



Office of Hon Bill English

Deputy Prime Minister
Minister of Finance
Minister for Infrastructure

22 December 2008

Dear statutory Crown entity Chairs,

Enduring Letter of Expectations

This letter replaces the previous letter of expectations that was sent on 17 December 2004 to the chairs of boards of statutory Crown entities and Crown companies.

Ensuring value for money for New Zealanders

A more focused, efficient and productive state sector that delivers services differently and more cost effectively will require all of the state services to focus on improving the performance of every taxpayer's dollar spent.

We expect that each Crown entity board:

- keep under review the Crown entity's expenditure;
- identify particular expenditure or programmes that are not effective or providing good value for money; and
- act on those findings.

Demonstrating performance

Informative and accurate financial and non-financial performance information will enable Crown entities to demonstrate value for money. High quality performance information also enables Ministers to make more informed decisions.

We expect that Crown entities will have a performance measurement framework that is reviewed and updated regularly. For further information refer to <http://www.ssc.govt.nz/performance-measurement>.

Engagement with Ministers and monitoring Departments

Crown entities are expected to work with their Ministers on a "no surprises" basis, so that Ministers are informed at the earliest possible stage of: matters that may be controversial or cause public comment, major strategic initiatives, and implications that decisions may have elsewhere in government.

Crown entities and monitoring departments are expected to work together professionally and constructively, and share information in a timely manner. This will be particularly important as we will be seeking ongoing assurance from both Crown entities and monitoring departments about what each Crown entity is doing about ensuring value for money

Further expectations

We expect that Crown entities will:

- Provide the Treasury and monitoring departments with accurate financial information within stated timeframes;
- Maintain standards of integrity and conduct as set out in the code of conduct for the state services www.ssc.govt.nz/code-guidance-stateservants;
- Contribute to achieving a world class professional State services through the development goals framework; <http://www.ssc.govt.nz/development-goals>;
- Comply with the equal employment opportunities provisions as set out in the Crown Entities Act.

Yours sincerely



Hon Bill English
Minister of Finance



Hon Tony Ryall
Minister of State Services



Office of Hon Phil Heatley

MP for Whangarei
Minister of Fisheries
Minister of Housing

Mr Pat Snedden
Chair
Housing New Zealand Corporation Board
PO Box 2628
Wellington

Dear Pat

Government's social objectives under the Housing Corporation Act 1974 and expectations of Housing New Zealand Corporation for 2009/10

This letter outlines the Government's social objectives for the provision of housing and services related to housing by Housing New Zealand Corporation (the Corporation) under section 3C(1) of the Housing Corporation Act 1974 (the Act).

This letter follows on from the amended letter of expectations for 2008/09 provided to the Board in December 2008, and also complements the enduring letter of expectations sent by the Ministers of Finance and State Services to Crown entity boards on 22 December 2008.

Objective 1: Ongoing improvements in value for money

Demonstration of continued gains in the efficient and effective use of the Corporation's resources and powers consistent with the Government's priorities and the Housing Corporation Act 1974

The Minister of Finance wrote to all Ministers and Departmental Chief Executives on 17 December 2008 setting out the process for the 2009 Budget and the beginning of value-for-money reviews. I expect the Board to take an active interest in this process, and to keep the Department of Building and Housing regularly informed of developments in this work, and I look forward to your cooperation and participation in this first important step in improving the quality of expenditure across all of government.

Real improvements in value-for-money may be made by your board by:

- reviewing how your services can be delivered better and more cost effectively
- setting tight, realistic budgets and managing within those budgets
- reviewing what services, products or policy initiatives do or do not fit with this Government's objectives
- improving financial returns to the Crown as owner and
- improving the Corporation's ability to measure and report on performance. This is in line with the Auditor-General's observations on the quality of performance reporting.

Objective 2: Upgrading housing stock to a decent standard

Better management of the overall state housing portfolio, in particular ensuring that the quality level of the stock is brought up to an appropriate standard as a priority

I would like your 2009/10 Statement of Intent to reflect an increased focus on:

- balancing the continued upgrade of current housing stock while acquiring additional stock in high need areas
- upgrading older housing stock to a decent standard, with an emphasis on insulation, ventilation and energy efficiency
- making better use of larger houses and properties, and redeveloping underutilised sections, and
- demonstrating effective investment in the portfolio by developing and implementing the Decent Homes Standard and supporting information.

In line with the shift in focus in the Government's investment in the state housing portfolio towards upgrading and modernising existing stock, I expect an increase to the net number of houses in the Corporation's portfolio during 2009/10 in high needs areas. The Government considers that expanding the stock of state housing through new builds is preferable to purchasing existing properties. Lease arrangements are also preferred to purchases where lease arrangements involve new build accommodation.

I consider that there is a need for increased accommodation for emergency housing providers and transitional houses for women's refuges across the country. I would like to see an increase in Community Group Housing provision for these types of organisations. I would also like additional houses made available for transitional housing for women's refuges. The Corporation should continue to work with other agencies to consider current funding arrangements for emergency housing and should work with providers to investigate how the provision of emergency housing can be increased.

You will be aware that Cabinet has recently agreed to bring forward some additional planned capital spending in order to boost economic activity during the current downturn. This includes \$91.5 million in 2009/10 over and above existing agreed levels of expenditure.

I expect the Corporation to develop a detailed implementation plan which reflects the entirety of its capital spending programme, including the expected timing and location of the work. I expect this plan to be communicated as early as possible to members of the building industry to assist their planning and to ensure they have sufficient capacity to undertake the work.

I expect the Corporation to gather and report high quality information on its progress in implementing the additional capital spending, including in relation to jobs retained and created, to enable the Department to report regularly as required by Cabinet.

Objective 3: Improving housing affordability for low- to middle-income earners

Development and Implementation of the Gateway Housing initiative and a mechanism for tenants to purchase their state houses

I would like the Corporation to develop operational plans to implement the following:

- the Gateway Housing initiative, involving the development of public land for first-home buyers directly or in partnership with community housing organisations. I expect the Corporation's inventory of land available for immediate use in the Gateway project to be completed by 1 July 2009. I expect the Corporation to develop the Gateway product in consultation with the Department of Building and Housing and the Treasury by 1 October 2009. I would like to be briefed on the development and implementation of this initiative on a regular basis.
- providing a mechanism for Corporation tenants to purchase the homes they are renting. I expect this option to be in place by 1 July 2009 and would like the initiative to be actively promoted. I would like to see capital acquired from tenant purchases of housing stock to be used for the purpose of acquiring new state houses.

I expect to be briefed on an ongoing basis about take-up rates for both initiatives.

Objective 4: Expansion of social housing options

Ensuring high quality expenditure within the Housing Innovation Fund that produces sustainable growth in the social housing sector

The Government recognises the opportunity that the Housing Innovation Fund provides in growing the social housing sector, and in order to effectively support non-government organisations to expand the social housing options available in their regions, the Government has committed \$20 million capital funding.

I would like see the Housing Innovation Fund targeted for allocation to:

- groups which have a track record in housing provision, own land for development or matching asset base
- groups with potential for scale and growth and
- iwi and community groups.

In addition, I would like the Welcome Home Loan product extended to papakainga and non-government organisations.

Objective 5: Developing an Options and Advice service

Development of an effective Options and Advice service that supports improved outcomes for those seeking homes, by providing better advice about the range of options available to existing and prospective tenants, and to those looking for opportunities to buy

I would like the Corporation to develop an Options and Advice service. This service is intended to help people on the waiting list for state housing, and those who approach the Corporation for assistance, to understand their options. The service will also help existing Corporation tenants who could access other renting or buying opportunities, including the purchase of homes they are renting. The Service will also assist HNZN tenants to move into more suitable HNZN houses where underutilisation is occurring.

Other expectations

Engagement on your strategic direction

The Statement of Intent is the key strategic document which advises Parliament of your intentions and promotes public accountability of those intentions. I want to have a high quality dialogue and engagement with the Board during the development of your 2009/10 Statement of Intent to ensure that it reflects the Government's priorities, and my expectations, as set out in this letter.

I expect the objectives set out in this letter to be stated in your 2009/10 Statement of Intent, along with the steps that the Corporation proposes to take in 2009/10 and the two following financial years to achieve the objectives, in accordance with section 3C(2) of the Act.

I expect the Board to have a constructive relationship with your monitoring department, the Department of Building and Housing. This includes being proactive in providing the Department the information needed to allow me to monitor the progress of the Corporation. The Department is your first point of consultation, and I expect that you engage them early on your Statement of Intent.

Our ongoing engagement

Further to this, I expect our relationship to adhere to the "no surprises" principle. I expect timely information from the Board on issues and risks facing the Corporation, and will inform you of occasions where changes to Government policy impact on the Corporation or its functions. I expect the Board to consult with the Department on funding requests and financial

and performance risks before providing me with advice, and adopt a "no surprises" approach to working together.

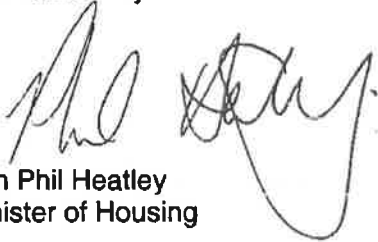
Performance measurement and reporting

I am aware that the Corporation is working on aspects of its performance measurement and reporting. I would like to see significant improvements made in this area, to provide assurance that the Crown's investment in the Corporation is achieving good value for money. In particular, I would like to see:

- stronger transparency and accountability for the Corporations outputs
- better measures of efficiency and effectiveness and
- improved reporting of financial performance and ownership information.

I look forward to discussing this letter with you, and receiving your advice on how the Corporation proposes to achieve these objectives.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Phil Heatley', written over a faint, illegible typed name.

Hon Phil Heatley
Minister of Housing



Office of Hon Maurice Williamson

MP for Pakuranga

Minister for Building and Construction

Minister of Customs

Minister for Land Information

Minister of Statistics

Minister for Small Business

10 MAR 2010

Mr Pat Snedden
Chair
Housing New Zealand Corporation
PO Box 2628
WELLINGTON

Dear Pat

ANNUAL LETTER OF EXPECTATIONS

I am writing to convey the expectations that the Minister of Finance and I have of Housing New Zealand Corporation (the Corporation). This letter complements the enduring letter of expectations the Minister of Finance and the Minister of State Services sent you on 22 December 2008.

The Government's vision for the social housing sector, is one which provides the right housing in the right place and at the right time to those most in need, for as long as the need exists; and that these outcomes are achieved in the most cost effective manner. Implicit in this goal, is a recognition that people's circumstances change over time, as does demand for social housing across the country.

The Corporation has a key role to play in achieving this vision, as one of a number of different contributors. These expectations will require a change of focus for the Corporation, and in the way it collaborates with other social agencies, housing providers and the private sector.

The scale of change required by the Corporation may be large. This will take time to achieve; however, there is an expectation that change can begin now, with good progress achieved in the next 12-18 months. We would expect to see proposed changes reflected in the 2010/11 Statement of Intent.

Improved transparency and performance

The Government faces a number of challenges in delivering better social housing outcomes in an environment of tightly constrained resources.

Since the Corporation's inception in 2001 rental income has nearly doubled with equity more than doubling. Financial returns have not reflected this increase - this is neither sustainable nor acceptable in the future.

We expect the Corporation to improve its financial and social outcomes over the next three years. The Government has made it clear across the public service that operating

efficiencies must be delivered and expects the Corporation to similarly achieve such efficiencies over the next few years.

Additionally, there will be no further capital injections until such time as the Government is satisfied that the existing asset base is being used to full efficiency.

From the Government's perspective, the Corporation's financial performance is reflected in the return it receives on its capital invested. As the Government's second largest asset, it expects that the Corporation should deliver a return appropriate to a \$14 billion asset.

I acknowledge that the Corporation has been tasked with some non-commercial functions, and that the true cost of these may exceed the operating funding provided. It is strongly desirable that the cost of these wider functions be reflected transparently in the Corporation's reported performance. In this regard, future reports should quantify and make transparent those costs of acting as a social landlord, and of delivering programmes on behalf of the Crown, which a commercial landlord would not incur.

I expect the Corporation's dividend policy currently being developed to yield on average, a significantly higher annual return to the Crown. The Government believes that the Corporation can continue to deliver this higher return without an impact on the delivery of the Government's social objectives.

I expect the Corporation to maintain a conservative approach to its tax affairs. Reducing tax paid by the Corporation brings no gain to the community as a whole. In terms of measuring the Corporation's performance, the Government will focus on the Corporation's financial performance on a pre-tax basis. I require your assurance that sound business practice, rather than the purpose of minimizing its tax liability, will be the core reason for any restructuring of the Corporation.

Control of operating costs is important. I expect the Corporation to be able to demonstrate sound control of costs through time. After allowing for costs incurred as part of the role as a social landlord, I would expect to see remaining costs, both past and present, analysed to be able to show this. Operating costs per unit have been rising sharply since 2001. I would like to more fully understand the reasons for this trend and to see appropriate performance indicators developed.

A credible set of key performance indicators is crucial for the board (and Ministers) to assess HNZC's performance over time. I expect these indicators to focus on HNZC's core business of tenancy management and asset management. They should focus on measuring how effectively current resources, including both the capital and operating expenditure of the Corporation, have been used in meeting the Government's objectives. As such, they should measure both inputs and outputs. I would like the Corporation to continue to work with the Department of Building and Housing in the development of these. Improved financial returns are not the primary concern of Ministers. Rather, the aim is to deliver the maximum amount of assistance, of the appropriate standard and to the most need from the given resources available. I also expect the Corporation's performance indicators to be able to demonstrate this.

Additionally, as per the Terms of Reference of the Housing Shareholder's Advisory Group, it is likely that the Group may suggest performance measures that the Government considers appropriate to adopt. This will be discussed with the Corporation and the Department of Building and Housing at the appropriate time.

As well as being able to demonstrate improved performance over time, Ministers expect the Corporation to benchmark (and report on) its performance against similar social housing providers in overseas jurisdictions. This will allow Ministers to assess the performance of the Corporation in absolute terms (as well as relative to itself).

Crown social objectives for housing

Thank you for your letter of 11 February 2010, outlining a proposed set of Crown social objectives for the provision of housing and services related to housing by the Corporation pursuant to section 3C of the Housing Corporation Act 1974 (the Act). I have given consideration to the proposed set of objectives in relation to current fiscal constraints, and the Government's vision for the social housing sector.

The Minister of Finance and I consider that the Crown Social Objectives for the social housing sector require scope for wider collaboration with and input by the others including the private and not-for-profit sectors. Therefore, a revised set of social objectives for the social housing sector are set out below.

Objective One	Access to Housing New Zealanders have access to housing that meets their needs and is affordable
Objective Two	Housing Assistance Assistance is available to those most in need for the duration of their need, and is delivered in a cost effective manner
Objective Three	Investment In Affordable Housing Create a suitable business environment for investment in affordable housing by providers, including not-for-profit organisations

Outlined further below are more explicit explanations of what each of these objectives means to the Corporation specifically, in accordance with Section 3C of the Housing Corporation Act 1974.

Crown Social Objective 1: Access to Housing

The Corporation's Social Objective 1: assist low income and/or vulnerable individuals and families to make the right housing choices and work with other agencies to transition low priority tenants into alternative housing

The Corporation exists to provide housing and housing-related services to those in greatest need, and those whose needs are unable to be met by the private housing market. In some instances, applicants who are not eligible for state-assisted housing will approach the Corporation for information, advice, and/or support. To support this group, I expect the Corporation to provide information and advice to enable applicants into alternative accommodation, including the private rental market or into home ownership, as appropriate.

As part of this work, I also expect the Corporation to explore options for collaboration with other social services' agencies to encourage low priority Corporation tenants (including market renters) to transition into the private housing market. This activity will facilitate the tenancy management expectations outlined below.

Crown Social Objective 2: Housing Assistance

The Corporation's Social Objective 2: provide cost effective state housing and associated services (as agreed with Ministers) to those most in need, for the duration of their need

To enable increased productivity, efficiency and effectiveness in meeting demand for housing in the long term, it is vital that the Corporation completes the development of its revised Asset Management Strategy as a priority. This should be completed no later than 30 June 2010. The revised approach should enable more effective prioritisation of resources for applicants that are most in need of housing for the duration of their need.

As previously outlined, I expect the Corporation to continue to deliver on the 1550 additional houses to the portfolio by June 2012.

To improve the efficiency and effectiveness of the asset the Government would expect to see the Corporation consider opportunities such as substituting properties which don't meet tenants' needs (e.g. number of bedrooms etc) for those that do and increasing the number of housing units relative to its land holdings.

With respect to portfolio management, the Government expects the Corporation to focus resources on locations with high demand, and where appropriate, reduce resources in locations with low demand. This must be carried out in a planned way that takes account of existing and future tenants' needs and circumstances.

I expect the Corporation to use the Social Allocation System to clearly identify those applicants with the most persistent and significant housing need. I also expect the Corporation to clarify how it intends monitoring tenants' circumstances over time, to ensure the optimal allocation of Corporation housing stock to those individuals and families most in need, and facilitate and assist the movement of those tenants that are able to have their housing needs met by other providers. I understand that this may require policy and probably legislative change, but expect to discuss this further with the Corporation before any significant changes are made.

An innovative approach to tenancy management is required, to ensure that resources are directed to those most in need and to better match tenants to houses that meet their specific needs (e.g. number of bedrooms etc).

The Corporation should explore options to facilitate and incentivise the exit of market renters from state housing over time. This approach represents a shift in approach for state house tenancies from a 'house for life' towards the provision of housing for those with an ongoing need. This work is likely to include:

- identification of low priority state housing tenants and confirmation of their ongoing need
- development of options for transitioning low priority applicants and existing Corporation tenants toward the private rental market or alternative not-for-profit providers, where feasible.

The Government is clear that these approaches must be undertaken in a fair manner, ensuring appropriate support for individuals and families.

With regard to delivery of associated services as agreed with Ministers, this represents activities undertaken by the Corporation on behalf of the Crown. The Government has

committed to a process of transparency around the funding and continuation of these programmes. The Government expects the Corporation to continue to provide these services while this process is being undertaken and pending further decisions by Ministers.

Crown Social Objective 3: Investment in Affordable Housing

The Corporation's Social Objective 3: facilitate the development of alternative providers of affordable rental housing and home ownership opportunities.

The Government has made it clear that it is committed to the current level of provision of state housing. However, the Government considers that alternative suppliers 'of scale' need to be enabled and facilitated to deliver affordable rental housing and affordable home ownership opportunities. This will allow it to continue to focus on supporting those for whom the sector is unable to provide suitable housing via the state house portfolio.

During 2010/11, it will be vital that partnerships and innovation are encouraged within the housing sector, particularly through interaction between government, institutional investors, developers, and community housing organisations. This will contribute to the supply and affordability of sustainable private rental accommodation and improve home ownership opportunities for first home buyers.

I anticipate that assistance will be available to those organisations with innovative and practical proposals for increasing the supply of affordable housing, but that this market should develop in the long term to a point where it is self-sustaining.

As this work progresses and plans put in place, the Government would expect the Corporation to have a role in the achievement of these goals.

As you know, the Corporation has secured funding to administer the Housing Innovation Fund on behalf of the Crown in 2010/11. The future of this Fund beyond 2010/11 is yet to be determined, as it is reliant on the completion of a strategy for growing the provision of affordable housing through the third sector and non-government organisations. As a priority, we would like the Corporation to work with the Department of Building and Housing and the Treasury to develop this strategy (and present it to Ministers) by the end of June 2010.

Other Expectations

Role of the Corporation in land development

The Government acknowledges the Corporation's statutory functions in relation to developing land as outlined in the Act. However, in relation to Crown land, the Government expects the Corporation, in consultation with Ministers, to pursue appropriate partnering options in order to minimise capital requirements and development risk to the Crown. With respect to Corporation land, the current fiscal environment and the expectations of Ministers that the Corporation will operate in a fiscally prudent manner, it is expected that innovative partnerships and delivery models for developments should be seriously explored. This is a focus across the Government and Ministers expect the Corporation to engage constructively with this.

External Advisory Group

The Minister of Finance and I have established an independent Advisory Group to primarily provide advice on the management of the state housing asset in the wider context of social housing. The Group is expected to report to Ministers by 30 April 2010 and, while not binding, recommendations arising from their findings will be closely considered by Ministers in the context of the broader policy framework. It is possible that recommendations proposed by the Group will touch on all social objectives outlined above. I expect the Board to implement any strategic or operational changes that may arise from Ministerial decisions in response to the Group's findings.

The Advisory Group will not have any specific powers or functions other than to provide recommendations to Ministers. The Group's role will be additional to existing roles of the Corporation and monitoring departments. The willingness shown by the Board and the Corporation to date in contributing to the work of the Advisory Group is appreciated, and I encourage this to continue.

Statement of Intent

The Statement of Intent is the Corporation's key strategic accountability document. As such, I want to have high quality and timely dialogue and engagement with the Board during the development of your 2010/11 Statement of Intent, to ensure that it reflects the Government's priorities, and my expectations, as set out in this letter. I acknowledge that the Corporation is preparing the Statement of Intent to be presented to the House of Representatives by 30 June 2010, as per the Board's letter of 11 February 2010.

As part of this work, the Board will need to take into consideration relevant Cabinet decisions (in particular, Cab Min (09) 44/3A) and the memo addressed to you from the Minister of Finance and I, dated 21 December 2009.

As per past practice, I expect you to maintain the "no surprises" policy and to inform me well in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative.

In undertaking your governance role, it is important that the Corporation continues to work constructively with the Department of Building and Housing as the monitoring agency.

This letter sets out clear expectations of the Corporation in the delivery of state housing to those individuals and families most in need and other Government priorities as appropriate. This is a significant challenge, but one that I look forward to working with the Corporation on delivering and thank you in advance for your continued positive engagement.

Yours sincerely



Hon Maurice Williamson
Acting Minister of Housing



Office of Hon Phil Heatley

MP for Whangarei

Minister of Fisheries and Aquaculture

Minister of Housing

16 February 2011

Dr Alan Jackson
Chair - Housing New Zealand Corporation
5 Huriaro Place
Orakei
AUCKLAND 1071

Dear Alan

ANNUAL LETTER OF EXPECTATIONS

I am writing to convey the expectations that the Minister of Finance and I have of Housing New Zealand Corporation (HNZC) for 2011/12. These expectations are to assist HNZC develop its Statement of Intent and complements the enduring letter of expectations the Minister of Finance and the Minister of State Services sent to the Board on 22 December 2008.

I confirm that the Crown's social objectives for the housing sector, established last year, remain unchanged. In this context, the Government's immediate intent is that HNZC focus on its core business of managing the state house portfolio and its tenants. I expect HNZC to continue delivering some Crown programmes but envisage that its involvement in the delivery of these will be supplemented over the next three years by other providers.

To assist the Crown meet its social objectives, two objectives identified for HNZC last year remain current. These are:

- assist low income and/or vulnerable individuals and families, who request state assistance, to make the right housing choices and work with other agencies to transition existing state house tenants whose circumstances have improved into alternative housing
- provide cost effective state housing and associated services (as agreed with Ministers) to those most in need, for the duration of their need.

The expectations outlined in this letter are intended to build on these objectives to make HNZC's future role in the social housing sector clearer and more explicit.

As you are aware, the Government is currently investigating effective ways to develop additional providers of affordable rental housing and home ownership opportunities. Decisions have yet to be made about where this responsibility

will lie, but it is unlikely to be with Housing New Zealand. I expect the HNZN to continue delivering these objectives and associated funding this financial year, but with an awareness that you may not continue to do so in 2011/12.

A new direction for social housing

The current model for social housing requires significant change to meet the needs of a growing number of households and still remain affordable for the Government. In response to the Housing Shareholders Advisory Group's (HSAG) advice, a new direction for the social housing sector has been agreed to transform future delivery and commence a process of significant change.

The Government sees an increasing role for the third sector (not-for-profit and perhaps private organisations) in developing and supplying social housing. The Government intends to grow the social housing pool and the number of providers should increase. This may lead to substantive changes to HNZN's balance sheet, for example where the Government transfers currently HNZN land or assets to the third-sector. I expect the Board to work constructively with the Government to deliver this intention.

HNZN's role in achieving this vision will be to continue the re-configuration of its housing portfolio over the next five years to focus on people with the highest housing needs and deliver more homes in the locations where this need is the greatest. This government has provided HNZN greater scope and flexibility to reconfigure its portfolio. However, I expect this to be done prudently to ensure that the value of the Crown's investment in the state housing asset is maintained. I also expect changes, such as the introduction of reviewable tenancies, to be done in a sensitive manner, conscious that households need both notice and certainty.

As the current fiscal environment remains constrained, HNZN needs to adopt a more focussed approach to managing its resources and delivering more to tenants from within existing resources. It is important that HNZN manage and facilitate these changes in a compassionate and considerate manner collaborating positively with tenants, other social agencies, housing providers and the private sector to deliver them.

The Government expects that HNZN will comply with Cabinet's decisions arising from the HSAG. Key changes in policy parameters are:

- develop, in conjunction with the Department of Building and Housing (DBH), a high level policy framework for reviewable tenancies, how this will be implemented and options to extend to existing tenants for joint Ministers approval by 31 March 2011
- introduce reviewable tenancies from 1 July 2011 for new state house tenants
- replace state housing stock targets with performance-based measures from 2011/12.

Cabinet also noted HNZC's plan review and re-develop the current leasing model to increase the proportion of state house provision through third parties by engaging with housing providers at scale.

I expect HNZC to work closely with DBH and Treasury to develop these new policy parameters and include new performance measures for them in its Statement of Intent 2011/12.

HNZC's role in land development

I acknowledge HNZC's statutory functions with regard to developing land as outlined in the Act. However, in relation to Crown land, beyond existing contractual commitments, HNZC should not act as the primary developer of any large-scale property developments. In practical terms, I expect HNZC, in consultation with Ministers and DBH, to pursue appropriate options with private developers and/or alternative community housing providers to develop the Crown's land holdings, in order to minimise capital requirements and development risk to the Government.

As part of the drive to deliver more within existing resources, the Government is increasingly looking to public private partnerships as one option to provide more innovative solutions and better management techniques for delivering large building projects. The use and leveraging of private finance can provide performance incentives for partners, reduced direct financial investment and more appropriate risk allocation for the Crown, benefiting the taxpayer in the long term.

As you know, Ministers will be making decisions about the future of the Hobsonville development in early 2011. As part of this, Ministers will be considering whether it is appropriate for activities related to the Hobsonville development to remain with a wholly owned subsidiary of HNZC, given that there will be not be any state houses in the Hobsonville development.

Should Ministers decide that activities related to Hobsonville remain with the Hobsonville Land Company, as a wholly owned HNZC subsidiary, as the new Chair of Housing New Zealand, I would like you to consider the membership of the HLC Board and whether any changes need to be made to better deliver on its mandate.

With respect to HNZC land, in addition to re-configuring the state housing portfolio noted previously, achieving greater progress in re-developing HNZC's portfolio in Tamaki is particularly important. I expect HNZC to work with the new Interim Tamaki Transformation Programme Board (ITTB) to align its building and development programme in Tamaki with the goals of the new catalyst entity to contribute towards transforming the urban environment and the community. However, I do not expect HNZC to unnecessarily delay upgrade and subdivision development, which quite clearly should go ahead, on the basis that it may need further public, Council or ITTB endorsement.

Improved operating performance and reporting

Given the ongoing tight fiscal position, improving value-for-money, operating efficiency and cost control continue to be a focus for the Government. I expect HNZC to maintain these as priorities. As you will be aware the Crown's dividend policy for HNZC is intended to ensure:

- A fair financial return to the Crown
- A more efficient, cost-conscious and commercially-focussed organisation
- An organisation focussed on core business and more aligned with government social objectives
- Improved transparency of capital requirements
- More predictable and less volatile dividend stream.

Based on these criteria, the Crown expects that the Corporation will deliver a minimum return on equity (net assets) pre-tax targets of:

	2010/11	2011/12	2012/13
Return on Equity	1.1%	1.2%	1.3%

While the dividend policy established new targets for the operating surplus over the next two years, these reflect Minister's minimum expectations of financial returns and should not be seen as the maximum attainable should improved business practices yield greater operating surpluses.

With the Government facing increasing deficits and borrowing pressures, HNZC should consider its cash disbursement profile for the Crown appropriations it draws on. I expect the drawing down of appropriated funding to be progressive during the year, as and when the funding is actually required, rather than drawing appropriations in full at the beginning of the financial year for disbursement later. This would enable the Crown to hold cash on its balance sheet for longer to help reduce the overall interest burden on its borrowing.

As outlined in last year's letter, HNZC should continue to maintain a conservative approach to its tax affairs with sound business practice, rather than reducing tax liability, as the rationale behind re-organising its operations to improve returns. As such, the Government's focus will remain on HNZC's financial performance on a pre-tax basis.

HNZC's operating environment is also changing. It is crucial that scarce resources are managed effectively and that existing programmes are tailored for use across a broader range of applications or providers. I would like to engage with you by the end of the month, regarding the progress of the Enterprise Transformation Project (ETP) and how it will still achieve its original objectives for HNZC in this new context. I also wish to establish how adaptable the proposed operating model and frameworks are in accommodating the Government's new direction for social housing and

whether the ETP could be utilised more broadly to develop sector providers' service delivery capability.

An initial, credible set of key performance indicators were developed for this year's Statement of Intent that allowed the Board (and Ministers) to better assess and gauge HNZC's performance in 2010/11. These indicators should remain relatively stable in the 2011/12 Statement of Intent to allow HNZC to demonstrate (and report on) improved performance over time and continue benchmarking its performance against similar social housing providers in overseas jurisdictions.

Having said this, I also accept that the Government's intent to re-focus HNZC on its core business of tenancy management, asset management and the delivery of some Crown programmes may require some indicators to be revised. I expect HNZC to continue to develop, in conjunction with DBH, a suite of fewer, higher quality, indicators that provides Ministers with a clearer view, over time, of how effectively HNZC is delivering the maximum housing assistance to those most in need, to the appropriate standard and in the right location, within its existing resources. I expect that this will comprise no more than ten headline indicators that encompass key aspects of the Corporation's performance.

HNZC is required to meet its statutory obligations, under the Crown Entities Act 2004, with regard to reporting its information requirements, levels of service, timelines and performance to Ministers and Parliament. I expect HNZC to continue delivering these to the level and quality expected of a Crown entity, including meeting its obligation to be a good corporate citizen and Crown agent.

Other Expectations

Housing policy advice function transfer to DBH

Cabinet has agreed to consolidate the Government's purchase of housing policy advice from the public sector into a single source. This function will be provided by DBH by 1 July 2011. I expect HNZC to support and work alongside the Department to facilitate a smooth and efficient transfer.

As part of this transfer, I expect the Board to identify what policy and research capabilities have not been transferred to DBH, and to undertake a process to assess whether they all continue to remain necessary for the HNZC to deliver on its statutory responsibilities in this new environment. Where DBH is producing sector research and data that is of value to the Board in the carrying out of its duties, I expect them to access that information from DBH, rather than duplicate its production internally.

Community Consultation

On occasion, I have noted that HNZC has been drawn into a lengthy cycle of consultation rounds and meetings that some local communities and public entities have grown to expect. I expect HNZC to progress its property development in neighbourhoods such as Pomare and Tamaki mindful that physical progress and leadership can, in itself, provide a catalyst for social improvement. While encompassing buy-in and collaboration, HNZC should not be tempted to try and solve all social ills by incorporating an all inclusive community and agency wish list leading to delays on the building site.

Statement of Intent

The Statement of Intent is HNZC's key strategic accountability document. As such, I want to have high quality and timely engagement with the Board during its development for 2011/12. This is to ensure that it reflects the Government's priorities and the expectations that are set out in this letter.

In delivering these priorities, I expect you to maintain the "no surprises" approach. I should be informed, well in advance, of any material or significant events, transactions and other issues, whether positive or negative, that could be considered contentious or attract wide public interest.

In undertaking its business in 2011/12, I expect HNZC to work constructively with my monitoring department, the Department of Building and Housing.

This letter sets out clear expectations of HNZC in its delivery of state housing to those individuals and families most in need and other Government priorities as appropriate. This is a significant challenge, but one that I look forward to working with the Corporation on delivering and thank you in advance for your continued positive engagement.

Kind regards



Hon Phil Heatley
Minister of Housing

Cc Dr Lesley McTurk – CE, HNZC



Office of Hon Phil Heatley

MP for Whangarei

Minister of Energy and Resources

Minister of Housing

5 April 2012

Dr Alan Jackson
Board Chair
Housing New Zealand Corporation
5 Huriaro Place
Orakei
AUCKLAND 1071

Dear Alan

ANNUAL LETTER OF EXPECTATIONS

I am writing to convey the Minister of Finance's and my expectations of Housing New Zealand Corporation (HNZC) for 2012/13. These expectations will guide the development of HNZC's accountability documents and complement the enduring Letter of Expectations the Minister of Finance and the Minister of State Services sent to the Board on 22 December 2008.

HNZC is a Crown Agent under the Crown entities Act, with responsibility to give effect to Government's policies. HNZC's active engagement will be critical in ensuring the success of the Government's social housing reform programme. In this letter I set out the Government's social housing reform programme and consequently how I expect HNZC to give effect to the Government's social housing reform programme. I also set out my expectations on HNZC's management of the state housing portfolio and its tenants.

The Government's Social Housing Reform Programme

The Government is committed to creating an environment in which a self-sustaining social housing market can emerge and grow, and to transforming the way state and social housing is currently delivered in New Zealand.

The social housing reform programme will transform the social housing sector, so that it delivers more efficient and effective outcomes from the Crown's investment in social housing, including state housing. This will be achieved by facilitating and supporting a diverse range of self-sustaining social housing providers to grow the total social housing supply, alongside a more focused HNZC.

Social housing market participants will sit alongside HNZC, and will comprise a range of complementary and contestable social housing providers, including iwi, not-for-

profit, private and community organisations. The facilitation of these providers will be lead by the Social Housing Unit.

To progress the transformation of social housing the Government is taking explicit steps to change the current market settings. This includes redirecting the Crown's capital investment in social housing and considering options to redistribute financial assistance across tenants and social housing providers.

The overarching mechanism for growing the social housing market will be using the Crown's existing social housing investment more effectively, so that supply better meets the increasing demand for social and affordable housing.

In December 2010 the Government agreed to a major programme of reform to increase investment in social housing with a particular focus on:

- *Growing third-party providers of social housing*

The Government is seeking to develop and invest in a growing, responsive social and affordable housing market that includes third-party social housing providers able to draw on a range of expertise and sources of finance. This will include the social housing unit advising on the allocation of all investment in social housing across all providers.

- *Changing HNZC's focus*

HNZC will remain the most significant provider of social housing in the medium term while resources are gradually redistributed to investment opportunities with greater social and economic returns, as they arise. I therefore expect HNZC will continue to maintain a sustainable¹ portfolio in the medium term

I appreciate that HNZC has increasingly focused on its core business of operating as a social landlord providing housing for those in greatest need for the duration of their need, and on improving the efficiency and effectiveness of its operations.

My 2012/13 expectations that HNZC will to continue to give effect to the social housing reform programme

I expect Housing New Zealand Corporation to give effect to the Government's Social Housing Reform Programme. In particular, I expect HNZC to assist the Crown meet its social objectives by:

- assisting low income and/or vulnerable individuals and families, who request state assistance, to make the right housing choices and work with other agencies to transition existing state house tenants whose circumstances have improved into alternative housing;
- providing cost effective state housing and associated services (as agreed with Ministers) to those most in need, for the duration of their need;

¹ A sustainable portfolio is one earning revenues sufficient to cover a) maintenance, b) other operating costs (tenancy services, etc), c) depreciation and d) the cost of capital (i.e. interest costs plus the required return on equity).

I expect the HNZC to continue working towards delivering these objectives in the medium term. The expectations outlined in this letter are intended to build on these objectives to make HNZC's future role in the housing sector clearer and more explicit.

Further Ministerial and Cabinet decisions on social housing reform may be taken during the remainder of 2011-12, and in 2012-13. If so, I will revise this Letter of Expectations as appropriate.

Implementing the social housing reform programme

The social housing reform programme may require substantive changes to HNZC's balance sheet and rental revenue over time. For example, HNZC land, assets or tenancies may be transferred to non-government providers².

I expect HNZC will continue to cooperate fully with the development of initiatives to:

- grow complementary at-scale social and affordable housing providers
- increase the supply of social and affordable housing offered by non-government providers.

I expect that HNZC's accountability documents will include appropriate performance measures to demonstrate HNZC's contribution to these goals.

I expect HNZC to be cognizant of other work streams in the social housing reform programme and ensure that the Government's wider social housing objectives are considered in decision making. I also expect HNZC to provide other agencies involved with SHRP any information they may require to inform wider programme work.

Working with the Social Housing Unit (SHU)

The SHU has been established to advise on the allocation of all resources that the Government invests in the supply side of social and affordable housing provision. The aim is to maximise the effectiveness and efficiency of this provision over time. The SHU therefore is the Government's principal agent responsible for growing the supply by the third sector of social and affordable housing. The SHU is leading the development of the draft Social Housing Investment Plan, which includes the levers and mechanisms to increase the supply of social and affordable housing through non-government providers.

I expect HNZC to work cooperatively with the SHU in the development of the Social Housing Investment Plan and to assist the SHU deliver the agreed Plan. This will include making available all information as required to identify how to make the best use of social housing resources. I expect this will include active cooperation in providing and sharing information, processes, and knowledge for non-government providers.

There needs to be clear alignment between the Asset Management Strategy and the Social Housing Investment Plan once completed. Any new performance measures

² If substantive change does occur, HNZC's performance expectations (the Return on Equity and other performance targets) will be reviewed and a new Letter of Expectations issued

developed by HNZC to demonstrate the effectiveness of the Asset Management Strategy may need to be updated to reflect the completed Plan.

No surprises approach and consultation on proposed changes in services

Over 2012/13, I expect you to maintain a “no surprises” approach. I should be informed, well in advance, of any material events, transactions or other issues, positive or negative, that could be contentious or attract wide public interest.

In addition to HNZC giving effect to Government policies, I expect to be consulted on any proposals to reduce or change services to state housing tenants. This is important as any changes in state housing can impact on other agencies and their ability to implement Government policies. It is important that HNZC fully consider the implications of proposed changes to other aspects of Government and engage with Ministers on options prior to making any changes.

HNZC’s management of the state housing portfolio and its tenants

The Government also requires HNZC to focus on managing the state housing portfolio and its tenants. I expect HNZC to:

- manage the state housing portfolio in a manner that provides cost-effective state housing and associated services to those most in need for the duration of their need
- assist vulnerable or low income individuals and families to make the right housing choices and to work with other agencies to transition existing state house tenants, whose circumstances have improved, into alternative housing.

Specific Delivery Commitments

In a manner consistent with the agreement outlined in the ‘Relationship Accord and Confidence and Supply Agreement with the Maori Party’, I expect HNZC to develop, across the portfolio:

- appropriate measures for reporting on the ongoing delivery of the home insulation programme
- implementation of disability access improvements.

Financial Performance

Given the ongoing tight fiscal position, the Government continues to focus on improving value-for-money and operating efficiency. I expect HNZC to maintain these as priorities and this is reflected in my expectations of HNZC's financial performance outlined below.

I expect HNZC to continue to maintain a conservative approach to its tax affairs with sound business practice, rather than reducing tax liability, as the rationale behind re-organising its operations to improve returns.

	2012/13	2013/14	2014/15
Return on Equity	1.2%	1.3%	1.4%

The increased Return on Equity must be generated through performance improvement.

I expect the Department of Building and Housing to be kept informed of, and to evaluate, how HNZC's intends to achieve the improved return on equity.

Dividend Performance

The Government's dividend policy for HNZC is intended to ensure:

- a fair financial return to the Crown
- a more efficient commercially-focussed organisation
- an organisation focussed on core business and more aligned with Government's social objectives
- improved transparency of capital requirements
- a more predictable dividend stream.

The dividend policy, signalled to you in May 2011 has been updated to reflect Ministers' minimum expectations of financial return to the Crown. The dividend targets for HNZC are outlined in the table below:

	2012/13	2013/14	2014/15
Minimum expected dividend (\$ m)	73	90	88

As part of Budget 2011 the Government terminated central funding for state sector employer contributions to Kiwisaver. From 1 July 2012 HNZC will need to meet this cost directly and no additional Crown revenue will be provided.

Provision of water rates

While HNZC are required to operate cost effectively, I expect HNZC will not pass on water rate charges to existing and new tenants. These charges should continue to be borne within HNZC's current cost structure.

Asset Management Strategy

I understand that HNZC has identified 27,000 state houses that have been underperforming due to their not providing a satisfactory economic return, or being of the wrong typology or location.

I appreciate that HNZC has developed plans for the reconfiguration of these underperforming assets. However, to meet state housing demands, I consider the speed of this reconfiguration must be increased. I therefore expect HNZC to identify more ambitious reconfiguration targets.

Divesting vacant houses

As part of this reconfiguration I expect HNZC to increase their pace of divesting vacant houses in regions for which there is little demand in order to acquire more houses in areas of high need.

While HNZC has operational discretion in this area, I would like to discuss the approach for the divestment with you in further detail, including how this may be used to support either first home buyers or the growth of third party providers.

This reconfiguration expectation requires HNZC to develop trend-based performance measures that demonstrate the progress of asset reconfigurations and provide an objective assessment of the quality of the state housing portfolio.

HNZC's 'Regional Action Plans' support the Asset Management Strategy and identifies the annual expenditure on upgrades and maintenance. I expect this information to be included in the Output Agreement.

Land Development

The Government is looking for innovative solutions and better management techniques for delivering redevelopment of land opportunities. While HNZC has statutory functions with regard to developing Crown land, in line with the previous Letter of Expectations I expect HNZC will:

- engage with the SHU on significant partnering opportunities for social housing either initiated by the third sector or the SHU
- engage with the SHU to develop appropriate partnering options in any new HNZC development of large areas of Crown land, to minimise capital requirements and development risk
- not act as the primary developer of any large-scale property developments beyond existing contractual commitments
- proceed with the Northern Glen Innes project to the extent it is consistent with the wider Tāmaki Transformation objectives/programme of work
- continue to engage with the Interim Tāmaki Transformation Board, officials and with any new entity established to lead urban regeneration of Tāmaki including sharing information with DBH officials, the Interim Tāmaki Board, and the new entity Board and officers
- once the Corporation has selected a preferred Northern Glen Innes redevelopment provider, facilitate engagement between the Corporation, the preferred provider, the Interim Tāmaki Transformation Board, and the new entity Board to ensure consistency with the wider Tamaki Transformation programme of work.

In addition, I expect the Board continue to keep me informed of progress made in the divestment of Hobsonville.

Other expectations

I expect HNZN to meet its obligations to be a good corporate citizen. This includes an expectation that HNZN will work constructively with my monitoring department, the Department of Building and Housing.

Operating costs

I expect HNZN will offer its services as cost-effectively as other social housing providers. If there are differences between HNZN costs and other providers' costs, then those differences should be able to be clearly identified and explained.

Annual Fire Levies

I expect HNZN to continue to make an annual fire levy contribution to the Fire Commission that is fairly based on the size of the portfolio. HNZN should consult with the Fire Commission and the Department to assess and agree on the contribution.

Crown products

Decisions on the future delivery of Crown products are still pending. However, while these products are delivered by HNZN, I expect high-quality commitment to their delivery should continue.

Canterbury rebuild

HNZN will receive a significant insurance payout for damage arising from the Canterbury earthquakes. Given the significance of the investment, from a whole of government perspective there is a legitimate concern that this money is re-invested appropriately. I therefore expect Ministers will be consulted on how HNZN intends to use the Canterbury earthquake insurance proceeds for the re-configuration of its assets.

There needs to be a continued commitment to Christchurch and I expect Housing New Zealand to use this opportunity to reconfigure its stock to better reflect the type, size and quality of home that is appropriate for current, and forecast, demand in Christchurch.

As previously discussed, the Government does not see large scale property development as part of Housing New Zealand's core business. As such, I expect Housing New Zealand to consider alternative and innovative ways to deliver its Christchurch rebuild, including options for contracting out the redevelopment work to other parties.

Enterprise Transformation Programme

The Enterprise Transformation Programme has been designed to revitalise HNZN systems and transform its operational activities. To do this the Enterprise Transformation Programme must efficiently support the new needs assessment system, the Asset Management Strategy and the new service delivery model.

I expect the benefit realisation annual savings arising from the Enterprise Transformation Programme to be delivered by the new Customer Service Delivery Model. To demonstrate these savings are being achieved I expect the savings, and the evidence of operational or service improvement to be clearly identified in the HNZC Statement of Intent.

Compliance with statutory obligations

I expect HNZC to meet its statutory obligations, under the Crown Entities Act 2004, with regard to reporting its information requirements, levels of service, timelines and performance to Ministers and Parliament.

Statement of Intent

The Statement of Intent (SOI) is HNZC's key strategic accountability document. As such, I want to have high-quality and timely engagement with the Board during its development of the SOI for 2012/13. This is to ensure the SOI reflects the Government's priorities and the expectations set out in this letter.

Output Agreement

The Output Agreement is established between the Crown and HNZC in respect of outputs to be delivered by HNZC. The Output Agreement sets performance expectations that are aligned to the SOI. The Output Agreement is an important part of HNZC's suite of accountability documents and should be developed and in place for the start of the 2012/13 year.

Performance reporting

HNZC has undertaken improvements to its accountability documents, which has increased the value of the reporting. However, there remain opportunities to improve. In particular, I expect HNZC to include trend information to better describe the performance of HNZC annually and across periods.

Kind regards



Hon Phil Heatley
Minister of Housing

CC Hon Bill English, Minister of Finance
Dr Lesley McTurk, Chief Executive, HNZC



Office of Hon Dr Nick Smith

Minister of Housing
Minister of Conservation
Member of Parliament for Nelson

02 JUL 2013

Adrienne Young-Cooper
Acting Board Chair
Housing New Zealand Corporation
PO Box 2628
WELLINGTON, 6140

Dear Adrienne

2013/14 Annual Letter of Expectations

We are writing to convey responsible Ministers' expectations of Housing New Zealand Corporation (HNZC) for 2013/14. This letter should guide the completion of HNZC's accountability documents and complements the enduring Letter of Expectations sent to chairs of all Statutory Crown Entities in July 2012. It incorporates (among other things) the written notice of the Crown's social objectives for the provision of housing and services related to housing under s3C of the Housing Corporation Act 1974.

You will be aware that we changed our monitoring arrangements for HNZC from December 2012 and are in the process of refocusing the way in which we engage with, and monitor, HNZC. This letter reflects this and recognises that this transition may take time.

Overall, this letter outlines our expectations and our priorities. You need to be aware of these and give effect to our policies in an effective and efficient manner. This includes managing the considerable social housing resource on the Crown's balance sheet as effectively and efficiently as possible. We recognise that you operate in a complex and changing environment and we acknowledge that performance against expectations is not without considerable challenge.

Accordingly we have set out this letter as follows:

- Priorities for 2013/14, including the Government's Social Housing Reform Programme.
- A performance framework for effective and efficient outcomes.
- Working with responsible Ministers.

Priorities for 2013/14

We expect HNZC to assist the Crown in meeting the Government's social objectives for housing by:

- Assisting vulnerable individuals and families, who request state assistance, to make the right housing choices and work with other agencies to transition existing state house tenants whose circumstances have improved to alternative housing.
- Providing cost effective state housing and associated services to those most in need, for the duration of their need, at an appropriate quality level.

The Government's Social Housing Reform Programme (SHRP)

The Social Housing Reform Programme (SHRP) remains a high priority for this Government. The Government's objective is to enable greater contestability in the provision of social housing. In the future we envision that HNZC will be one of a range of social housing providers, but will continue to be the main provider in the short to medium term.

The Government has made decisions as part of Budget 2013 that will have implications for HNZC and its future role. These decisions include:

1. Moving the needs assessment function from HNZC to the Ministry of Social Development.
2. Enabling related functions around calculating income related rents, and carrying out reviewable tenancies reviews, to transfer to the Ministry of Social Development or some other approved Crown agency.
3. The introduction of reviewable tenancies to those people who had been HNZC tenants before 1 July 2011.
4. Extension of the Income-Related Rental Subsidy scheme to community housing providers.
5. Creation of a regulatory regime for community housing providers.
6. The possible introduction of a Warrant of Fitness regime for social housing properties.

Our expectation is that HNZC will continue to be a key contributor to advice on progressing the SHRP and will fully co-operate in implementing these and other social housing policy decisions.

Tāmaki Redevelopment Company (TRC)

As you will be aware, the Government established the Tāmaki Redevelopment Company (TRC) jointly with the Auckland Council in 2012. TRC is developing a Strategic Framework and Business Case for regeneration of Tāmaki. As part of this, TRC is able to consider how it could use HNZC assets in the area to further regeneration. Transferring some of HNZC's assets to TRC for regeneration purposes is something that we will consider in 2013/14.

Our expectation is that HNZC supports the development of TRC's Business Case, for example by providing information and expertise, and that HNZC and TRC will work together cooperatively to identify win-win options that progress our objectives. The Government will be making decisions around the TRC business case in 2013/14 and we expect that HNZC will be fully involved in this process. HNZC's future role in the Tāmaki area will be considered as part of this.

Canterbury Rebuild

We acknowledge that HNZC has suffered significant damage to its housing stock in Canterbury and recognise that HNZC is using this as an opportunity to revitalise and reconfigure its Canterbury stock through the Canterbury Investment Plan (CIP).

The CIP represents a significant investment in state housing. Given its size, we expect to be consulted on this programme prior to final decision making. We expect significant investment or divestment decisions to follow best practice guidelines. Therefore, our expectation is that the principles underpinning the Capital Asset Management rules and Treasury's Better Business Case standards should be applied (Cabinet Office circular CO(10)12 refers); that is, you should ensure that appropriate disciplines are applied to the analysis, and that alternative procurement is investigated. Where alternative procurement methods are used (for example, Public Private Partnerships and alliances), these investments should be

considered by Cabinet. Therefore we expect you to continue to consult with us on the CIP, especially on the choices and options in relation to 'Stage 4'.

Updating your Asset Management Strategy (AMS)

We wish to place substantially more emphasis on supporting further growth of the third sector than was incorporated into your 2012 Asset Management Strategy (AMS). We are also looking for HNZC to bring us options that would enable immediate divestment of assets in low demand areas and once we have agreed a forward path then these decisions should be reflected in your revised AMS. Your AMS should also be updated to reflect the changes we are putting in place as part of the Social Housing Reform Programme.

Our expectation is that you will reconfigure your portfolio to better match demand and improve the quality of your houses, but we are also looking to HNZC to free up more capital for investing in growth of the third sector. We expect this will include a mix of strategies including faster sales of surplus stock in the regions, possible transfers of stock and redevelopments to increase land utilisation in metropolitan areas, and developing products and pathways which better meet the needs of particular tenant types (for example, aged tenants). We expect that as a result HNZC will likely own a significantly smaller number of houses in 10 years' time than under the 2012 AMS and be more 'fit for purpose'.

The implications for HNZC and the Crown of these strategies will need working through, in light of a realistic and implementable path of change. We may wish to make capital withdrawals to fund the third sector as capital is released, although we will need to understand the impacts on HNZC. We are also willing to provide more financial flexibility for you to be able to increase the overall pace of change, such as write-downs, but we will need to put appropriate limits in place. Until such limits are agreed, Ministers will also need to be informed of any decisions that have a material impact on the Crown's fiscal strategy greater than \$50 million. You will need to work closely with the Treasury on the AMS review to identify options and choices for Ministers in relation to growing the third sector, HNZC's priorities and fiscal impacts.

Housing Affordability

The Government has a significant and wide programme of work under way to improve housing affordability. In carrying out its social objectives and asset management, we expect HNZC to:

- consider how the disposal of HNZC's surplus stock can increase the supply of housing and promote home ownership for HNZC tenants or others who would otherwise fall just short of being able to access home ownership;
- consider, when it carries out developments on its land, how it can promote affordability, (as a by-product of development) through the increase in supply of available housing; and
- effectively coordinate with other entities whose activities improve housing affordability, and provide non-financial support to these.

A performance framework for effective and efficient outcomes

Since the change in monitoring arrangements in December 2012, we have focused on developing an 'active' monitoring regime with the objective of ensuring that:

- the Crown's investment in state housing represents value for money in terms of procuring social housing outcomes; and

- HNZC's contribution to housing outcomes is effective and efficient given the factors under its control.

HNZC's performance is the focus of the second objective, but also is a key contributor to the first as HNZC remains by far the largest provider of social housing.

To support these objectives, we have identified a range of performance measures and indicators that we believe can provide a comprehensive view of HNZC's performance across asset management, tenancy management and financial performance. These are still in development and we understand that HNZC has been working with our officials on determining their applicability and feasibility and expect this to continue.

Notwithstanding that the performance measures and indicators have yet to be finalised, our expectations around financial performance are as follows:

- As part of its financial reporting, HNZC needs to ensure sufficient focus on value measures which accurately reflect changes in value of the housing portfolio and account for the Crown's opportunity cost of capital. These tend to have more meaning as long-term measures. In relation to these:
 - HNZC's return should be reported relative to its cost of capital, with an expectation that this measure continues to improve; and
 - we expect HNZC to report operating cost per housing unit in a way which can be compared over time taking into account, for example, the higher proportion of Priority A and B tenants.
- Complementing these measures, there needs to be continued focus on evidence of HNZC's ability to deliver the right services to the right people in a value for money way (these tend to have a shorter term focus). In relation to these, we expect to see HNZC's key tenancy management and asset management measures demonstrate improved performance relative to recent years.
- The ability to pay dividends is a critical indicator of financial sustainability. Dividend levels should be significant enough to represent a challenge for HNZC, yet recognise that HNZC's operational environment limits dividend yield. On this basis, we expect to see dividend levels to be at least consistent with those projected in the 2012/13 Statement of Intent and budget forecasts. We recognise that there are likely to be some positive and negative adjustments against the forecast to reflect business changes (such as the moving of the function for needs assessment from HNZC, implications of the AMS and any special dividend associated with initiatives such as Tāmaki). We expect HNZC to actively engage with officials on its dividend framework taking into consideration the implications of business changes on quantum.
- We are supportive of your focus on improved operational performance across HNZC's business. We look forward to business improvement featuring in HNZC's accountability documents and being reflected in HNZC's performance outcomes.
- A key Government objective is to return to surplus in 2014/15, which will then allow us to start reducing debt and re-establish a fiscal buffer against future shocks. It is important that all Crown entities take due notice of this objective, as Crown entity operating balances have a direct impact on the Crown's operating balance. Material variations from your forecast operating balances have the potential to put the Government's fiscal strategy at risk. As noted earlier, we want to work with you on appropriate thresholds for the medium term and will also establish any material changes to current financial forecasts for HNZC as part of the proposed strategic review and updated AMS. In the short term, we expect to be consulted on decisions that have a negative impact of more than \$50 million on HNZC's operating surplus in

any one financial year. This includes such decisions as bringing forward write-downs. Our expectation to be consulted does not imply that we will oppose any decisions. However, Ministers do need to be given as early warning as possible if we are to make informed choices.

Working with Responsible Ministers

In addition to expectations around giving effect to policy objectives in an effective and efficient manner, we expect HNZC to foster a positive and transparent relationship with the Crown. This means a high level of information exchange and the maintenance of positive relationships between our respective officials.

Consultation thresholds and expectations

As in previous years, a 'no surprises' approach is fundamental to a good relationship. We should be informed, well in advance, of any material events, transactions or other issues that could be contentious or attract wider public interest. We also expect to be consulted on any proposals to change services to state housing tenants. There is a high degree of interdependency with other government services and such changes may affect other agencies' ability to implement Government policies.

In addition, we are considering formalising the definition for materiality and threshold for Ministerial consultation regarding capital investments. By way of example, COMU's *Owner's Expectation Manual* provides explicit consultation thresholds for capital investments by State Owned Enterprises and we would like to engage with you over appropriate thresholds for HNZC.

Statement of Intent

The Statement of Intent (SOI) is HNZC's key accountability document. We expect it to reflect the sentiments expressed in this letter. However, given the timing of this letter, the potential for significant change in social housing and the fact that our monitoring approach is still evolving, we recognise that the SOI for 2013/14 will be a transitional document for HNZC. We will expect to have further discussions, in due course, on expectations around levels of performance.

Kind Regards



Hon Nick Smith
Minister of Housing

CC Hon Bill English (Minister of Finance)



Office of Hon Dr Nick Smith

Minister of Housing
Minister of Conservation
Member of Parliament for Nelson

31 MAR 2014

Dr Allan Freeth
Chair
Housing New Zealand Corporation
PO Box 2628
WELLINGTON, 6140

Dear Allan

The Crown's Social Objectives for Housing and Expectations in regard to the Social Housing Market

This letter provides written notice of the Crown's social objectives for the purpose of section 3C of the Housing Corporation Act 1974. We are also taking the opportunity to give you some specific expectations in regard to the establishment of the social housing market. We will provide you with further expectations once we have taken decisions around the potential for an independent transaction unit.

HNZC's Social objectives

The Crown's social objectives for housing and services (related to housing by Housing New Zealand) are:

- assisting vulnerable individuals and families, who request state assistance, to make the right housing choices and by working with other agencies to transition existing state house tenants whose circumstances have improved to alternative housing
- providing cost-effective state housing and associated services to those most in need, for the duration of their need, at an appropriate quality level
- cooperating with the Government and other relevant entities in order to facilitate the development of the social housing market in order to promote:
 - the diverse supply of social and affordable housing; and
 - a diversity of social housing providers

From 14 April 2014, assessment of housing need and allocation of social housing will be carried out by the Ministry of Social Development (MSD). To meet its obligations under the first objective above, HNZN will be expected to respond to notifications from MSD (the Social Housing Agency). HNZN will also need to enter into appropriate contractual arrangements with MSD for the provision of social housing.

Reporting to the Community Housing Regulatory Authority

From 14 April 2014, the Community Housing Regulatory Authority, based within the Ministry of Business, Innovation and Employment, has a range of regulatory functions regarding Community Housing Providers (CHPs). These functions support

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its two main objectives of ensuring CHPs' tenants are appropriately housed, and growing a fair, efficient and transparent community housing sector. At this stage, Housing New Zealand is not required to register as a CHP; however, we expect HNZN to provide the same level of reporting to the Regulatory Authority as will be required by registered Class I CHPs, in order to achieve a level playing field across the social housing sector.

Reporting is required against the prescribed performance standards, which relate to governance, management, financial viability, tenancy management and property and asset management, and can be covered by submission of the annual report and statement of intent and, if required, a report setting out HNZN's performance against the standards not covered by those documents.

The Regulatory Authority will write to you after the 14 April 2014 setting out the reporting requirements.

Transfer/sale of assets to Community Housing Providers

As part of developing a level playing field across the social housing sector, we have asked MBIE and Treasury officials to provide advice on the feasibility of an independent transactions unit to facilitate development of a contestable housing market. No decisions have been made regarding this to date. It is important that HNZN provide information as required to inform this process.

As mentioned above, we will write to you again after any decisions are made regarding the potential for an independent transactions unit.

Yours sincerely,



Hon. Dr Nick Smith
Minister of Housing

on behalf of the Minister of Finance and the Minister of Housing



Office of Hon Bill English

Deputy Prime Minister
Minister of Finance
Minister Responsible for HNZC

09 APR 2015

1 APR 2015

Dr Allan Freeth
Chair
Housing New Zealand Corporation
PO Box 2628
WELLINGTON 6140

Dear Dr Freeth

The Crown's Social Objectives for Housing 2015/16

This letter provides written notice of the Crown's social objectives for the purpose of section 3C of the Housing Corporation Act 1974.

The Crown's social objectives for housing and services (related to housing by Housing New Zealand) are to:

- Provide cost-effective social housing that is of the right size in the right place, to those most in need for the duration of their need.
- Facilitate the development of the social housing sector, by continuing to work in an open and transparent manner with government agencies and the community housing sector in order to promote:
 - The diverse supply of social and affordable housing, including the transfer of social houses into the community housing market and the redevelopment of housing in Tamaki
 - The diversity, capability and capacity of the community housing sector, including by the provision of tenancy and property management services
 - Alignment with the Ministry of Social Development's Purchasing Intentions
- Transition existing social housing tenants who are capable of doing so to alternative housing.

Please liaise with my officials should you require any further clarification of these objectives.

Yours sincerely

Hon Bill English
Minister Responsible for Housing New Zealand
Corporation

Hon Paula Bennett
Associate Minister of Finance

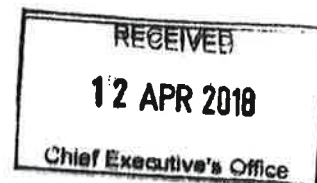


MP for Te Atatu

Minister of Housing and Urban Development

Minister of Transport

11 APR 2018



Adrienne Young-Cooper
Chair
Housing New Zealand Corporation
PO Box 2628
WELLINGTON 6140

Dear Adrienne

The Crown's social objectives for housing 2018/19

This letter provides written notice of the Crown's social objectives for the purpose of section 3C of the Housing Corporation Act 1974.

HNZ's social objectives

The Crown has identified the following social objectives for housing and services related to housing by Housing New Zealand:

- a. Addressing the shortage of housing to ensure that those most in need get access to appropriate services and support.
- b. Providing good quality housing that is warm, dry and healthy to live in across New Zealand, in a cost effective way. This includes upgrading and managing the portfolio to ensure it remains fit for purpose.
- c. Assisting tenants to sustain their tenancy for the time they require public housing, supporting tenants to be well connected to the communities in which they live, and facilitating a transition into housing independence where appropriate.
- d. Providing affordable and other housing in areas of high housing shortages, including undertaking urban development and building social amenities and other facilities necessary to support the communities that will live in the housing.
- e. Aligning asset and tenancy management decisions with the Ministry of Social Development's contracting framework and purchasing strategy.
- f. Supporting the Government's housing policy goals by working with Government on any restructure of housing responsibilities in the public sector and the design and delivery of KiwiBuild.

Yours sincerely

Hon Phil Twyford
Minister Responsible for Housing New Zealand Corporation



Office of Hon Bill English

Deputy Prime Minister
Minister of Finance
Minister Responsible for HNZC

Adrienne Young-Cooper
Chair
Housing New Zealand Corporation
PO Box 2628
WELLINGTON 6140

Dear Adrienne

The Crown's Social Objectives for Housing 2016/17

This letter provides written notice of the Crown's social objectives for the purpose of section 3C of the Housing Corporation Act 1974. The letter also provides associated context for the objectives which the Corporation might find helpful.

Overall social housing remains a key priority for the Government.

HNZC's Social objectives

- a. The Crown's has identified the following social objectives for housing and services related to housing by Housing New Zealand.
- b. Providing cost-effective social housing that is of the right size and in the right place, for those most in need, for the duration of their need
- c. Aligning asset and tenancy management decisions with the Ministry of Social Development's contracting framework and purchasing intentions
- d. Assisting tenants, where appropriate, to transition into housing independence
- e. Supporting the Social Housing Reform Programme (SHRP) by working with Government and the social housing sector to help achieve the SHRP objectives
- f. Providing affordable and other housing, particularly in Auckland, including undertaking urban development and building social amenities and other facilities necessary to support the communities that will live in the housing.

Additional context

In delivering on the social objectives outlined above, I understand that Housing New Zealand Corporation and its subsidiaries will look to its 2016/17 Letter of Expectations for further guidance from the Crown on applying these objectives. In the Letter of Expectations I outlined the increased scale and pace of divestments and development activity that the Government is interested in.

I also noted that HNZC's development subsidiary, HLC, may undertake some of HNZC's developments and be chosen as the delivery agent for the large scale redevelopment of HNZC's Auckland properties. The intent of the inclusion of the provision of affordable and other housing in Auckland in the social objectives recognises HNZC's and HLC's role in providing mixed-use developments and also provides the scope for HLC to provide these activities should it be chosen as the delivery agent. This decision will guide the extent to which the objectives outlined above and guidance outlined below are relevant.

Guidance for HNZC

I understand that in delivering on the 2016/17 social objectives outlined above, HNZC and its subsidiaries will:

1. Potentially undertake developments in conjunction with other parties and/or land holding parties. In particular, land held by other public sector entities, iwi, community housing providers, non-profit organisations and other private sector entities. HNZC will not undertake development work on private land unless it is incidental to a larger development to which it is a party.
2. Only proceed with transactions with net economic benefits. Where transactions are partially justified by net economic benefits, rather than only by the financial return to HNZC, the net economic benefits and financial return to HNZC need to be clearly identified and quantified for the Board, and for shareholding Ministers when consulted on major transactions or developments. For example, it may be economically beneficial if HNZC to proceed with a high-density development that produces a range of more-affordable homes, even though on a risk-adjusted basis a greater financial return to HNZC could be achieved from a lower-density development.
3. Potentially produce a range of market housing where this enables the efficient provision of social and/or affordable housing.
4. Over the next year develop a contract with the Ministry of Social Development which may, among other things, clarify the level of tenancy management expected of HNZC and underutilisation and actions to address overcrowding of housing. Until such time as the contract is finalised we expect HNZC will work constructively with MSD on these matters.

Yours sincerely



Hon Bill English
**Minister Responsible for
Housing New Zealand Corporation**