

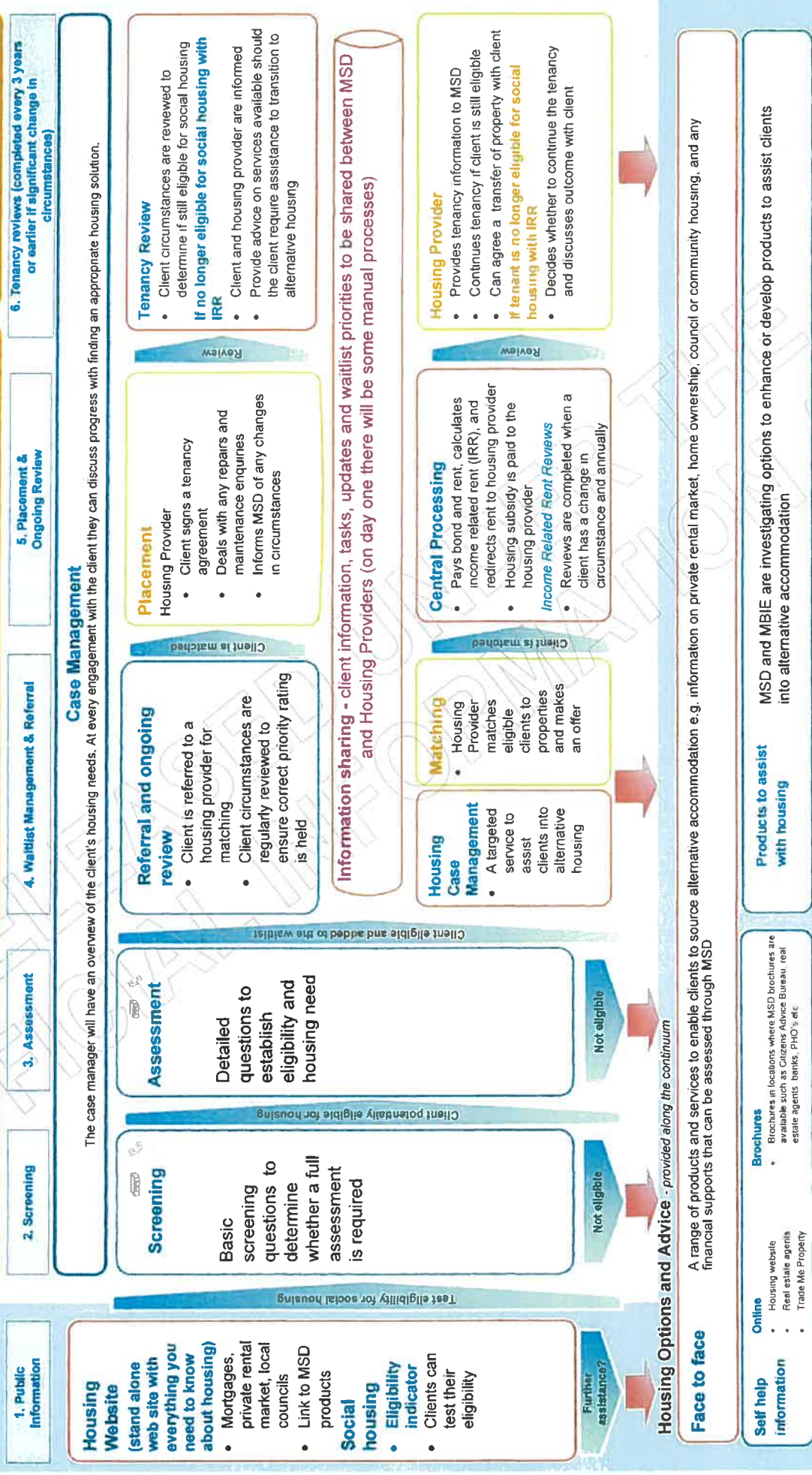
Appendix 2: Housing Process Overview

Outcomes Statements:

More people are housed appropriately for the length of time that their housing need exists

More people have their housing needs met promoting social and housing mobility, health, safety and employment outcomes, assisting people who can be independent of state help

There is an increase in the number and diversity of social housing providers



Housing Options and Advice - provided along the continuum

Face to face

A range of products and services to enable clients to source alternative accommodation e.g. information on private rental market, home ownership, council or community housing, and any financial supports that can be accessed through MSD

Self help information

- Online**
- Housing website
 - Real estate agents
 - Trade Me Property

Brochures

- Brochures in locations where MSD brochures are available such as Citizens Advice Bureau, real estate agents, banks, PHO's etc

7. Fraud Investigation and Debt

Fraud Investigation – undertaken by MSD's Fraud Investigation Unit.
Debt – Recovery will be undertaken through the MSD debt collection unit

KEY:

MSD

Housing Provider

System

New MSD service

Housing Support package

	Financial assistance	Letting fees loan	Statement of satisfactory tenancy	Market acceptance	Incentives	
Description	Bond grant <ul style="list-style-type: none"> Discretionary non-recoverable grant to fund bond payment for: <ul style="list-style-type: none"> tenants who paid an IRR-based bond but need to pay a market rent bond SH waitlist clients who may not have a bond because they live with family/friends Once-only grant for a maximum of four weeks bond Current RAPS/Advances income and assets limits apply <p>NB: Recoverable bond assistance is already available</p>	Relocation assistance <ul style="list-style-type: none"> Grant/subsidy/loan for physical costs of moving (e.g. moving company, truck hire, petrol costs) Maximum payment of \$2,000 per household (one-off unless exceptional circumstances) Conditions on move (e.g. no LELs for beneficiaries, no overseas relocation) Current hardship income and cash assets limits will apply – but not in hardship model if move is a result of a tenancy review <p>NB: Transition to Work funds moving costs for beneficiaries who find work</p>	Letting fees loan <ul style="list-style-type: none"> Eligibility-based recoverable loan for non-beneficiaries for real estate letting fees for a private market rental property Maximum payment of one weeks rent plus GST (one-off unless exceptional circumstances) Current hardship income and cash assets apply <p>NB: Beneficiaries get advances for letting fees if they cannot find another rental</p>	Statement of satisfactory tenancy <ul style="list-style-type: none"> SH providers give a detailed tenancy reference References addresses main landlord concerns, showing the period a tenant has been: <ul style="list-style-type: none"> without arrears without damages, and without complaints Promotion to landlord groups and property management associations to raise profile <p>NB: HNCC already provide a reference, but without this level of detail</p>	Market acceptance <ul style="list-style-type: none"> Financial guarantees to landlords for tenancy costs over and above bond Guarantee valid for 12 months at maximum of 4 weeks rent Tenant must still meet any bond payment requirements (i.e. via payment, loan or grant) Landlords must commit to fixed term tenancy (if client wants) and will have a duty to mitigate losses Claims recovered from client <p>NB: Market bond insurance charge tenants a fee of 23% of guarantee</p>	Incentives <ul style="list-style-type: none"> Discretionary non-recoverable grant to incentivise current but low housing need SH tenants to moving into private rental only In selected high stress housing locations only Tenants would need to be assessed to ensure they are not A or B rated A short-term offer to aid stock turnover pre-tenancy review Client can still access other housing assistance
Barrier	<ul style="list-style-type: none"> Tenancy costs (direct) Sustainability (supports, no debt creation) Low-income clients who are without a bond 	<ul style="list-style-type: none"> Relocation costs (direct) Tenancy costs (supports) Low-income SH waitlist clients or current tenants 	<ul style="list-style-type: none"> Tenancy costs (direct) Low-income non-beneficiary SH waitlist clients or current tenants 	<ul style="list-style-type: none"> Discrimination (direct) Language/tenancy (supports) SH tenants 	<ul style="list-style-type: none"> Reluctance to move (direct) Current eligible SH tenants, assessed as a C or D priority 	
TARGET	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ 	
COSTS	<ul style="list-style-type: none"> Average cost of \$1200 per household¹ Welfare programme Estimated IT cost of \$62,000 	<ul style="list-style-type: none"> Average cost of \$1,350 per household² Welfare programme Estimated IT cost of \$66,000 	<ul style="list-style-type: none"> Average cost of \$450 per household³ Amendment to existing welfare programme Estimated IT cost of \$41,000 	<ul style="list-style-type: none"> NIL (Provider cost) Requirement in HNCC SLACHPs contracts Estimated IT cost of \$20,000 Promotion costs of \$10,000 	<ul style="list-style-type: none"> Average of \$240 per guarantee⁴ Welfare programme Estimated IT cost of \$72,000 	<ul style="list-style-type: none"> \$3,000 per household⁵ Welfare programme Estimated IT cost of \$72,000
Pros	<ul style="list-style-type: none"> Makes the cost of securing a private rental less daunting People don't start with debt Rewards good behaviour (tenant could keep bond when leaving) Simple to understand and administer Quick to develop and implement Could create client expectations (mitigated by a discretionary grant) 	<ul style="list-style-type: none"> Reduces or spreads cost of physical move to the private rental sector Simple to understand and administer Quick to develop and implement Could be a procurement opportunity (e.g. with van rental or moving companies) Clients may not look for more economic ways to relocate (e.g. borrow a friends van – mitigated by ensuring clients investigate all other alternatives first) 	<ul style="list-style-type: none"> Makes accessing a managed private rental more feasible Increases housing options in a tight and competitive market Simple to understand and administer Quick to develop and implement Recovery reduces risk of over-consumption Creates a debt for the tenant (but can set low repayment rate) 	<ul style="list-style-type: none"> Low cost (e.g. small admin cost for SH providers) Easy to administer and understand Quick to develop and implement Research shows SH references not highly valued by market (mitigated by promotion) Creates short-term Crown liability Cost dependent on tenant behaviour Could create landlord or client expectations (mitigated by a discretionary assistance) 	<ul style="list-style-type: none"> Incentivises a early move out of SH if needs are moderate to low Frees up asset and IRR for high need groups May reduce numbers of people engineering circumstances to remain eligible (e.g. not accepting job offers) Deadweight cost if people move anyway People could cycle back into SH (unlikely if well targeted) Could create client expectations (mitigated by discretionary grant) 	
Cons	<ul style="list-style-type: none"> Current SH tenants move, they can access any products available to tenants ineligible after a tenancy review. Costs exclude general case management administration time (covered in the costing for the Options and Advice Service). Set up costs (a) assume no SWFIT changes required, (b) exclude the cost of amending the hardship model (\$20,000) and (c) exclude communication costs (e.g. stakeholder engagement, brochures etc.). Based on 3 weeks bond at \$400pw (midpoint between AKL avg. 3bdm rent \$452 and NZ avg. 3bdm rent \$350 in July 2013) because most landlords are charging between 2 to 3 weeks bond. Conservative estimate (HNCC's assistance to Housing Independence project paid \$62,856 in relocation costs to 54 tenants, \$1166 each) Based rent of \$400pw (midpoint between Auckland average 3bdm rent \$452 and NZ average 3bdm rent \$350 in July 2013) – plus GST. No particular method used to establish looked at 5k which seemed too much, looked at 2.5k which seemed too little. Conservative estimate based on 15% of total amount guaranteed (research that claims total around 10% of total amount guaranteed). 	<ul style="list-style-type: none"> Current SH tenants move, they can access any products available to tenants ineligible after a tenancy review. Costs exclude general case management administration time (covered in the costing for the Options and Advice Service). Set up costs (a) assume no SWFIT changes required, (b) exclude the cost of amending the hardship model (\$20,000) and (c) exclude communication costs (e.g. stakeholder engagement, brochures etc.). Based on 3 weeks bond at \$400pw (midpoint between AKL avg. 3bdm rent \$452 and NZ avg. 3bdm rent \$350 in July 2013) because most landlords are charging between 2 to 3 weeks bond. 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Focusing the investment in the Housing Support package

Crown investment needs to be focused where benefits are strongest and the spend contributes to the outcomes sought. The investment will be focused as follows:

- people ineligible for social housing = minimal spend (\$), low numbers (x)...
 - waitlisted households = medium (\$\$\$), medium numbers (xx)...
 - current social housing tenants = minor (\$), low numbers (x)...
 - ineligible at tenancy review = intensive (\$\$\$\$), medium numbers (xx)...
- Crown assets and IRRS
- higher need households
 - current social housing tenants = minor (\$), low numbers (x)...
 - not actively targeted but needs may have reduced over time and supporting them, if they want to move, frees up a Crown asset and IRRS expenditure for and IRRS expenditure.

	Ineligible (in the private sector)
	waitlisted (in the private sector)
	current eligible SH tenant
	Ineligible at tenancy review

Chair
Cabinet Social Policy Committee

ENABLING FLEXIBLE PURCHASING APPROACHES TO SECURE THE SUPPLY OF SOCIAL HOUSING PLACES

Proposal

- 1 As part of the overall Social Housing Reform Programme, Government is taking steps to develop the Ministry of Social Development's (MSD) role as the single purchaser of social housing places. This paper seeks decisions on:
 - the first Ministerial direction for flexible purchasing under recent amendments to the Housing Restructuring and Tenancy Matters Act 1992 (HRTMA)
 - establishing a new appropriation to support new types of funding for the Request for Proposal (RFP) in Auckland for 300 additional social housing places.

Executive summary

- 2 Since April 2014, MSD has had the role of single purchaser of social housing. MSD has several levers available to influence change in the social housing market and therefore to improve outcomes for people.
- 3 The legislative definition of the income-related rent subsidy (IRRS) was identified as a constraint on MSD's ability to be a smart and active purchaser of social housing places. The (HRTMA) previously specified that the IRRS be calculated as the difference between the market rent for the property and the income-related rent (IRR) paid by the tenant.
- 4 The Housing Restructuring and Tenancy Matters (Social Housing Reform) Amendment Act 2015 ('the Amendment Act') amended the HRTMA and was passed in May this year. The Amendment Act allows MSD to take more flexible approaches to purchasing social housing places by entering into tailored agreements with all social housing providers (both Housing New Zealand Corporation (HNZC) and Community Housing Providers (CHPS)). The parameters for tailored agreements need to be set by Ministerial direction. The *Regulatory Impact Statement* attached when Cabinet approved the legislation [CAB Min (15) 8/10 refers] stated that the approach to the first Ministerial direction should be taken to Cabinet for approval.
- 5 I propose that the first Ministerial direction set general parameters for entering into tailored agreements. A broad direction will enable flexibility in the terms and conditions when negotiating contracts with social housing providers. The direction will be the starting point for conversations about social housing provision with providers. A broad direction is needed to enable initiatives underway, including the Auckland RFP for 300 additional social housing places [CAB Min (14) 39/23 refers] and initial transactions of HNZC properties. The direction will also enable potential future initiatives to increase social housing supply.
- 6 The Auckland RFP is the first opportunity to test different contracting arrangements with providers. This will be an opportunity to learn about how the market reacts to different contracting arrangements which will inform the development of a broader contracting framework for purchasing social housing places. It is also the first step in securing the 3,000

additional social housing places signalled in MSD's *Social Housing Purchasing Intentions* published in April 2015.

- 7 There is currently no appropriation that allows MSD to fund the types of support required for the Auckland RFP. I propose establishing a "Support for the provision of social housing supply" appropriation which will be used to fund the Auckland RFP and potential future initiatives to increase social housing supply. I am seeking agreement to a fiscally neutral adjustment of \$9.5m to reprioritise funding within 2015/16 to pay for the types of support required for the Auckland RFP.

Background

MSD has made progress in becoming a more effective purchaser of social housing places

- 8 MSD has made progress in its role as an active purchaser of social housing places since the transfer of key social housing functions in April 2014. It is taking steps to build on this progress to become a smarter, more effective purchaser. MSD has five levers to drive change across the social housing market (see appendix 1).
- 9 In April 2015, MSD released its *Social Housing (IRRS) Purchasing Intentions*. The release signals MSD's intention to purchase an estimated 3,000 additional social housing places by 2018, by providing information, aimed at housing providers, about the location and type of housing places that are needed. The information is intended to support providers to make investment decisions.
- 10 In April 2015, Ministers conducted regional consultation with potential participants about the initial transactions of HNZC properties in Invercargill and Tauranga. This process highlighted alternative contracting arrangements that will encourage potential participants to take part in the process including long-term contracts.
- 11 In December 2014, Cabinet noted that the legislative definition of the IRRS constrained MSD in its purchasing role [CAB Min (14) 39/23 refers]. It only allowed MSD to pay social housing providers an IRRS which was calculated as the difference between market rent and the IRR paid by the tenant.
- 12 The Amendment Act was introduced and passed under urgency on Budget Night. It allows the Minister responsible for social housing, in consultation with other housing Ministers, to issue directions that allow MSD to enter into tailored agreements with social housing providers for IRRS. The direction will set parameters within which MSD can take more flexible approaches to purchasing social housing places. The calculation of a tenant's IRR will not be affected by tailored agreements.
- 13 The *Regulatory Impact Statement* attached when Cabinet approved the legislation [CAB Min (15) 8/10 refers] states that the approach to the first Ministerial direction should be taken to Cabinet for approval.

Enabling MSD to take flexible approaches to securing social housing supply

- 14 MSD is starting to develop an overall IRRS contracting framework, including consideration of where and when it will offer long-term or capacity contracts for social housing places. The Ministerial direction is needed to enable MSD to offer such contracts.

- 15 Government has committed to increasing the number of IRRS places it funds to 65,000 by 2017/18 which is approximately 3,000 more places. New models of social housing provision will be important for MSD to deliver the additional places.
- 16 Early market engagement in Auckland, through a Registration of Interest in January this year suggests some different types of funding are needed to stimulate additional places which the new appropriation and expense transfer will support.

Setting a broad Ministerial direction will enable a wide range of contracting approaches

- 17 A Ministerial direction needs to be made before MSD can enter into tailored agreements with social housing providers. I propose that the first direction be broad, permissive and enabling and made in July 2015. A broad direction will enable flexibility in the terms and conditions when MSD is negotiating contracts with providers.
- 18 The sector has been clear that IRRS on its own does not offer the degree of flexibility and the kinds of terms and conditions required to justify organisations entering into negotiations for the provision of social housing. Of particular concern to providers and potential providers is the inability to attract loan funding under standard IRRS agreements.
- 19 A broad direction will enable MSD to negotiate contracts for social housing provision that fits the needs of a particular area or for a client cohort, while also allowing sufficient flexibility to come to an agreement that is economically viable for the provider and represents value-for-money for Government. The direction will apply to tailored agreements for provision of social housing anywhere within New Zealand, and it will not be restricted to districts or areas of particular housing need.
- 20 Having a direction or set of directions that are too specific would restrict the arrangements that MSD could enter with providers and could potentially reduce the number of providers actively engaging with MSD about the provision of social housing places. It could also reduce the ability of providers to engage with MSD about innovative ways of providing social housing.
- 21 A broad direction would not prohibit the Minister for Social Housing from subsequently setting a specific direction for a specific situation or locality, if the need arises. The general direction would continue to apply except to the extent the specific direction conflicted with it in relation to the specific situation or area it applied. Specific directions should only be considered when absolutely necessary as they could lead to unnecessary confusion or the perception of favour to some social housing providers and lack of fairness for others.
- 22 There is no compulsion on CHPs or HNZ to enter into tailored agreements. Should a social housing provider wish to remain on the current IRRS agreement they can do so.
- 23 The types of contracting arrangements that will be enabled by the direction include:
 - long-term contracts
 - fixed or indexed contract rent rates
 - payments reflecting different tenancy service costs for different tenants
 - payments based on agreed values rather than market value
 - agreements where pricing and terms are different because the provider is a lessee of the property not the owner

- payments for vacancy risk.
- 24 An example direction is attached to this paper (appendix 2). I would not expect the final direction to change substantively from this example.
- 25 I intend, in consultation with other Housing Ministers, to make the first direction enabling tailored agreements in July 2015.

Enabling the Auckland RFP: Establishing a new appropriation

- 26 MSD consulted the sector earlier in the year through a Registration of Interest process. CHPs gave their views on the types of arrangements that are necessary for the sector to supply additional places. The sector gave a clear indication on the different funding and contracting arrangements that are required in order to stimulate new supply in Auckland. These are over and above what is currently offered through the IRRS or will be offered through tailored agreements.
- 27 MSD is seeking to test more flexible arrangements to purchasing with community housing providers through an RFP process in Auckland. The RFP process is an opportunity for MSD to:
- test the market response to new contract settings
 - understand what it would take to stimulate supply in Auckland
 - get some price discovery ahead of the initial transactions of HNZC properties in Tauranga and Invercargill, and
 - generate innovative ideas for the provision of social housing.
- 28 Within Vote Social Development, there is currently no appropriation to fund some of the arrangements required for the Auckland RFP and potential future initiatives to stimulate supply. To enable these types of arrangements a new appropriation needs to be established.
- 29 I am seeking agreement from the Minister of Finance to an in-principle expense transfer of the 2014/15 IRRS underspend to support finalising contracts following the Auckland RFP. This funding will not be confirmed until the October Baseline Update. In the interim, I propose a fiscally neutral adjustment of \$9.5m to reprioritise funding within 2015/16. This will temporarily reduce the 2015/16 appropriation for social housing tenancies until the expense transfer is confirmed in October. The in-principle amount is sufficient to cover the interim funding gap that has now been created in the 2015/16 IRRS appropriation.
- 30 To enable MSD to provide the types of funding required, I propose to establish a single Non-departmental other expense, called "Support for the provision of social housing supply", within Vote Social Development. The Minister for Social Housing will have responsibility for this appropriation.
- 31 The scope of the new appropriation will be limited to providing support to secure access to properties for social housing providers to use for social housing tenancies.
- 32 This new appropriation will cover costs such as upfront funding to secure social housing places and success fees for finding quality properties to lease from the private market.
- 33 The transfer will be one-off but the appropriation will endure for any subsequent RFPs or initiatives which require the types of funding arrangements covered by this appropriation.

Consultation

- 34 The Treasury and the Ministry of Business, Innovation and Employment have been consulted in the preparation of this paper. The Department of the Prime Minister and Cabinet has been informed.
- 35 The Housing Assistance Reform Feedback Group, an external advisory group made up of sector representatives (including Housing New Zealand) and academic experts, have been consulted on the proposed approach to the first Ministerial direction.

Financial implications

- 36 The first Ministerial direction has no financial implications.
- 37 Funding the Auckland RFP requires a fiscally neutral adjustment of \$9.5m to reprioritise funding within 2015/16. This will temporarily reduce the 2015/16 appropriation for social housing tenancies until the expense transfer is confirmed in the October Baseline Update.

Human rights implications

- 38 There are no human rights implications.

Legislative implications

- 39 Any Ministerial direction issued under section 102 of the HRTMA will be *Gazetted* and a copy presented to the House of Representatives as required by that Act.

Regulatory impact and compliance cost statement

- 40 The power to make Ministerial directions allowing tailored agreements was provided for by the Housing Restructuring and Tenancy Matters (Social Housing Reform) Amendment Act 2015 which was introduced and passed in May 2015. The regulatory impact and compliance cost statements for that Act are applicable to this statement as it directly arises from the policy behind that Act.

Gender implications

- 41 Enabling flexible approaches will increase the provision of social housing places for those clients on the social housing register. In March 2015, nearly 70 percent of primary applicants on the register are women. Sole Parent Support recipients are the largest benefit group on the social housing register, with 1,356 applicants (45 percent of these clients are priority A).

Disability perspective

- 42 There were 1,149 Supported Living Payment recipients on the register for social housing in March 2015, and half of these clients are priority A. Enabling flexible approaches to securing social housing supply will increase the provision of social housing places for these clients. In the future, these changes will enable targeted approaches to better meet needs of disabled people who need social housing.

Publicity

- 43 The publication of the first Ministerial direction in the *Gazette* will be supported by a media release and by a communication plan targeted at social housing providers, potential social housing suppliers and organisations that may wish to be involved with such providers (eg developers, financial investors) in the supply of social housing places.

Recommendations

- 44 It is recommended that the Committee:

- 1 **note** that the income-related rent subsidy, calculated as the difference between the income-related rent paid by the tenant and the market rent of the property, has to date been the only means of establishing the price paid by Government for social housing and related services
- 2 **note** that the Housing Restructuring and Tenancy Matters (Social Housing Reform) Amendment Act 2015 which was introduced and passed in May 2015 empowers the Minister for Social Housing, in consultation with other Housing Ministers, to make directions permitting the Ministry of Social Development to enter into tailored agreements with social housing providers
- 3 **note** that any price for provision of social housing under tailored agreements does not have to be calculated on the same basis as the income-related rent subsidy and tailored agreements can include terms and conditions that cannot be employed in social housing agreements now
- 4 **agree** that the first direction be broadly permissive and enabling in line with example attached to this paper, and issued in July 2015
- 5 **note** that early market engagement has identified a need for alternative types of funding to increase supply of social housing places
- 6 **agree** to establish the following appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Social Development	Minister for Social Housing	Support for the Provision of Social Housing Supply	Non-Departmental Other Expense	This appropriation is limited to providing support to secure access to properties for social housing providers to use for social housing tenancies.

- 7 **note** that I have sought approval for an in-principle expense transfer (which will be confirmed at the October Baseline Update) from 2014/15 to 2015/16 in the Part Payment of Rent to Social Housing Providers appropriation
- 8 **approve** the following fiscally neutral adjustments to provide for the transfer the IRRS forecast underspend to the support for the provision of social housing supply appropriation, with no impact on the operating balance:

	\$m – increase/(decrease)				
	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears
Vote Social Development Minister for Social Housing					
Non-Departmental Output Expense:					
Part Payment of Rent to Social Housing Providers	(9.5)	-	-	-	-
Non-Departmental Other expense:					
Support for the provision of social housing supply	9.5	-	-	-	-
Total Operating	-	-	-	-	-

- 9 **agree** that the proposed changes to the appropriations in recommendation 9 above for 2015/16 be included in the 2015/16 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Hon Paula Bennett
Minister for Social Housing

_____/_____/_____

Office of the Minister Responsible for Housing New Zealand Corporation
Office of the Minister for Social Housing

Chair
Social Policy Committee

PROGRESSING SOCIAL HOUSING REFORM PROGRAMME TRANSACTIONS

Proposal

1. This paper asks the Social Policy Committee to:
 - a. Note the approach to policy issues related to Social Housing Reform Programme (SHRP) transactions and the commercial process that will be used across transactions,
 - b. Agree the delegations framework for SHRP transactions and to progress to market sounding in Invercargill,
 - c. Agree to the first Ministerial direction for flexible purchasing under recent amendments to the Housing Restructuring and Tenancy Matters Act 1992 (HRTMA), and
 - d. Agree to establish a new appropriation to support new types of funding for the Request for Proposal (RFP) in Auckland for 300 additional social housing places.
2. Please note that paragraphs 25 and 36 are subject to legal professional privilege.

Executive Summary

3. The Social Housing Reform Programme (SHRP) aims to improve the access of social housing to those who need it for the duration of their need. This paper progresses two key elements of the programme which are growing community housing providers (CHPs) through transfers of Housing New Zealand Corporation and its subsidiaries (HNZC) stock and through developing the Ministry of Social Development's (MSD) contracting lever.
4. The majority of preparations are now complete for the first SHRP social housing transactions. Cabinet earlier noted that Tauranga and Invercargill were potential regions for the first transactions and agreed to proceed with consultation on iwi/hapū interests in these regions [CAB Min (15) 11/BA].

5. Consultation is now complete in Tauranga and Invercargill and has found that the programme can proceed to market sounding in Invercargill. In Tauranga, more information is needed to fully understand the location and nature of sites of significance identified by local hapū and what impact a transaction would have on any interests in those sites.
6. Since the last Cabinet report-back, we have been working to resolve a number of policy issues related to SHRP transactions, including:
 - Ensuring that tenant rights and interests are protected throughout the transactions process through regulatory and contractual mechanisms to protect social housing places and service provision,
 - Designing a process for appropriately dealing with Rights of First Refusal (RFR) negotiated in Treaty settlements, and
 - Establishing the next steps for the transactions programme, by identifying a long-list of regions for subsequent transactions.
7. An open and competitive process will be used for transactions, which has been designed specifically to encourage CHPs to participate and to provide the required support. The process has a number of decision points, which we propose are delegated to Social Housing Joint Ministers (the Minister for Social Housing and the Minister Responsible for Housing New Zealand) and senior officials to ensure that momentum is maintained throughout the commercial process.
8. The structure for the first transactions will be set out in four contractual documents. We ask that Cabinet notes this structure, which will be applied across the SHRP transactions.
9. The next steps in the transactions programme include progressing to market sounding in Invercargill and delegating decisions to undertake transactions in Tauranga to Social Housing Joint Ministers, along with decisions around the selection and announcement of regions for subsequent transactions.
10. The Housing Restructuring and Tenancy Matters (Social Housing Reform) Amendment Act 2015 ('the Amendment Act') amended the HRTMA and was passed in May this year. The Amendment Act allows MSD to take more flexible approaches to purchasing social housing places by entering into tailored agreements with all social housing providers both Housing New Zealand Corporation (HNZC) and Community Housing Providers (CHPS). The parameters for tailored agreements need to be set by Ministerial direction.
11. The Ministerial direction will set the legal parameters to enable MSD to take a more flexible approach to purchasing social housing places, this will enable MSD to enter into tailored agreements in the transactions and the Auckland RFP for 300 additional social housing places.
12. There is currently no appropriation that allows MSD to fund the types of support required for the Auckland RFP. This paper proposes establishing a "Support for the provision of social housing supply" appropriation which will be used to fund the Auckland RFP and potential future initiatives to increase social housing supply. This paper is seeking agreement to a fiscally neutral adjustment of \$9.5m to reprioritise funding within 2015/16 to pay for the types of support required for the Auckland RFP.

Background

First Transactions

13. One of the objectives of the SHRP is to develop more diverse ownership of social housing, with more innovation and responsiveness to tenants and communities. This will be sought primarily through SHRP transactions comprised of the transfer of stock currently owned by Housing New Zealand and its subsidiaries (HNZC) to third party providers alongside Income Related Rent Subsidy (IRRS) payments (note the term 'SHRP transaction' involves the transfer of existing houses and does not include large-scale redevelopments).
14. We are nearly ready to start the commercial process for the first transactions. Preparation has focussed on designing a process that will enable the growth of a vibrant and viable community housing sector in selected regions, while ensuring tenants and new providers are supported throughout the transition period.
15. The first transactions are intended to be the beginning of a wider transactions programme, which will deliver on the suite of SHRP objectives agreed by Cabinet over the course of the programme [CAB Min (14) 39/22 refers].
16. The first transactions will meet the objectives of increasing the proportion of social housing provided by CHPs and helping tenants on the path to independence where appropriate. Subsequent transactions are likely to deliver on the supply and reconfiguration objectives of the SHRP.
17. A number of actions complementary to the transactions will also contribute to SHRP objectives. These include:
 - a. The April 2015 publication of MSD's purchasing intentions, providing information on the IRRS tenancies that will be purchased over the next 2-3 years,
 - b. The June release of MSD's Request for Proposal for 300 additional social housing tenancies in Auckland, which will increase supply in an area of high demand,
 - c. The enactment of the Amendment Act, which enables the Minister to direct MSD to be flexible in the way it negotiates contracts for social housing so that it can encourage innovation, and
 - d. The transfer of HNZC land to the Tamaki Redevelopment Company, increasing the supply of social and affordable housing.

Developing MSD's Purchasing Role

18. MSD has made progress in its role as an active purchaser of social housing places since the transfer of key social housing functions in April 2014. It is taking steps to build on this progress to become a smarter, more effective purchaser. MSD has the following five levers to drive change across the social housing market:
 - a. Information (e.g. about demand for social housing),
 - b. Contracting arrangements (how social housing places are purchased),
 - c. Tenant referral and placement processes (how tenants are referred to housing providers and matched with places),

- d. Policy settings (e.g. rental subsidies and needs assessment criteria that determine who receives assistance, and what they receive), and
 - e. Tools to support people into independence (e.g. initiatives and support that help either current tenants or those on the register move into alternative housing).
19. MSD is starting to develop an overall IRRS contracting framework, including consideration of where and when it will offer long-term or capacity contracts for social housing places. These alternative contracting arrangements will encourage potential participants to take part in the transfer of HNZC properties. A Ministerial direction under the Amendment Act is needed to enable MSD to offer such contracts.
 20. Government has committed to increasing the number of IRRS places it funds to 65,000 by 2017/18, which is approximately 3,000 more places. New models of social housing provision will be important for MSD to deliver the additional places. The Auckland RFP is the first step in acquiring the 3,000 additional places signalled in MSD's *Social Housing Purchasing Intentions* and an opportunity to test different contracting arrangements with providers.
 21. Early market engagement in Auckland, through a Registration of Interest in January this year suggests some different types of funding are also needed to stimulate additional places which the new appropriation and expense transfer will support.

General Approach to Crown-Māori Issues

22. In undertaking the transfer of HNZC properties, the Government has obligations to honour the terms of Treaty settlements that provide iwi with RFRs over some properties and consider, and where appropriate, make provisions for, other Treaty of Waitangi (Treaty) interests (such as customary interests in particular sites).
23. The Government will approach Crown-Māori issues that arise within transactions in accordance with the principles of good faith, reasonableness and consultation. This is in line with both the Government's and Māori desire to ensure that we fully understand each other's interests and objectives before any decisions are made.

Regional Consultation

24. Cabinet agreed to proceed with regional consultation on how the interests of iwi/hapū under Treaty settlements may be affected by potential transactions in Tauranga and Invercargill [CAB Min (15) 11/BA refers].
25. Consultation on the Tauranga and Invercargill transactions closed on 12 June. The consultation process has not found any particular Treaty interests will be impacted by a transaction in Invercargill.
26. However in Tauranga, Ngā Hapū o Ngāti Ranginui Settlement Trust has said a number of properties proposed for transaction are sites of significance. Officials will work with Ngā Hapū o Ngāti Ranginui Settlement Trust in order to fully understand the location and nature of those sites of significance and what impact a transaction would have on any interests in those sites.

Treaty Settlement Rights of First Refusal

27. As part of the commercial redress, some Treaty settlements have provided iwi with RFRs over Crown land. These RFRs provide the holder with the first option to purchase surplus Crown land. Treaty settlements use two types of RFRs as commercial redress: RFRs over individual titles (e.g. as is the case in Tauranga) and RFRs over areas of land (e.g. as is the case in Auckland). The terms of an RFR can differ from settlement to settlement: for example, some include exemptions for certain purposes and some do not. This means each RFR needs to be dealt with on its particular terms.
28. Around 17% of HNZC's total property portfolio is subject to these RFRs, including 10% of its properties in Tauranga and three properties in Invercargill. An RFR transaction in SHRP is complicated as RFRs were designed for the simple disposal of land, whereas SHRP transactions have been designed around the sale of tenanted property for social housing use. Crown Law's advice is that if an RFR holder chooses to exercise its right to purchase Crown land subject to RFRs, we cannot require it to take tenants without its prior agreement because the requirement to continue housing tenants is beyond the normal terms and conditions of a sale. Securing this prior agreement requires a balance as it could tip into a negotiation of the terms and conditions, raising probity issues for transactions which are intended to be open and competitive.
29. In light of these complexities, a standardised process for dealing with RFRs has been developed. Where an exemption to the RFR is available, the starting point is to consider whether it applies and, if so, whether to exercise it. Where there is no exemption or an available exemption is not exercised, the next step is to consider whether to negotiate a waiver or a variation to the terms of the RFR, lease the property or potentially to not transact the properties.
30. All of these options have benefits and trade-offs, and how these are weighed will depend on a number of factors at the time including the Government's objectives and bottom lines for SHRP, the potential for a competitive bidding process, the potential size of the transaction, and the anticipated outcomes for tenants.

Policy Decisions for Transactions

Tenant Rights and Interests

31. Cabinet has agreed that that tenants in transferred properties will continue to be housed for the duration of their need [CAB Min (14) 39/24]. A range of protections will ensure that tenants in need will enjoy ongoing access to social housing and maintain their rights during and after transactions.
32. The most significant rights and interests of social housing tenants are protected by the Residential Tenancies Act 1986 (RTA). Existing tenants will have their current tenancy agreement with HNZC transferred to the new provider without amendment. The Government is looking for innovation and improvements in service provision, so tenancy agreements between new tenants and a CHP may be different so long as they remain consistent with the RTA and other relevant legislation.

33. Tenants will also be protected through quality standards for property management, tenancy management and operational delivery that will be implemented via MSD's contract with CHPs and existing legislation. These standards have been designed so that tenants will receive services at either the same level or better than HNZN. MSD contracts have been designed so that they do not duplicate existing standards, or the proposed standards for smoke alarms and insulation to be considered by Cabinet in July.
34. A competitive commercial process is also a mechanism for bringing out higher standards, as weight in the evaluation criteria will be given to the quality of property management and commitments to addressing deferred maintenance. Evaluation criteria are discussed later in this paper.

Provider Failure and Maintaining Social Housing Places

35. The Government needs a robust protections scheme to ensure that tenants are protected in instances where a CHP becomes insolvent, exits the market or fails to deliver at the performance level required. There are existing regulatory and contractual mechanisms which will protect tenants in the case of CHP exit or non-performance. In the case of insolvency, receivers will have the incentive to partner with a new CHP as soon as possible to continue the payment of IRRS.
36. The Government will also have an interest in ensuring that it retains transacted social housing places. Our foremost concern is to ensure that tenants are not placed in a difficult situation by events outside their control, hence our stated position that the new owners will need to talk to the Government before removing properties from social housing supply.
37. We have considered different mechanisms for protecting social housing places. Any mechanism to do this needs to consider the impact on the CHPs, any interaction with the contract that MSD will have with the CHP, and what will best promote a dynamic social housing market. Our current approach is to use mechanisms such as contracting – both the sales and purchase contract and MSD's contract for IRRS places – to ensure continued social housing places. We will test this with potential market participants during the market sounding phase.

Establishing the Crown's Legal Position

Social Housing Reform (Transaction Mandate) Bill

38. The Social Housing Reform (Transaction Mandate) Bill provides Social Housing Joint Ministers with the authority to transfer HNZN properties, so long as the action is consistent with one or more of the Government's social housing objectives. We currently expect the Bill to be introduced to the House in early July. Once introduced, the Bill will go through a select committee stage.

Public Works Act

39. Some of the properties in Tauranga and Invercargill that are proposed for transfer were originally acquired by the Crown under the Public Works Act 1981 (PWA), and later vested in HNZN. The Crown has received legal advice that the offer-back provisions of the PWA do not apply to this land. The Social Housing Reform (Transaction Mandate) Bill clarifies that the offer-back regime does not apply, in order to avoid any doubt arising on this point.

Market Information and Feedback

40. The Treasury's Transactions Unit is currently undertaking a national Market Information and Feedback phase to solicit feedback on key commercial issues. Market and government participants will come to transactions better informed, and feedback will be used to finalise commercial details. This phase will be completed in July.

Commercial Process for Transactions

41. The Government will use an open, competitive process for SHRP transactions that ensures it is fair, inclusive and in line with All-of-Government procurement rules. The process has been designed so that participants will be supported throughout, recognising that a new market is being built. It will also manage risk to the Crown by using an incremental approach that gradually tests the capability of bidders.
42. The Government will help participants who are unfamiliar with commercial processes by establishing a level playing field and efficiencies for participants. A bidder support package will be provided to all participants, including key due diligence information on the properties and financial model templates. This package is intended to reduce any barriers to participation within the community housing sector.
43. The commercial process for the first transactions is scheduled to begin in August with a market sounding, where potential participants will be asked for feedback on specific issues. From here, it will enter two consecutive competitive stages, through which participants will be narrowed down and the preferred bidder eventually selected. The Government and the preferred bidder will then work to finalise the contracts.
44. The commercial process and descriptions of the purpose of each stage is set out in the table below, along with the intended start dates of each stage for the first transactions:

Stage	Market Sounding	Expression of Interest (EOI)	Request for Proposal (RFP)	Preferred Bidder and Close
Start date in first transactions	August 2015	October 2015	January 2016	April 2016
Purpose	To obtain feedback from potential market participants on the proposed property portfolios and transaction design.	To receive initial proposals from the market and assess respondents' ability to meet the transaction's objectives.	To receive final proposals from the market and select a successful bidder(s) on the basis of predetermined evaluation criteria.	To finalise the contractual documents with the successful bidder(s).

Delegations Underpinning the Commercial Process

45. Good governance and clear delegations are critical to the success of the transactions programme. The market will need certainty around who has responsibility for decisions throughout the process.

46. In order to develop momentum behind transactions, we propose that Cabinet approves the approach set out by this paper before delegating further decisions to Social Housing Joint Ministers. Some operational decisions will also be delegated to the Transactions Unit.
47. The table below sets out the delegations framework for SHRP transactions (excluding large-scale redevelopments) that we ask Cabinet to agree:

Decision Point	Joint Ministers	Transactions Unit	HNZC
1. Transaction Selection and Market Sounding			
Agree locations for transactions and to proceed to regional consultation	Approve		
Agree transaction structure	Approve		Consult
Agree to issue the market sounding document	Approve		Inform
Agree to the key commercial terms of a transaction	Approve		Inform
Agree overall evaluation criteria and weightings	Approve		
2. Expression of Interest (EOI)			
Agree the implementation of the EOI evaluation criteria	Inform	Approve	
Agree EOI content (and any associated documents)	Inform	Approve	
Agree change to EOI process e.g. single bidder	Approve		
Agree to issue EOI	Approve		Inform
Agree to shortlisted parties	Inform	Approve	
3. Request for Proposal (RFP)			
Agree the implementation of the RFP evaluation criteria	Inform	Approve	
Agree RFP content (and any associated documents)	Inform	Approve	
Agree to issue RFP	Approve		Inform
Agree change to RFP process e.g. single bidder	Approve		
Agree to shortlisted/preferred bidder	Inform	Approve	Inform
4. Preferred Bidder and Close			
Agree terms for negotiation (e.g. price parameters)	Approve		Inform
Agree significant variations to contractual obligations			Consult
Agree signing pre-conditions have been met	Inform	Approve	Inform
Agree to sign contract	Approve		Inform
Approval to close	Inform	Approve	

48. Social Housing Joint Ministers will seek Cabinet's approval in the event that there are any significant departures from the positions set out in this paper.

Transactions Structure

49. Four documents will form a transaction:

- A Transfer Agreement between Social Housing Joint Ministers on behalf of HNZC and the successful bidder(s) for the transfer of properties (note this may be either a sale and purchase agreement or a lease),
- An Outcome Agreement between MSD and the successful bidder(s) for the provision of social housing places,
- A Tenancy Agreement between the new provider and the tenant, with existing tenancy agreements for transferred properties to be assigned to the provider from HNZC at the point of transfer, and
- A Transitional Services Agreement between HNZC and the successful bidder(s) for the provision of interim management services (e.g. tenancy and property management) if required. This agreement will be negotiated between HNZC and the Transactions Unit.

Evaluation of Proposals

50. One of Cabinet's SHRP commitments is that HNZC stock will only be transferred if this results in better services for tenants and fair and reasonable value for taxpayers [CAB Min (14) 39/22 refers]. Bidders will therefore compete on both the price they offer and the quality of the service that they can provide.
51. These will be reflected in both qualitative and quantitative evaluation criteria used at the competitive stages of the commercial process. We will first assess the capability of providers to participate, their credibility to deliver and their ongoing sustainability. Final evaluation will focus on six core criteria: tenancy management, asset management, timeframes to assess deferred maintenance, requirement of transitional services, links with the community and price.
52. As a result, the price for transferred stock will be determined by bidders in the commercial process. Initial valuation of the portfolio will be based on the discounted cashflow of income from the properties rather than their book value.
53. Detailed assessment criteria will be approved by Social Housing Joint Ministers, as set out in the delegations framework.

Impact on HNZC

54. HNZC and the Transactions Unit will work closely together through the commercial process to mitigate any risks and ensure impacts on HNZC are fully understood, for instance by sharing information that might otherwise give rise to unintended liabilities.
55. A strategic review of HNZC, which amongst other things will look at the role of HNZC following the transactions, has recently been completed. Officials will be reporting to Social Housing Joint Ministers over the course of coming months to decide upon the Government's response.

Next Steps in the Transactions Programme

56. We recommend that Cabinet agrees to proceed to market sounding in Invercargill and delegates decisions on whether to undertake transactions in Tauranga to Social

Housing Joint Ministers. Decisions to progress to the following stages of the commercial process for the first transactions will be taken by Social Housing Joint Ministers as part of the delegations framework.

57. Officials will develop further recommendations on a second tranche of transactions by the end of August for Social Housing Joint Ministers to consider and make decisions upon. While no decisions have yet been taken, an initial desktop exercise has identified six regions based on areas of high deprivation and/or housing demand:

- Wairoa
- Horowhenua
- Far North
- Porirua
- Hamilton
- Whangarei

58. Officials will develop recommendations through analysis of the potential improvement in tenant outcomes from a transaction, the ability to better match housing supply with social housing demand, the market interest in such transactions, and the feasibility of a transaction taking into account stakeholder interests.

59. In parallel, the Transaction Unit will also commence a Request for Information (RFI) process in July, following the conclusion of the Market Information and Feedback phase. This RFI will gather information on market interest in potential future SHRP transactions from CHPs and other investors, and identify redevelopment opportunities and opportunities for additional social housing places where they are needed. This will be used, in part, to determine whether regions identified for the second tranche of transactions have sufficient market interest to warrant the commencement of consultation.

Risks for the Transactions Programme

60. Key risks and their mitigation strategies are set out in the table below:

Risk	Mitigation
Complex programme spanning multiple agencies means stakeholders may not understand it.	Progress has been made across all main elements of the SHRP. The delegations framework will clarify management responsibility within the transactions programme.
<ul style="list-style-type: none"> • Lack of market interest in transactions given the Government's requirements, or • Proposals made by the bidders do not meet the Government's requirements. 	The Transactions Unit is holding two market testing stages prior to the commencement of the commercial process, which will help calibrate market and Government requirements.
Any litigation related to the process for dealing with RFRs in Auckland will impact on the timing and approach for dealing with RFRs as part of the transactions programme.	Maintaining a transparent process based on early engagement with RFR holders will mitigate any risks.

Enabling Flexible Purchasing Approaches to Secure the Supply of Social Housing Places

61. In December 2014, Cabinet noted that the legislative definition of the IRRS constrained MSD in its purchasing role [CAB Min (14) 39/23 refers]. It only allowed MSD to pay social housing providers an IRRS which was calculated as the difference between market rent and the Income-Related Rent (IRR) paid by the tenant.
62. The Housing Restructuring and Tenancy Matters (Social Housing Reform) Amendment Act allows the Minister responsible for social housing, in consultation with other housing Ministers, to issue directions that allow MSD to enter into tailored agreements with social housing providers for IRRS. The direction will set parameters within which MSD can take more flexible approaches to purchasing social housing places. The calculation of a tenant's IRR will not be affected by tailored agreements.
63. A Ministerial direction needs to be made before MSD can enter into tailored agreements with social housing providers. We propose that the first direction be broad, permissive and enabling and made in July 2015. A broad direction will enable flexibility in the terms and conditions when MSD is negotiating contracts with providers.
64. The sector has been clear that IRRS on its own does not offer the degree of flexibility and the kinds of terms and conditions required to justify organisations entering into negotiations for the provision of social housing. Of particular concern to providers and potential providers is the inability to attract loan funding under standard IRRS agreements.
65. A broad direction will enable MSD to negotiate contracts for social housing provision that fits the needs of a particular area or for a client cohort, while also allowing sufficient flexibility to come to an agreement that is economically viable for the provider and represents value-for-money for Government. The direction will apply to tailored agreements for provision of social housing anywhere within New Zealand, and it will not be restricted to districts or areas of particular housing need.
66. Having a direction or set of directions that are too specific would restrict the arrangements that MSD could enter with providers and could potentially reduce the number of providers actively engaging with MSD about the provision of social housing places. It could also reduce the ability of providers to engage with MSD about innovative ways of providing social housing.
67. A broad direction would not prohibit the Minister for Social Housing from subsequently setting a specific direction for a specific situation or locality, if the need arises. The general direction would continue to apply except to the extent the specific direction conflicted with it in relation to the specific situation or area it applied. Specific directions should only be considered when absolutely necessary as they could lead to unnecessary confusion or the perception of favour to some social housing providers and lack of fairness for others.
68. There is no compulsion on CHPs or HNZC to enter into tailored agreements. Should a social housing provider wish to remain on the current IRRS agreement they can do so.

69. The types of contracting arrangements that will be enabled by the direction include:
- Long-term contracts,
 - Fixed or indexed contract rent rates,
 - Payments reflecting different tenancy service costs for different tenants,
 - Payments based on agreed values rather than market value,
 - Agreements where pricing and terms are different because the provider is a lessee of the property not the owner, and
 - Payments for vacancy risk.
70. An example direction is attached to this paper (Annex One). It is not expected that the final direction will change substantively from this example.
71. This paper seeks agreement for the Minister of Social Housing to make the first direction enabling tailored agreements in July 2015.

Enabling the Auckland RFP: Establishing a New Appropriation

72. MSD consulted the sector earlier in the year through a Registration of Interest process. CHPs gave their views on the types of arrangements that are necessary for the sector to supply additional places. The sector gave a clear indication on the different funding and contracting arrangements that are required in order to stimulate new supply in Auckland. These are over and above what is currently offered through the IRRS or will be offered through tailored agreements.
73. MSD is seeking to test more flexible arrangements to purchasing with community housing providers through an RFP process in Auckland. The RFP process is an opportunity for MSD to:
- Test the market response to new contract settings,
 - Understand what it would take to stimulate supply in Auckland,
 - Get some price discovery ahead of the initial transactions of HNZC properties in Tauranga and Invercargill, and
 - Generate innovative ideas for the provision of social housing.
74. Within Vote Social Development, there is currently no appropriation to fund some of the arrangements required for the Auckland RFP and potential future initiatives to stimulate supply. To enable these types of arrangements a new appropriation needs to be established.
75. Agreement is being sought to an in-principle expense transfer of the 2014/15 IRRS underspend to support finalising contracts following the Auckland RFP. This funding will not be confirmed until the October Baseline Update. In the interim, we propose a fiscally neutral adjustment of \$9.5m to reprioritise funding within 2015/16. This will temporarily reduce the 2015/16 appropriation for social housing tenancies until the expense transfer is confirmed in October. The in-principle amount is sufficient to cover the interim funding gap that has now been created in the 2015/16 IRRS appropriation.
76. To enable MSD to provide the types of funding required, this paper proposes to establish a single Non-departmental other expense, called "Support for the provision of social housing supply", within Vote Social Development. The Minister for Social Housing will have responsibility for this appropriation.

77. The scope of the new appropriation will be limited to providing support to secure access to properties for social housing providers to use for social housing tenancies.
78. This new appropriation will cover costs such as upfront funding to secure social housing places and success fees for finding quality properties to lease from the private market.
79. The transfer will be one-off but the appropriation will endure for any subsequent RFPs or initiatives which require the types of funding arrangements covered by this appropriation. The Minister for Social Housing will request new funding if subsequent RFPs or initiatives require the type of support covered by this appropriation.

Fiscal Implications

80. It is likely that properties will be transacted below their current book values. Transacting properties beneath their book value may be reflected in OBEGAL as a loss. However, this depends on accounting rules and Ministers' decisions around the extent of any protections placed on the properties. Officials will report to Social Housing Joint Ministers on the OBEGAL impact as transaction details are finalised.
81. The first Ministerial direction under the Housing Restructuring and Tenancy Matters (Social Housing Reform) Amendment Act 2015 (first Ministerial direction) has no financial implications.
82. Funding the Auckland RFP requires a fiscally neutral adjustment of \$9.5m to reprioritise funding within 2015/16. This will temporarily reduce the 2015/16 appropriation for social housing tenancies until the expense transfer is confirmed in the October Baseline Update.

Legislative Implications

83. Any Ministerial direction issued under Section 102 of the Housing Restructuring and Tenancy Matters Act 1992 (HRTMA) will be *Gazetted* and a copy presented to the House of Representatives as required by that Act.

Regulatory Impact and Compliance Cost Statement

84. The power to make Ministerial directions allowing tailored agreements was provided for by the Housing Restructuring and Tenancy Matters (Social Housing Reform) Amendment Act 2015 which was introduced and passed in May 2015. The regulatory impact and compliance cost statements for that Act are applicable to this statement as it directly arises from the policy behind that Act.

Consultation

85. The Ministry for Business, Employment and Innovation, HNZC and Crown Law were consulted on this paper. The Department of Prime and Cabinet has been informed. The paper was prepared by MSD and Transactions Unit at the Treasury.
86. The Housing Assistance Reform Feedback Group, an external advisory group made up of sector representatives and academic experts, have been consulted on the proposed approach to the first Ministerial direction.

Publicity

87. This paper will be considered for public release as part of the SHRP rolling proactive releases.
88. The publication of the first Ministerial direction in the *Gazette* will be supported by a media release and by a communication plan targeted at social housing providers, potential social housing suppliers and organisations that may wish to be involved with such providers (e.g. developers, financial investors) in the supply of social housing places.

Recommendations

89. The Minister Responsible for Housing New Zealand and Minister for Social Housing recommend that the Social Policy Committee:

Background

- 1 **note** that Cabinet has agreed a direction for reform of the social housing sector, in order to create a fair, effective and efficient social housing market [CAB Min (10) 44/8],
- 2 **note** that Cabinet has agreed that decisions about the location and shape of the first transactions, and the commencement of the commercial process for these transactions, are to be framed by national engagement and regional consultation [CAB Min (14) 39/21],
- 3 **note** that Cabinet has noted the feedback received from national engagement and agreed to proceed with regional consultation in Tauranga and Invercargill [CAB Min (15) 11/8A],

General Approach to Crown-Māori Issues

- 4 **note** that the Government will honour the terms of Treaty settlements and will approach Crown-Māori issues that arise within Social Housing Reform Programme (SHRP) transactions in accordance with the principles of good faith and reasonableness informed by consultation to ensure Māori interests and objectives are understood before any decisions are made,

Regional Consultation

- 5 **note** the consultation process found no particular interests under the Treaty of Waitangi that will be impacted by a transaction in Invercargill, however Ngāti Ranginui has identified significant cultural heritage sites in Tauranga requiring further advice from officials,

Treaty Settlement Rights of First Refusal

- 6 **note** that the Transactions Unit will use a standardised process in dealing with Treaty settlement Rights of First Refusal (RFR) which relies on early and open engagement with RFR holders as part of regional consultation in potential transaction areas,
- 7 **agree** that the starting point for transacting properties subject to RFRs is to consider applying an exemption if one is available,

Policy Issues

- 8 **note** legislation governs most of the significant rights and interests of all social housing tenants, including legal protection for existing tenants to retain their Housing New Zealand Corporation (HNZC) tenancy agreement with any new social housing provider,
- 9 **note** that new tenants may have a different tenancy agreement to existing tenants in order to encourage innovation and improved service delivery, so long as it is consistent with legislation,
- 10 **note** existing regulation and contractual obligations form the protections package for maintaining social housing places and service provision,

Commercial Process

- 11 **note** the commercial process that will be used for SHRP transactions maximises competition while supporting bidders throughout the process who may be unaccustomed to commercial transactions,
- 12 **note** that community housing providers will compete on both price and the quality of services in the evaluation criteria used throughout the commercial process, and that proposals will be assessed on tenancy management, asset management, timeframes to assess deferred maintenance, requirement of transitional services, links to the community and price,
- 13 **agree** the delegations framework for SHRP transactions as set out below:

Decision Point	Joint Ministers	Transactions Unit	HNZC
1. Transaction Selection and Market Sounding			
Agree locations for transactions and to proceed to regional consultation	Approve		
Agree transaction structure	Approve		Consult
Agree to issue the market sounding document	Approve		Inform
Agree to the key commercial terms of a transaction	Approve		Inform
Agree overall evaluation criteria and weightings	Approve		
2. Expression of Interest (EOI)			
Agree the implementation of the EOI evaluation criteria	Inform	Approve	
Agree EOI content (and any associated documents)	Inform	Approve	
Agree change to EOI process e.g. single bidder	Approve		
Agree to issue EOI	Approve		Inform
Agree to shortlisted parties	Inform	Approve	
3. Request for Proposal (RFP)			
Agree the implementation of the RFP evaluation criteria	Inform	Approve	
Agree RFP content (and any associated documents)	Inform	Approve	
Agree to issue RFP	Approve		Inform
Agree change to RFP process e.g. single bidder	Approve		
Agree to shortlisted/preferred bidder	Inform	Approve	Inform
4. Preferred Bidder and Close			
Agree terms for negotiation (e.g. price parameters)	Approve		Inform
Agree significant variations to contractual obligations			Consult

Agree signing pre-conditions have been met	Inform	Approve	Inform
Agree to sign contract	Approve		Inform
Approval to close	Inform	Approve	

- 14 **authorise** the Minister Responsible for Housing New Zealand and the Minister for Social Housing to act as Social Housing Joint Ministers within SHRP transactions,

Transactions Structure

- 15 **note** that the transactions structure will be based around a Transfer Agreement that will transfer properties to the successful bidder(s) via either a sale or a lease, an Outcome Agreement, Tenancy Agreements and a Transitional Services Agreement,

Impact on HNZC

- 16 **note** that HNZC and the Transactions Unit will work together closely throughout the commercial process to ensure impacts on HNZC are fully understood,

Next Steps in the Transactions Programme

- 17 **agree** to progress to a market sounding in Invercargill, and
- 18 **delegate** the decision whether to proceed to market sounding in Tauranga to Social Housing Joint Ministers.

Enabling Flexible Purchasing Approaches to Secure the Supply of Social Housing Places

- 19 **note** that the Housing Restructuring and Tenancy Matters (Social Housing Reform) Amendment Act 2015 which was introduced and passed in May 2015 empowers the Minister for Social Housing, in consultation with other Housing Ministers, to make directions permitting the Ministry of Social Development to enter into tailored agreements with social housing providers,
- 20 **note** that any price for provision of social housing under tailored agreements does not have to be calculated on the same basis as the income-related rent subsidy and tailored agreements can include terms and conditions that cannot currently be employed in social housing agreements,
- 21 **agree** that the first direction be broadly permissive and enabling in line with example attached to this paper, and issued in July 2015,

Enabling the Auckland RFP: Establishing a New Appropriation

22 **note** that early market engagement has identified a need for alternative types of funding to increase supply of social housing places,

23 **agree** to establish the following appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Social Development	Minister for Social Housing	Support for the Provision of Social Housing Supply	Non-Departmental Other Expense	This appropriation is limited to providing support to secure access to properties for social housing providers to use for social housing tenancies.

24 **note** that approval has been sought for an in-principle expense transfer (which will be confirmed at the October Baseline Update) from 2014/15 to 2015/16 in the Part Payment of Rent to Social Housing Providers appropriation,

25 **approve** the following fiscally neutral adjustments to provide for the transfer the IRRS forecast underspend to the support for the provision of social housing supply appropriation, with no impact on the operating balance:

	\$m – increase/(decrease)				
	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears
Vote Social Development					
Minister for Social Housing					
Non-Departmental Output Expense:					
Part Payment of Rent to Social Housing Providers	(9.5)	-	-	-	-
Non-Departmental Other expense:					
Support for the provision of social housing supply	9.5	-	-	-	-
Total Operating	-	-	-	-	-

26 **agree** that the proposed changes to the appropriations in recommendation 26 above for 2015/16 be included in the 2015/16 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Hon Bill English
Ministerial Responsible for HNZC

Hon Paula Bennett
Minister for Social Housing

Date:

Date:

Annex One: Ministerial Direction on Tailored Agreements with Social Housing Providers (Example Only)

Pursuant to section 102(1A) of the Housing Restructuring and Tenancy Matters Act 1992, the Minister responsible for the Social Housing Agency, after consultation with the Minister of Finance and the Minister of Housing, gives the Social Housing Agency the following direction.

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Direction

Title

This direction is the Ministerial Direction on Tailored Agreements with Social Housing Providers.

Commencement

This instrument comes into force on [date].

Interpretation

(1) In this direction, unless the context otherwise requires,—

Act means the Housing Restructuring and Tenancy Matters Act 1992

agency means the social housing agency or agencies appointed under section 100 of the Act

indexed rent rates means a rate of rent that is adjusted from time to time by reference to movements in the all groups New Zealand Consumer's Price Index

phased payments mean periodical payments in phased stages during an agreed period within the term of the tailored agreement

related services mean services related to housing

tailored agreement means an agreement under section 137A of the Act

vacant, in relation to any social housing, means unoccupied and not subject to a tenancy.

(2) Terms used in this direction and not defined in subclause (1) but defined in section 2 of the Act have the same meanings in this direction.

Purposes

The purposes of this direction (as set out in section 102(1B) of the Act) are to enable flexible purchasing approaches by the agency and to promote social housing outcomes that reflect the diverse needs of tenants and the diverse range of existing social housing providers and potential providers.

Application

This direction applies when the agency proposes to enter, or enters, into a tailored agreement under section 137A of the Act with 1 or more social housing providers for the provision, by that or those providers, of social housing and any related services.

Matters to be included in a tailored agreement

A tailored agreement must (without limitation) contain terms and conditions:

- (a) specifying the period over which the social housing provider must provide social housing (being a period suitable to the demand profile of the area in which the social housing is to be provided):
- (b) specifying that the tailored agreement relates to—
 - (i) all social housing or related services, or both, to be provided by the social housing provider and the details of those services; or
 - (ii) only specified social housing or specified related services, or both, to be provided by the social housing provider and the details of those services:
- (c) specifying whether the tailored agreement relates to existing premises or anticipated premises (or both) and a description of those premises:
- (d) specifying the date or dates on which the social housing or related services, or both, will start to be provided (which may include provision for delays for future contingencies):
- (e) specifying the price and if necessary how it is calculated to be paid by the agency for the provision of the social housing or related services, or both, under the tailored agreement:
- (f) specifying the manner in which and the times that price or parts of it will be paid by the agency.

Terms as to price that may be included in a tailored agreement

For the purpose of clause 6(e), the terms and conditions of a tailored agreement may (without limitation) include provisions requiring the agency to—

- (a) pay an agreed amount or amounts as the price for providing social housing whether or not the amount or amounts agreed are more or less than the difference between a tenant's income-related rent and market rent:
- (b) pay an agreed amount or amounts for successful achievement of an objective or objectives related to the provision of social housing defined in the tailored agreement:
- (c) pay an agreed amount or amounts in respect of existing premises that are to be provided as social housing under the tailored agreement for periods that they are vacant:
- (d) pay different agreed amounts for related services for different tenants or tenancy situations:

- (e) setting fixed or indexed rent rates defined in the tailored agreement that may be different to the market rent for the social housing to be provided:
- (f) pay for the provision, by the social housing provider, of social housing that is not owned by the social housing provider.

Payment terms that may be included in a tailored agreement

For the purpose of clause 6(e), a tailored agreement may (without limitation) include terms and conditions requiring the agency to pay the price for the provision of social housing and related serviced in any of the following ways:

- (a) by phased payments:
- (b) by 1 or more lump sum payment or payments:
- (c) by payment in advance of the social housing being provided to a tenant by the social housing provider:
- (d) by payment on the successful achievement of an outcome or outcomes agreed on and defined in the tailored agreement.

Dated at Wellington this day of 2015

Minister for Social Housing

Explanatory note

This note is not part of the instrument, but is intended to indicate its general effect.

This direction under the Housing Restructuring and Tenancy Matters Act 1992 (the **Act**), in accordance with which the social housing agency is authorised to enter into tailored agreements for the provision of social housing, is broadly enabling. The direction sets out that certain matters must be included in a tailored agreement with a social housing provider but without limiting those matters, and provides flexibility as to the price and payment terms that may be included in a tailored agreement. Nothing in the direction requires the agency to enter into tailored agreements or affects the way in which a social housing tenant's rent is to be calculated under the Act.

Consultation on Cabinet and Cabinet Committee Submissions

Certification by Department:	
Guidance on consultation requirements for Cabinet/Cabinet committee papers is provided in the CabGuide (see Procedures: Consultation): http://www.cabguide.cabinetoffice.govt.nz/procedures/consultation	
Departments/agencies consulted: The attached submission has implications for the following departments/agencies whose views have been sought and are accurately reflected in the submission: MBIE, HNZA, Crown Law	
Departments/agencies informed: In addition to those listed above, the following departments/agencies have an interest in the submission and have been informed: DPMC	
Others consulted: Other interested groups have been consulted as follows: <i>Note the paper was prepared in concert with MSD.</i>	
Name, Title, Department: Tom Hall, Manager (Housing), The Treasury.	
Date:	Signature

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



Cabinet Economic Growth and Infrastructure Committee

Summary

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

Social Housing Reform Programme: Transfer of HNZC Properties to the Community Housing Sector

Portfolio HNZC / Social Housing

Purpose This paper seeks agreement to announce Christchurch as the next location for a transfer of HNZC stock to the community housing sector, and to investigate the potential of further transactions in Porirua, Lower Hutt, and Hamilton.

Previous Consideration In December 2014, Cabinet agreed to the objectives of the Social Housing Reform Programme (SHRP), and to the commitments that the government would make over the next five years, including that that HNZC would provide no less than 60,000 properties by 2017 [CAB Min (14) 39/22].

In July 2015, the Cabinet Social Policy Committee authorised the Minister Responsible for HNZC and Minister for Social Housing to act as Joint Ministers within SHRP transactions [SOC Min (15) 14/3].

Summary

The intent of the SHRP is to build a fair, efficient and effective social housing market. The transfer of social housing properties from the HNZC to the community housing sector supports sector growth, innovation, and provision of housing responsive to tenant needs. Tranche one transactions took place in Tauranga, and will result in the transfer for 1,124 properties (Tranche one discussed in **paragraphs 27-33**).

The four locations of Christchurch, Hamilton, Lower Hutt, and Porirua have been identified as the most ideal locations for tranche two transactions, as these locations have the strongest alignment with the Ministry of Social Development's purchasing intentions and contracting framework, and have a high potential for community-led regeneration (criteria in **paragraph 35**). Christchurch is recommended to be the next location for a transfer transaction, and the timing and commercial considerations of the transfer are discussed in **paragraphs 43-55**).

Officials are conducting further assessments in Lower Hutt and Porirua, particularly with consideration to Right of First Refusal (RFR) properties as these are located amongst non-RFR properties, and to confirm the current fiscal costs of social housing tenants in all four locations.

Regulatory Impact Analysis	Not applicable.
Baseline Implications	None from this paper.
Legislative Implications	None.
Timing Issues	The Christchurch transfer timeline is described in paragraph 44 .
Announcement	The Minister responsible for HNZC and the Minister for Social Housing (the Ministers) intend to announce Christchurch as the next location for a transfer transaction on 27 September 2016.
Proactive Release	None proposed.
Consultation	Paper prepared by HNZC and MSD, DPMC, the Treasury, HNZC, MBIE, and TPK were consulted. The Minister indicate that discussion is not required with the government caucus, or with other parties represented in Parliament.

The Minister Responsible for HNZC and the Minister for Social Housing recommend that the Committee:

- 1 note that in December 2014, Cabinet agreed to the objectives of the Social Housing Reform Programme (SHRP), and to the commitments that the government would make over the next five years, including that that HNZC would provide no less than 60,000 properties by 2017 [CAB Min (14) 39/22];
- 2 note that the proposed additional transactions are consistent with the government's commitments made in respect of the timeframe and volume of HNZC properties to be transferred to the community housing sector;
- 3 note that key lessons learnt from initial transfer transactions include that:
 - 3.1 there is a clear and sophisticated market for large scale transactions;
 - 3.2 large scale transactions are an efficient way to drive rapid change in the sector;
 - 3.3 HNZC has internalised the cost of multiple risks in providing social-housing services;
 - 3.4 long-term contracts for certainty of funding will be required;
 - 3.5 tenant and community engagement helps build support for transfers;
 - 3.6 there are advantages if multiple parties are interested in social-housing provision in an area;
- 4 note that large-scale transactions align with the government's capital recycling objectives, allowing the funding of significant new capital projects while maintaining the government's fiscal strategy;

- 5 note that development of a pipeline of transactions generates momentum in developing the social-housing market, and thereby in achieving the goals of the SHRP;
- 6 agree to continue the programme of transfers of HNZC properties and tenancies to the community housing sector, in order to build a more diverse and responsive market that better meets tenant needs and provides value for money for taxpayers;
- 7 note that in July 2015, the Cabinet Social Policy Committee authorised the Minister Responsible for HNZC and Minister for Social Housing to act as Joint Ministers within SHRP transactions [SOC Min (15) 14/3];
- 8 note that the Crown has a policy of consulting with iwi and hapū before transfer transactions are undertaken to ensure it understands their rights and interests in HNZC land before it is transferred to third parties,
- 9 invite Joint Ministers to:
- 9.1 announce Christchurch as the next location for a transaction of HNZC stock to the community housing sector in order to maintain programme momentum;
 - 9.2 direct officials to commence engagement with Ngāti Toa Rangātira with a view to progressing transactions in Porirua and Lower Hutt;
 - 9.3 direct officials to commence engagement with Waikato-Tainui, once Right of First Refusal negotiations have concluded in Tauranga, with a view to progressing a transaction in Hamilton;
 - 9.4 report back to the Cabinet Economic Growth and Infrastructure Committee if any recommended transaction will have significant fiscal costs or OBEGAL impact as a result of its intended commercial structure and objectives;
- 10 note that the size of the HNZC portfolio in Christchurch - over 5,000 properties - allows the government to commit to one or more transfers there, with the potential for HNZC to retain a sustainable presence;
- 11 note that officials are currently investigating the potential to recommence a transaction of HNZC properties and tenancies in Invercargill;
- 12 note that intentions in respect of transfers of HNZC properties in Lower Hutt, Porirua, and Hamilton should be treated as commercially confidential until public announcements are made;
- 13 note that Joint Ministers will report back to the Cabinet Economic Growth and Infrastructure Committee before any public announcements are made in respect of any transfers of HNZC properties in Lower Hutt, Porirua, or Hamilton.

Jenny Vickers
Committee Secretary

Hard-copy distribution:
Cabinet Economic Growth and Infrastructure Committee
Office of the Prime Minister
Deputy Chief Executive, Policy, DPMC
Melleny Black, PAG, DPMC

COMMERCIAL: IN CONFIDENCE

Office of the Minister Responsible for HNZC
Office of the Minister for Social Housing

Chair
Cabinet Social Policy Committee

Social Housing Reform Programme - Tranche 2 of the HNZC transfer transactions

Proposal

1. This paper seeks Cabinet Social Policy Committee agreement for the Minister Responsible for HNZC and the Minister for Social Housing (Joint Ministers) to:
 - a. announce Christchurch as the next location for a transaction of Housing New Zealand Corporation (HNZC) stock to the community housing sector;
 - b. direct officials to commence engagement with Ngāti Toa Rangātira with a view to progressing transactions in Porirua and Lower Hutt; and
 - c. direct officials to investigate the potential for a transfer in Hamilton.
2. The paper also fulfils a commitment made by Joint Ministers to report back to Cabinet before further decisions on transfer transactions are announced.

Executive Summary

3. The intent of the Social Housing Reform Programme (SHRP) is to build a fair, efficient and effective social-housing market that will better support people in greatest need for the duration of that need. A key objective of the SHRP is that there is more diverse ownership or provision of social housing. The transfer of social housing provided by HNZC to alternate providers will help us meet this objective, through diversifying ownership of social housing.
4. Transactions will also contribute to achieving the other objectives of the SHRP. We need more developers, financiers and specialist service providers to get involved in order to increase the sector's capability and capacity. This capability and capacity will support the objective of more innovation and more responsiveness to social housing tenants and communities, and help ensure people who need housing support can access it and receive social services that meet their needs.
5. The transfer of social-housing properties from HNZC to the community housing sector is a key aspect of the SHRP – each transfer will kick-start additional sector growth, bring innovation, and support the provision of housing services that are

responsive to tenant needs. This is not just about taking over provision of existing places from HNZC, it will increase sector ability to add new supply and diversify service offerings. The first of these transactions aside from the transfer to Tāmaki Redevelopment Corporation is in Tauranga.

6. Transactions also support the overall Capital Recycling programme, which is helping the Government meet long-term fiscal objectives through active stewardship of government resources. The Crown capital released from transactions gives the Government more headroom for other capital expenditure to support key public services and investments, and maintain net debt targets.
7. Later this year HNZC will be presenting a proposal to the Minister Responsible for HNZC for large scale multi-year developments in Auckland, with a potential cost over three years of the order of \$1.6 billion. The capital proceeds from transactions enables the Government to consider more ambitious proposals than would otherwise be the case.
8. We are now considering a joint transfer with Horowhenua District Council of its 115 community housing properties with 249 HNZC properties. There has also been renewed interest in Invercargill, and we are investigating the recommencement of a transaction there.
9. The Tauranga transaction has stimulated interest in the social-housing market, with multiple CHPs making an investment in that procurement process and three high-quality RFP responses received. Negotiations with a preferred bidder are nearing completion. We intend, through subsequent transfers, to create larger providers of social-housing around the country, and expect them to make significant contributions to the development of a more capable and responsive market that can better meet tenant needs. A pipeline of transfer transactions is important to give the sector confidence that investing in our programme is the right choice to make, and that they will have the opportunity to grow if they do a good job.
10. Key lessons from the Tauranga transaction include:
 - a. There is a clear and sophisticated market for large scale transactions particularly where there is the opportunity to reconfigure/redevelop the portfolio being transacted.
 - b. Large scale transactions are an efficient way to drive rapid change in the composition of the community housing provider (CHP) sector. Participants can bring considerable innovation and resources to bear on social-housing and are eager to undertake redevelopment and add to housing supply.
 - c. HNZC has internalised the true cost of multiple risks in providing social-housing services (e.g., methamphetamine and insurance) and the transaction process is surfacing these and revealing the true cost of provision.
 - d. Purchasing flexibility for the Ministry of Social Development (MSD) in supply contracts without provider supply flexibility has a monetary cost.
11. Although the Tauranga transaction is still under negotiation with the Preferred Bidder, the parameters of that negotiation have positively exceeded our fair value expectations. We are confident that it will result in improved services for tenants and value for money for taxpayers. With this in mind, we intend to progress a second tranche of transactions (Tranche 2) to maintain the momentum generated by the Tauranga transaction. Momentum helps develop the social-housing

market, and thereby achieve the goals of the Government's Social Housing Reform Programme.

12. Eight areas were identified as potential candidates for Tranche 2 due to high levels of presenting market interest.¹ A ranking process based on our key priorities identified Porirua, Lower Hutt, Christchurch, and Hamilton as the most attractive of those locations. For each area, officials have subsequently:
 - a. undertaken a preliminary assessment of the iwi and hapū rights and interests in each location (based on information held by the Crown and HNZC),
 - b. engaged with local councils on a possible transfer (except for Christchurch),
 - c. assessed reconfiguration opportunities based on MSD's requirements, and
 - d. assessed the potential commercial viability and opportunity for redevelopment.
13. Christchurch is a clear sale-opportunity, with the potential for more than one provider in that market and a relatively-rapid sales-process (expected to conclude by September 2017). It is therefore attractive from the viewpoints both of developing the social-housing market and maintaining momentum in the transactions programme. We therefore propose that Christchurch should be the next location announced for a transfer transaction.
14. Compared with Christchurch, Porirua and Lower Hutt will offer greater opportunity for regeneration, but the existence of widespread rights of first refusal (RFRs) will complicate the commencement of a procurement process. Regeneration may also not be possible without additional subsidy being provided by the Crown (either increased IRRS payments or through lower transfer proceeds). In combination, transfers in Christchurch, Porirua and Lower Hutt will be pursued as Tranche 2.
15. We envisage a potential Hamilton transaction as being initiated after the above transactions have commenced. This allows preparatory work to be done for Hamilton, and for Ministers and officials to focus on ensuring the successful transactions in Christchurch, Porirua and Lower Hutt.

Background

16. The intent of the SHRP is to build a fair, efficient and effective social-housing market that will better support people in greatest need for the duration of that need. Our actions so far include:
 - a. making the Income-Related Rent Subsidy (IRRS) available to registered CHPs,
 - b. transferring the needs-assessment function to MSD, and
 - c. MSD purchasing additional social-housing places on behalf of the Crown.
17. These steps will allow us to flexibly purchase social-housing places from a wider range of housing providers, where and when we require them, for the duration of the tenant's need. It will also enable other parties to provide the capital required

¹ The long list of potential locations for Tranche 2 transfers included Auckland Region, Christchurch, Hawke's Bay Region (excluding Napier), Napier, Palmerston North, Waikato (especially Hamilton) and Wellington Region (especially Hutt Valley and Porirua).

to upgrade and expand the stock we need. A key objective of the SHRP is to encourage and develop more diverse ownership of social-housing. We also need more developers, financiers and specialist service providers to get involved.

18. However, barriers inhibit the full development of a social-housing market. These barriers include a lack of spread and scale in the current social-housing market and low returns from social-housing provision. We need ways of overcoming these barriers to support alternative social-housing providers to grow, including new entrants. This growth needs to happen at a greater rate than the overall social-housing stock is growing at. The large scale transfer transactions we are discussing in this paper will facilitate the growth we need if the sector is going to be able to make a meaningful contribution to the challenges we face.
19. The Social Policy Committee agreed a delegations framework for SHRP transactions, which allows Joint Ministers (the Minister Responsible for HNZC and Minister for Social Housing) to approve the location of transfer transactions and to proceed to Regional Consultation. There is also flexibility in the delegations for us to approve changes to the commercial process and structure for future transactions. SOC Min (15) 14/3 refers.
20. There are two primary considerations in relation to decisions on the scale and pace of additional transfers of social-housing properties:
 - a. In his 2015 State of the Nation speech, the Prime Minister stated the Government would look to sell 1,000 - 2,000 HNZC properties over the following year (2016) for use as social-housing run by approved CHPs.
 - b. In December 2014, Cabinet agreed that HNZC would provide no less than 60,000 properties by 2017 (CAB Min (14) 39/22 refers).
21. The commitments were intended to demonstrate our deliberate approach to the transfer programme; to enable us to learn from our initial forays and confirm their viability and value before entering into a more ambitious stage of market development. The case for transfer transactions has been made, and we now intend to move forward with the programme.
22. HNZC is currently reforecasting the number of its properties in light of its construction and divestment programme. HNZC is only divesting properties in areas of lower demand and which cannot be used for emergency housing. We expect that HNZC will have more than 60,000 properties at the beginning of 2017, but these numbers may dip below 60,000 in late 2017 or early 2018 as properties are transacted, before increasing as developments come on stream. HNZC will remain a very large scale provider and the total number of emergency and social properties available, comprising social housing properties owned by HNZC and CHP in New Zealand will be increasing.
23. This paper fulfils the undertaking we made, also mentioned in the Prime Minister's speech, for Cabinet to review progress before any further decisions on transactions of HNZC stock are announced (to move beyond the initial commitments made).
24. The Crown has a policy of consulting with iwi and hapū before SHRP transactions are undertaken to ensure it understands their rights and interests in HNZC land before it is transferred to third parties. Progressing to a procurement process in a particular area will depend upon the outcome of consultation with local iwi and hapū.

25. Discussions have already occurred with Ngāi Tahu as part of the Invercargill transaction Regional Consultation, so it is possible to progress to Regional Consultation and Market Sounding in Christchurch without undertaking the preliminary discussions we intend to have with Ngāti Toa in respect of possible Porirua and Lower Hutt transfers. The intent will be to not include in the transfer any of the few HNZN properties in Christchurch that are subject to RFR (25 properties).
26. HNZN will continue its 'business-as-usual' activity of property/asset management and sales to tenants in areas identified for transfer until a contract is signed with the new provider. There will be no hold-up to this important activity as we undertake consultation, test the market, and complete transactions. In particular, for the locations shortlisted for Tranche 2, we also expect HNZN to have an enduring role that will enable it to continue developments after transfers are concluded. MSD can also contract for additional supply from CHPs independently of any transfer processes that may be occurring.

Lessons learnt from Tranche 1 transactions

27. The first transactions have stimulated interest in the wider social-housing market from domestic and international players, and there has been an investment from participants in the procurement process for Tauranga.
28. The first large-scale transaction is occurring in Tauranga, and will result in the transfer of 1,124 properties from HNZN to the provider. To date:
 - a. The viability of a transfer in Tauranga was originally tested via a Market Sounding, which commenced on 17 August 2015.
 - b. The commercial process was then started when the Expressions of Interest was released on 20 November 2015.
 - c. The Request for Proposal was released to three parties on 23 March 2016, and responses were received by 07 June 2016.
 - d. Following a detailed evaluation process, Accessible Properties was announced as the Preferred Bidder on 12 August 2016. Accessible Properties, owned by IHC New Zealand Inc., is New Zealand's largest non-government CHP.
29. Lessons learned from Tauranga include:
 - a. There is a market for large-scale social-housing transfers particularly where there is sufficient opportunity for reconfiguration and redevelopment. This was demonstrated in Tauranga where five high-quality Expressions of Interest were received and all of the RFP responses were of a high calibre. The minimum size of transfers to attract these institutional investors and large-scale providers is 1000 properties, although 2000 is more attractive to them. The Invercargill transfer did not reach this scale and the market response was limited.
 - b. Large-scale transactions provide an efficient way of driving rapid change in the composition of the CHP sector. As part of developing the transaction contract, MSD has had to be very clear about what it values and its service requirements. This clarity will assist MSD in negotiating a contract with HNZN. The transactions also provide a benchmark against which to measure the performance of HNZN and CHPs. Participants can bring

considerable resources to bear on social-housing and are eager to undertake redevelopment and add to housing supply.

- c. The Tauranga transfer is identifying risks and associated costs which have historically been internalised by HNZN. The agreed commercial model will price and provide solutions for these issues, which include:
 - the cost to an owner of insuring for social-housing tenants (with particular emphasis on methamphetamine contamination and fire hazards);
 - dealing with building defects that HNZN has not resolved;
 - maintaining housing to a set standard for the life of the contract; and
 - interest rate risk on debt funding (affecting the cost of capital deployed).
 - d. The current funding settings, which are based on market rent being sufficient to maintain a social-housing business, make transactions financially marginal. The extent to which the Government is seeking reconfiguration and redevelopment needs to be made as clear and accessible as possible as the financial viability of a transaction will be enhanced where there is potential for capital growth that can be realised by the provider.
 - e. Early engagement with iwi and hapū with RFRs enables a better understanding of their aspirations and provides scope to incorporate shared objectives within the commercial structure.
 - f. Purchasing flexibility for the Ministry of Social Development (MSD) in supply contracts without provider supply flexibility has a monetary cost.
30. The potential for a pipeline of future transfer transactions was noted by market participants as an incentive to offset their upfront investment of resources in the Tauranga procurement. Commencing Tranche 2 by the end of this month will maintain and capitalise on this momentum and allow us to give visibility to a pipeline of future transactions.
31. A commercial process was also commenced in Invercargill, but that transfer was put on hold due to the single qualifying respondent withdrawing from the procurement. Lessons learnt in Invercargill include clearly communicating the nature of the transaction early. We have recently received advice from officials that three parties have expressed interest in relation to Invercargill, and we have asked them to investigate the recommencement of a commercial process there in the near future.
32. Transaction structure and processes also need to reflect the size and opportunity of the transaction and type of likely market participants. What was accepted by the market as appropriate for a large-sale transfer like Tauranga will not necessarily hold true for a smaller transaction. This learning has been applied to the smaller transaction currently being planned for Horowhenua and will be applied for any new process in Invercargill.
33. Knowledge and expertise gained from the first tranche of transactions will help make future transfers a smoother process, with a better Crown understanding of

potential issues and preferred positions, as well as increased market capability and understanding of our objectives.

Locations selected for Tranche 2 transactions

34. We consider that the most important factor for a successful transaction is the presence of market interest. Through undertaking a comprehensive Request for Information, officials were able to identify eight areas where there is strong market interest in future transactions.
35. These eight locations were then ranked according to:
- Alignment with MSD's purchasing intentions and contracting framework.²
 - Understanding of iwi and hapū interests.
 - The potential for community-led regeneration.
 - The ability of the transfers to help maintain momentum of CHP development.
 - Opportunities to improve the utilisation of HNZC stock.
36. Four locations were subsequently identified as the most attractive options for the next tranche of transactions. These locations areas are:
- Christchurch,
 - Hamilton,
 - Lower Hutt, and
 - Porirua.
- The key characteristics of each of these locations are set out in the table appended to this paper. The table was prepared in consultation with the Office of Treaty Settlements (OTS), Te Puni Kōkiri (TPK), the Ministry of Business, Innovation and Employment (MBIE), MSD, and HNZC.
37. As the locations were mainly selected on the basis of market interest, the considerations we have placed particular emphasis on were whether a scale transaction is likely to be commercially viable, and the extent to which we could maintain momentum for the transfers programme. Commercial viability included the current match of stock to tenant needs, as well as reconfiguration/redevelopment opportunities.
38. After considering the advice from officials, we intend to announce Christchurch on 27 September as the next location for a transfer transaction. Christchurch has the potential for more than one provider in that market and a relatively-rapid sales-process (expected to conclude by September 2017). It is therefore attractive from the viewpoints both of developing the social-housing market and maintaining momentum in the transactions programme. Regional Consultation and Market Sounding in Christchurch would be initiated before the end of this month (a timeline is included below). Our intention is to progress one or more transfers of HNZC properties and tenancies in Christchurch as a sale, since introducing a leasing option may introduce unnecessary delay.
39. The potential to improve outcomes for tenants and regenerate communities leads to our interest in Lower Hutt and Porirua. We will carefully assess the benefits

² In particular whether there is sufficient ongoing demand forecast by MSD for social housing to warrant the long term supply contracts required to make a transfer transaction viable.

and costs of undertaking regeneration before making any decisions on how transfers in those locations will shape up.

40. Whilst a transaction excluding RFR properties in Porirua and Lower Hutt could proceed, it would be challenging because RFR properties are located amongst the non-RFR properties. Discussions with Ngāti Toa Rangātira, the RFR holder, will focus on how the iwi can be involved in the transaction and the relationship of this with the iwi's goals, rights and interests, in particular RFRs. These discussions should be treated as commercially confidential until such time as a public announcement is made.
41. We envisage a potential Hamilton transaction as being initiated after the above transactions in Christchurch, Porirua and Lower Hutt have commenced. This allows preparatory work to be done for Hamilton, and for Ministers and officials to focus on ensuring the successful transactions in Christchurch, Porirua and Lower Hutt. A very high proportion of HNZC properties in Hamilton are subject to RFRs, so a transaction would likely commence on a bilateral basis with Waikato-Tainui.
42. Officials are working to identify the current fiscal costs of social-housing tenants in Christchurch, Hamilton, Lower Hutt, and Porirua. This will incorporate a wider consideration of cost to the Crown than just housing support. In particular it can be used to assess the benefits of regeneration of housing stock (as discussed below). This information will provide a platform to determine the baseline, monitor the outcome of transfers and also help shape the objectives of future transfers. It will integrate with wider work MSD is undertaking on its investment approach as part of the intended development of its role as an intelligent purchaser.

Timing and commercial considerations for Tranche 2

43. The draft target timeline for a transfer transaction for Christchurch is set out below based from a 27 September 2016 announcement. Each stage in the process is dependent on the successful conclusion of the previous stage and any delays will cascade through subsequent stages. The timeframe is heavily reliant on the outcome of consultation and iwi consultation being resolved. A delay in either of these stages could cause longer delays to the overall timeframe.
44. Christchurch transfer timeline:
 - a. Announcement of intention to carry out a transfer transaction – 27 September 2016
 - b. Regional Consultation and Market Sounding – complete by end-November 2016
 - c. Expressions of Interest Stage – up to three bidders announced end-February 2017
 - d. Request for Proposals Stage – preferred bidder announced mid-June 2017
 - e. Contracts signed with successful bidder – end-August 2017
 - f. Transition from HNZC to new provider – completed November 2017.
45. Lower Hutt and Porirua may require a longer timeframe depending on the extent to which regeneration is included at the outset, or to market-test transaction specific parameters. Each will also be timed from a later start date due to the need for preliminary discussions with Ngāti Toa Rangātira to be concluded. We will consider timing post-discussion.

46. The timing of any announcement in respect of Hamilton is uncertain. We expect that once initiated, a Hamilton transaction may be taken through to completion sooner than some Tranche 2 locations as it may progress immediately from preliminary discussions with Waikato-Tainui to a bilateral commercial negotiation.
47. As mentioned above, there are possibilities for further developing or adapting the commercial structure used in Tauranga to better meet the circumstances of specific locations, tenant cohorts, market characteristics and portfolios of properties during Tranche 2. These include:
- a. the possibility of introducing leases (rather than sale),
 - b. contracting for innovative solutions for specific cohorts (such as older people), and
 - c. accommodating smaller CHPs within a larger transaction.

In order to support diversity in the sector, it will be important for the pipeline of transfer transactions to offer a range of opportunities. Scale is important to attract new participants, but access to smaller portfolios or niche provision may be of interest to others in the sector.

48. Specialist property advisors will also provide reports on the redevelopment potential of the stock in the locations identified (these have already been received for Christchurch, Lower Hutt and Porirua). This can allow for redevelopment to feature more heavily in the final selection of portfolios and commercial processes that ensue (if desired). It will also be open to MSD to seek to use the transaction process to help meet any current or anticipated shortfall in stock.
49. The opportunity for urban regeneration to drive better outcomes for tenants, and reduce long-term fiscal costs, has been identified for large parts of the HNZA portfolios in Lower Hutt and Porirua. There is a high concentration of aged stock that is in need of renewal, and a significant mismatch of current supply with demand in both locations. However, there is limited commercial prospect for widespread redevelopment. Outside of a few sites, undertaking regeneration of the social-housing stock will likely require additional funding or for properties to be transferred at a significant discount as redevelopment will require asset write-downs.
50. Officials will continue to investigate opportunities for regeneration, and fiscal or OBEGAL impacts will be considered as part of any recommendation to proceed with a transfer.
51. In Tauranga we required RFP respondents to outline how they would reconfigure the stock to better meet MSD's requirements, including reducing overcrowding, as well as how they could meet MSD's 2015 Purchasing Intentions for the Tauranga District [approximately 40 additional one-bedroom places, 20 two-bedroom places, and ten larger places (more than four bedrooms)]. This could become a greater focus for Tranche 2 transfers.
52. We may seek multiple providers to be operating in large locations, or establish a smaller number of providers with greater scale. A larger number of providers will increase opportunities for:
- a. MSD to benchmark providers,
 - b. competition between providers to retain or increase market share (promoting innovation and cost efficiencies), and

- c. risk management should a provider fail.
53. The feedback in the Tauranga transaction is that a portfolio of 1,000 properties is at the bottom end of the scale in terms of attracting institutional investors and large scale providers. We therefore intend to test transactions of up to 2,500 properties in Christchurch and possibly in Lower Hutt. This will allow us to gauge whether the additional size generates an even stronger market response, while still allowing for multiple scale providers in each location.
54. However, the exact size and number of transfers in each location will be determined through:
- financial modelling to ensure that where a split of a portfolio is proposed it is sustainable for both the new provider(s) and HNZC; and
 - Market Sounding to confirm the viability of a proposed transfer-transaction, and how smaller scale or niche provision might be accommodated within it.
55. We want officials to continue investigating the feasibility of different options and testing them during Market Sounding for each new transaction. We will notify Ministers before any public announcements are made in respect of Lower Hutt, Porirua or Hamilton. Those locations should be treated as commercially confidential until such time as a public announcement is made. We will seek Cabinet agreement before commencing a commercial process where significant fiscal or OBEGAL implications are likely to result from a transfer.

Tranche 2 transactions will support fiscal objectives

56. Transactions also support the overall Capital Recycling programme, which is helping the Government meet long-term fiscal objectives through active stewardship of government resources. The Crown capital released from transactions gives the Government more headroom to support other capital expenditure to support key public services and investments, and maintain net debt targets.

Consultation

57. The advice was prepared in consultation with the OTS, TPK, MBIE, MSD, HNZC and DPMC.

Financial Implications

58. No direct financial implications result from the decisions in this paper. Depending on how many transfer transactions are run concurrently, a relatively minor increase in operational delivery capacity may need to be funded for the Crown and HNZC. MSD's ability to deliver additional transfer transactions is linked to the funding it will be seeking shortly under its Intelligent Purchaser business case.
59. Undertaking significant regeneration as a part of a transfer transaction may come with a fiscal cost, or have an impact on OBEGAL, but decisions on this are yet to be made and will be subject to Cabinet oversight and authorisation.
60. The capital proceeds from large-scale transactions provide an opportunity for significant additional capital spending, including for social housing, while maintaining our fiscal strategy. Later this year HNZC will be presenting a proposal to the Minister Responsible for HNZC for large scale multi-year developments in Auckland, with a potential cost over three years of the order of

\$1.6 billion. The capital proceeds from transactions enables the Government to consider more ambitious proposals than would otherwise be the case.

Human Rights

61. None

Legislative Implications

62. None

Regulatory Impact Analysis

63. Not applicable

Gender Implications

64. None

Disability Perspective

65. None

Publicity

66. The intent is to go to Regional Consultation and Market Sounding in Christchurch will be announced by the Minister Responsible for HNZC on 27 September at a speech at the NZCID Social Housing Funding Forum.
67. The size of the HNZC portfolio in Christchurch - over 5,000 properties - allows us to commit to one or more transfers there, with the potential for HNZC to retain a sustainable presence. This will be noted in the announcement on 27 September, but the size of HNZC's retained portfolio will only be confirmed once Market Sounding has been completed.
68. Reference will also be made in general terms to the Government exploring options for other transactions, without referring specifically to Porirua, Lower Hutt or Hamilton, given the further work that needs to be done before these options can be firmed up.
69. The need for discussions with iwi to occur before any other locations are publicly announced currently precludes more explicit definition of the future pipeline. Public announcements in respect of the identity of each of the other locations discussed in this paper can only be made once discussions with affected RFR holders have been satisfactorily concluded.
70. Any announcement to recommence a commercial process in Invercargill would need to occur before 20 November 2016 in order to allow for a truncated procurement process under Government Rules of Sourcing (as market testing has already occurred).

Recommendations

71. The Minister Responsible for HNZC and Minister for Social Housing (Joint Ministers) recommend that the Social Policy Committee:
1. **note** Cabinet agreed to the objectives of the SHRP in December 2014, and agreed the commitments the Government would make over the

next few years [CAB Min (14) 39/22], limiting the sale of HNZC properties over 2016 to 2,000 properties, and that HNZC would provide no less than 60,000 properties by 2017,

2. **note** that the proposed additional transactions are consistent with the Government's commitments made in respect of the timeframe and volume of HNZC properties to be transferred to the community housing sector,
3. **note** that key lessons learnt from initial transfer transactions include that:
 - a. there is a clear and sophisticated market for large scale transactions,
 - b. large scale transactions are an efficient way to drive rapid change in the sector,
 - c. HNZC has internalised the cost of multiple risks in providing social-housing services,
 - d. long-term contracts for certainty of funding will be required,
 - e. tenant and community engagement helps build support for transfers,
 - f. there are advantages if multiple parties are interested in social-housing provision in an area.
4. **note** that large-scale transactions align with the Government's capital recycling objectives, allowing us to fund significant new capital projects while maintaining our fiscal strategy,
5. **note** that development of a pipeline of transactions generates momentum in developing the social-housing market, and thereby in achieving the goals of the Government's Social Housing Reform Programme,
6. **agree** to continue the programme of transfers of HNZC properties and tenancies to the community housing sector, in order to build a more diverse and responsive market that better meets tenant needs and provides value for money for taxpayers,
7. **note** that the Minister Responsible for HNZC and Minister for Social Housing are authorised to act as Joint Ministers [SOC Min (15) 14/3],
8. **note** that the Crown has a policy of consulting with iwi and hapū before transfer transactions are undertaken to ensure it understands their rights and interests in HNZC land before it is transferred to third parties,
9. **invite** Joint Ministers to:
 - a. announce Christchurch as the next location for a transaction of HNZC stock to the community housing sector in order to maintain programme momentum,
 - b. direct officials to commence engagement with Ngāti Toa Rangātira with a view to progressing transactions in Porirua and Lower Hutt,

- c. direct officials to commence engagement with Waikato-Tainui, once RFR negotiations have concluded in Tauranga, with a view to progressing a transaction in Hamilton,
 - d. report back to Cabinet if any recommended transaction will have significant fiscal costs or OBEGAL impact as a result of its intended commercial structure and objectives,
10. **note** that the size of the HNZC portfolio in Christchurch - over 5,000 properties - allows us to commit to one or more transfers there, with the potential for HNZC to retain a sustainable presence,
 11. **note** that officials are currently investigating the potential to recommence a transaction of HNZC properties and tenancies in Invercargill,
 12. **note** that intentions in respect of transfers of HNZC properties in Lower Hutt, Porirua, and Hamilton should be treated as commercially confidential until public announcements are made,
 13. **note** that Joint Ministers will report back to Cabinet before any public announcements are made in respect of any transfers of HNZC properties in Lower Hutt, Porirua, or Hamilton.

Hon Bill English
Minister Responsible for HNZC

Date:

Hon Paula Bennett
Minister for Social Housing

Date:

Table: Key characteristics of locations identified for Tranche 2 transfers of tenancies and properties from HN2C to the community housing sector

	Christchurch	Hamilton	Lower Hutt	Porirua (including Tawa)
Number of HN2C properties excluding community group houses	5,612	2,833	3,443	2,797
Avg. age of housing stock	43 years	38 years	56 years	51 years
Social housing register	403 (expected to be met from existing developments)	166	78	117
Demand for social housing	Stable	Increasing	Increasing	Increasing
No. of HN2C properties subject to a Right of First Refusal (RFR)	25	2,088	2,522 (2 iwi + 1 hapu)	1,750
No. of HN2C properties not subject to an RFR	5,587	745	911	1,047
MSD's preference for shape of the local market	<ul style="list-style-type: none"> Three large CHP's (one of these being HN2C). 	<ul style="list-style-type: none"> At least two large CHP's (one of these being HN2C). 	<ul style="list-style-type: none"> Three large CHP's established across Porirua and Lower Hutt (one of these being HN2C). 	<ul style="list-style-type: none"> Three large CHP's established across Porirua and Lower Hutt (one of these being HN2C).
Iwi interests	Ngāi Tahu holds RFRs over 25 properties.	Tainui has an area-wide RFR over Hamilton. There is no exemption from the RFR for social housing or other public purposes and this is likely to mean any transaction would be on a bilateral basis with the RFR holder, Tainui.	There are two iwi and one hapu with RFRs over HN2C properties. The main RFR holder is Ngāi Toa Rangāhira. All of the RFRs include exemptions which allow the transfer of properties if it assists the Crown's social objectives in relation to housing. Taranaki Whānui ki Te Upoko o Te Ika and Te Ahiwa jointly hold RFRs over 835 properties. A further iwi that is yet to settle, Ngāi Rangaiahi, claims interests in part of the Lower Hutt area.	One iwi holds all RFRs (Ngāi Toa Rangāhira). All of the RFRs include exemptions which allow the transfer of properties if it assists the Crown's social objectives in relation to housing. We understand HN2C has a constructive relationship with Ngāi Toa Rangāhira which may assist with RFR discussions.
Engagement with Council	Christchurch City Council (CCC) has not been engaged on the possibility of a social-housing transaction due to a potential conflict of interest arising from their establishment of a CHP. Once a decision is made to progress with a transaction in Christchurch, officials intend to engage with CCC. The Council or a subsidiary may be interested in participating as a bidder.	Officials have engaged with Hamilton City Council (HCC), which is supportive of a social-housing transaction. The Council recently sold its pensioner housing stock, and understands the merits of such a partner. The Council views Tainui as a natural partner, and expressed a desire to be kept informed of developments for any social-housing transaction in the region. However, it has have not expressed a preference for a hands-on partnership role.	Officials have engaged with Lower Hutt City Council (LHCC). LHCC expressed a variety of concerns but was interested in the opportunities a social-housing transaction might provide to contend with these issues. Some of these concerns include the concentration of social-housing, vacant properties, and LHCC's overall growth strategy (increasing housing supply).	Officials have engaged with the Porirua City Council (PCC) on a potential Porirua transaction. PCC is interested in working in partnership with the Crown, expressing a desire to see the transaction target redevelopment and reconfiguration opportunities, as well as managing its changing population.
Reconfiguration requirement	<p>Low to Medium:</p> <ul style="list-style-type: none"> shift from 3 bedrooms to smaller units HN2C has spent considerable funds upgrading the stock. 	<p>Significant:</p> <ul style="list-style-type: none"> shift from 3 bedrooms to smaller units existing stock needs upgrading due to age and condition (oldest stock in the national portfolio) high concentration of social-housing stock in certain areas. 	<p>Significant:</p> <ul style="list-style-type: none"> shift from 3 bedrooms to smaller units existing stock needs upgrading due to age and condition high concentration of social-housing stock in certain areas. 	<p>Significant:</p> <ul style="list-style-type: none"> shift from 3 bedrooms to smaller units existing stock needs upgrading due to age and condition high concentration of social-housing stock in certain areas.
Potential commercial viability of redevelopment	Likely to be commercially viable.	Under investigation but expected to be the most viable of the four areas	Under investigation but expected to be better than Porirua	Challenging without considerable subsidy.
Key objectives for a transaction	<ul style="list-style-type: none"> Maintain momentum in social-housing transfer programme Some opportunity for reconfiguration Possibility of transaction that includes scope for parties to identify innovative solutions for particular cohorts such as elderly. 	<p>Reconfiguration and redevelopment to:</p> <ul style="list-style-type: none"> Increase both social and affordable housing supply improve quality of stock and reduce concentration of social-housing in certain areas. 	<ul style="list-style-type: none"> Reconfiguration and redevelopment to improve quality of stock and reduce concentration of social-housing in certain areas. 	<ul style="list-style-type: none"> Reconfiguration and redevelopment to improve quality of stock and reduce concentration of social-housing in certain areas.

Table: Key characteristics of locations identified for Tranche 2 transfers of tenancies and properties from HNZC to the community housing sector

	Christchurch	Hamilton	Lower Hutt	Porirua (including Tawa)
Key challenges to a transaction	<ul style="list-style-type: none"> Ensuring transaction is attractive to market participants where opportunities for redevelopment are more limited. 	<ul style="list-style-type: none"> Reaching agreement with RFR holder. 	<ul style="list-style-type: none"> Reaching agreement with iwi given multiple RFR holders with overlapping interests Some risk as to whether redevelopment is commercially viable. The Government could create incentives for redevelopment. 	<ul style="list-style-type: none"> Reaching agreement with RFR holder on how the properties are dealt with Risk associated with commercial viability of redevelopment due to Porirua being a low demand/low capital growth area. The Government could create incentives for redevelopment.