an aspirational business case could deliver. These are illustrated in Figure 36:

Figure 36: Overview of the five-year business case



The business case relies on multiple levers within the current portfolio to ‘kick-start’ the new strategy. In particular, funds could be drawn from the following sources:

- Existing funds to reshape the portfolio
  - Funds released through portfolio reconfiguration
  - Potential new ownership arrangements, e.g. packaged portfolios for investors
- Matched funding from third-party providers through joint ventures, partnerships, and urban renewal initiatives
- Leveraging HNZC’s $15 billion land and dwelling portfolio
  - Potentially $0.5-1 billion of land into partnership schemes

- A balance sheet with a small degree of additional borrowing capacity

- Introduce new products to the marketplace to support new supply and transition pathways.

Transitioning to the new strategy will not happen overnight. Nonetheless, the HSA Group believes that considerable progress is possible within a five-year planning period. Examples include:

- 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.

The HSA Group also believes the strategy will improve social outcomes in the following ways:

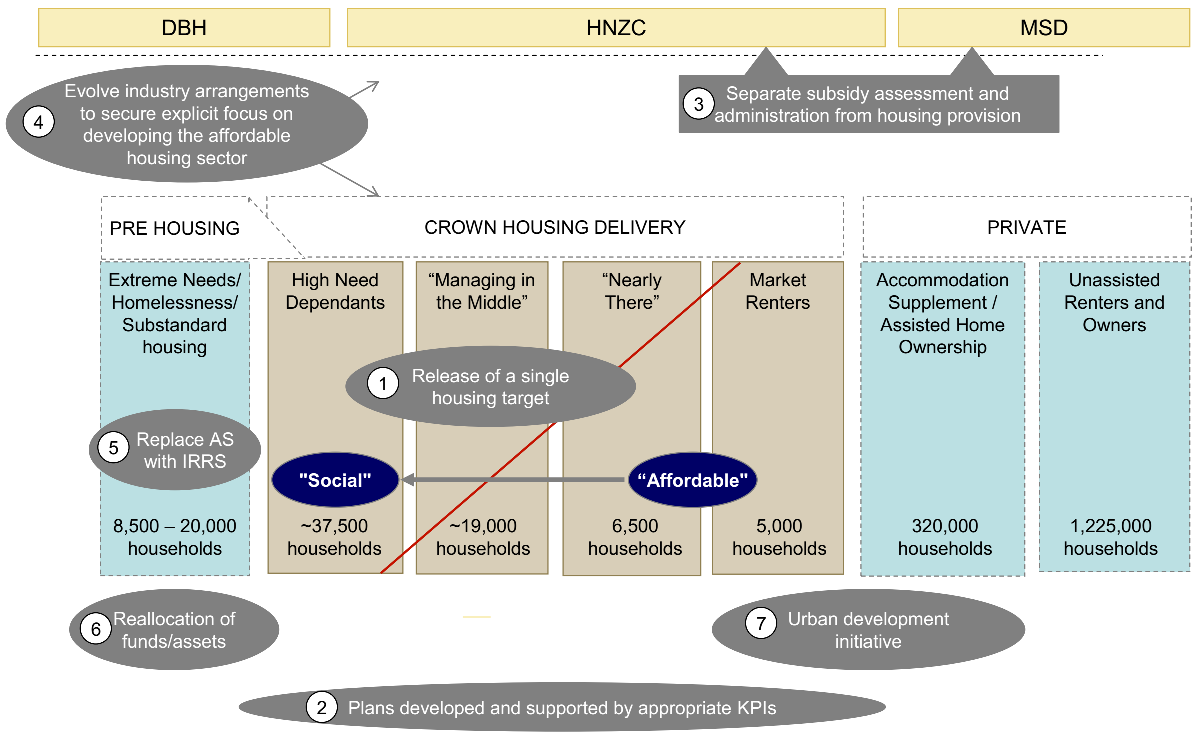
- Transparency of social need will be identified and provided for
- Dwellings will be better matched to tenant needs
- The performance of tenancy services, which is already strong, will continue to develop, potentially through increased outsourcing
- Recent negative affordability trends will reverse.

In summary, therefore, the HSA Group is confident that steps to increase the degrees of operating freedom available to HNZC, re-orient the delivery model and align responsibilities within the sector will deliver ‘more for less’. The Group firmly believes that this can be done without a single current HNZC tenant ending up ‘on the street’.

8.2 Transition considerations

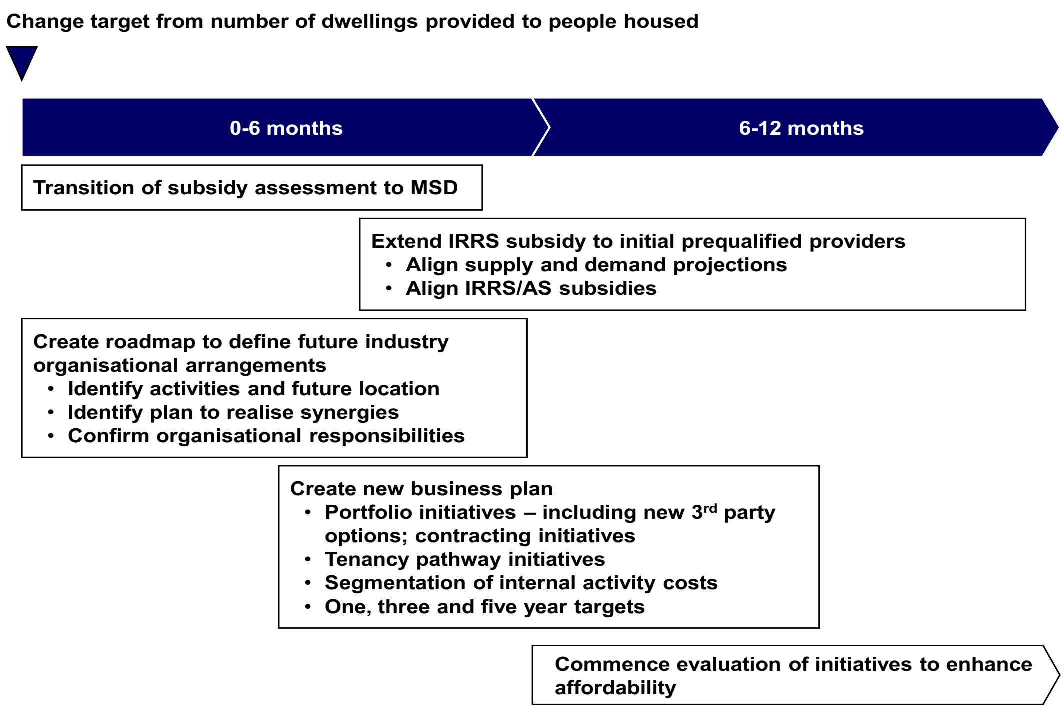
The recommendations change the operating paradigm for the sector and the roles and expectations of the participants. The HSA Group’s view is that when implemented as a package, the recommendations will unleash the sector’s significant potential. Figure 37 illustrates the actions required to start the transformation journey as proposed in Chapter 7.

Figure 37: Proposed 'must do' activities to trigger change



In addition, an indicative set of transition activities in Year 1 is set out in Figure 38.

Figure 38: Indicative transition activities: Year 1



The critical first step is to change the single housing target to provide flexibility for the transition. Ultimately, implementing the recommendations should result in an increased number of tenants being housed both within and beyond the state housing portfolio.

8.3 Summary

The HSA Group strongly believes that aspirations aligned with the type of outcomes suggested are both necessary and achievable. Sufficient leverage exists within current or proposed sector bodies to deliver significant results within a five year horizon, and the bolder the organisational option taken, the higher the likelihood of success.

Transition needs to start by realigning expectations, as seen in the March 2010 Ministerial Letter of Expectations. New expectations will challenge the sector to develop plans with the appropriate initiatives to deliver the outcomes envisaged. At the start of this report, we noted the advantaged starting position of New Zealand versus many comparable nations. The challenge now is to leverage that position into superior outcomes going forward so that, as a nation, New Zealand can meet the future housing challenges head on.

9. Conclusion

The HSA Group was challenged by HNZC's Shareholding Ministers to test existing social housing paradigms and to develop recommendations that "would really make a difference". This report has provided a roadmap for a journey to that "difference".

There is clear and mounting evidence that the current model has served its time. Although New Zealand today does not face the problems of long waiting lists and homelessness we see in many similar jurisdictions, the model is under rapidly growing stress as it struggles to meet the emerging challenges. Challenges include a tightening supply demand balance, declining affordability and changing demographics on all fronts. The proposals presented in this report, supported by recommendations, have been grouped under four distinct themes:

1. Empowering HNZC to focus on the 'high needs' sector
2. Develop third-party participation
3. Instigate initiatives across the broader housing spectrum
4. Clarifying sector accountabilities and delivery expectations.

Although many of these issues are already recognised by sector participants, there is a real need to be both bolder in reaching for solutions and faster in moving to delivery. Failure to do so will see New Zealand's current position continue to decline to unacceptable levels.

The recommendations require actions from the Government and from current and future sector participants and will require them to work together in new ways. Through these initiatives, the main delivery agency will move from its current role of 'integrated provider' to a future role of 'orchestrator' and funder tasked with marshalling a wide range of resources and organisations to deliver social housing.

The HSA Group outlined the expected shape of the business case which indicated significant impact is possible, including improvements with respect to supply, demand and provision. It is not unreasonable to expect to build to a run rate of an additional 2,000 – 2,500 dwellings per year after five years, along with other enhancements to performance identified.

The first step towards attaining these goals is subscribing to the vision set forth by the HSA Group. Stretch targets need to be agreed across the participants and clear accountabilities and delivery expectations assigned. In particular, the chosen sector organisational arrangements will be pivotal. The HSA Group is confident that the goals and options it has presented have the potential to bring about tangible positive change and make a real difference to the future of social housing provision in New Zealand.

Appendix 1: Glossary

Accommodation Supplement (AS): A weekly payment to an individual, administered by the Ministry of Social Development, which helps people with their rent, board or the cost of owning a home.

Affordable housing: Housing for which a household spends no more than 30% of its gross income on housing costs, whether for rent or mortgage.

High needs: Circumstantial, physical or behavioural characteristics which make it unlikely that a person would be able to sustain a tenancy or own a home in the private sector. Examples include very large families, forms of mental illness and poor life skills.

Homelessness: Homelessness is defined as living situations where people with no other options to acquire safe and secure housing: are without shelter, in temporary accommodation, sharing accommodation with a household or living in uninhabitable housing.

House for life: The historical expectation that the lease of a state housing tenant in good standing would not be terminated.

Income-Related Rent: Rent paid by a state house tenant based on that tenant's income. The Income-Related Rent is set at no more than 25% of a tenant's net income up to the New Zealand National Superannuation threshold; thereafter, 50 cents of every dollar are paid until the market rent of the tenant's dwelling is reached.

Income-Related Rent subsidy (IRRS): A subsidy, administered by HNZC where the Crown pays HNZC the difference between the amount paid in Income-Related Rent by a tenant and the market rent of the dwelling.

Kainga Whenua: A HNZC programme to enable New Zealanders who have a licence to occupy multiple-owned Māori land to build, purchase or relocate a house there.

Non-governmental organisations: organisations that are not funded by the Crown. They may be cost-based (not for profit) or profit-based.

Shared Equity: A pilot scheme, to be discontinued, that offered a second, interest-free mortgage to first home buyers earning between $55,000 and $85,000 who live in selected high-cost areas.

Social Allocation System (SAS): A measure of the severity of housing need shown by an applicant for social housing. HNZC uses SAS to prioritise applicants.

Social housing: The provision of assistance with housing to those who cannot otherwise meet their own housing needs.

Tamaki Transformation Programme: An urban renewal project delivered through a partnership between central government agencies, local government, the Tamaki community and the private sector.

Welcome Home Loans: A scheme to enable first home borrowers with a maximum yearly income of $85,000 to borrow up to $200,000 without a deposit, and a maximum of $350,000 with a deposit, to purchase a home.

Whānau Ora: A new delivery model to provide wraparound social services to all New Zealanders in an integrated way focusing on the total needs of the family within their community, hapu and Iwi.

Appendix 2: Housing Shareholders Advisory Group Members

Alan Jackson (chair) is former senior vice president in the Auckland office of The Boston Consulting Group. He is also a director of Fletcher Building and a trustee of The Icehouse business growth centre in Auckland. Dr Jackson has significant experience in change management with expertise in resources, diversified industrials, building products and construction sectors.

Major Campbell Roberts is the director of the New Zealand, Fiji and Tonga Territory Social Policy and Parliamentary Unit of the Salvation Army. He is also a trustee of the New Zealand Housing Foundation, a director of the Centre for Housing Research Aotearoa New Zealand and the Auckland Housing Trust. Major Roberts is a media spokesperson, writer and speaker and has experience on issues of poverty and social housing.

Andrew Body is a director of Crown Fibre Holdings and various private sector companies. He has 20 years experience as an investment banker, focussing on strategic and transactional advice to owners and managers of businesses. Mr Body has experience across a wide range of sectors in the New Zealand economy including the property sector.

Martin Udale is an independent consultant with more than 30 years experience in the New Zealand, UK and Australian property markets, including developing some of the first office parks in Sydney and Brisbane. He was most recently the chief executive of McConnell Property, and has also been director of corporate advisory with CRI, an Australian property development and services group, specialising in partnering with asset owners to create value from underused assets.

Diane Robertson is head of the Auckland City Mission and is the first non-clergy female City Missioner. She previously had roles on the Committee for Auckland, the Auckland University Community Advisory Board, Springboard Trust, Robin Hood Foundation, Child Poverty Action Group and the New Zealand Institute. Ms Robertson's experience is in social and emergency housing issues.

Brian Donnelly is executive director of the New Zealand Housing Foundation. He is also a director of the Centre for Housing Research Aotearoa New Zealand (CHRANZ), a trustee of the Queenstown Lakes District Community Housing Trust, a member of the Social Entrepreneur Fellowship and chair of the Wilson Home Trust. He has experience in social housing issues, including operating and managing a social housing organisation.

Paul White is the Principal of Torea Tai Consultants, specialising in consultancy on Maori development, housing and strategic planning. He is also the chair of Te Waka Pupuri Putea (an Iwi asset holding company) and a council member of FITEC, the forestry sector training organisation. Mr White has previously been chief executive of Ngai Tahu Development Corporation and a member of the Housing New Zealand Board. He has experience in the operation and management of housing.

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C/- Department of Building and Housing
PO Box 10-729, Wellington 6143
New Zealand

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