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Cabinet Social Policy Committee

SOC (10) 128

Summary of Paper

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A New Direction for Social and Affordable Housing in New Zealand: Government's Response to the Report of the Housing Shareholders' Advisory Group

Portfolios Finance / Housing

Purpose This paper proposes a new direction for social and affordable housing, and the approach for achieving this, following advice from the Housing Shareholders' Advisory Group (the Advisory Group).¹

Previous Consideration In October 2010, the Cabinet Strategy Committee (STR) endorsed recommendations in the Advisory Group's report² as the basis for a way forward for the social housing sector, and invited the Minister of Housing to report to the Cabinet Social Policy Committee (SOC) with a proposed government response to the report, including first steps [STR Min (10) 16/1].

Summary Social housing is the provision of housing assistance to those who cannot otherwise meet their own housing needs. Social housing is currently provided primarily by central government.

The current delivery model for social housing is not sustainable. It is failing to meet the needs of a growing number of households, is increasingly unaffordable for the government, and faces a number of challenges.

The paper under SOC (10) 128 proposes a government response to the Advisory Group's report comprising:

- endorsement of the current and future challenges for social housing in New Zealand, as identified in the report (outlined in Table 1 on pages 3-4);
- a direction for change to social and affordable housing in New Zealand that closely reflects the vision described in the report (many, but not all, of the paper's recommendations reflect those in the report), with four broad objectives (as endorsed by STR):
 - greater involvement of third party providers of social housing;
 - increasing the effectiveness of financial assistance;
 - focusing the Housing New Zealand Corporation (HNZC) on providing social housing to higher need tenants;

¹ Appendix 1 on page 24 lists the members of the Advisory Group.

² A summary of the Advisory Group's recommendations is in Appendix 2 on pages 25-26. Appendix 3 on page 27 summarises the outcome of the Advisory Group's sector engagement.

- aligning the organisation and responsibilities of government agencies;
- an integrated package of proposals for a way forward that progresses the four imperatives, and builds on the recommendations made in the report (outlined in Table 2 on page 8).

Appendix 4 on pages 28-29 lists the various report backs to selected Ministers or SOC as a result of the proposals required to give effect to the new direction for the social housing sector. The Minister of Housing will report to SOC in June 2011 with progress on the proposals.

The benefits of the improved delivery of social housing will be apparent in the immediate and short term, but substantially improved outcomes will be visible only after three to five years and more.

**Regulatory
Impact Analysis**

An interim Regulatory Impact Statement is in Appendix 5 on pages 30-34.

**Baseline
Implications**

The additional policy development work to formulate the new direction for social housing will require the reprioritisation of \$1 million of operational funding from the Mortgage Insurance Scheme (Welcome Home Loans) appropriation in the Vote Housing baseline.

There will also be implications for Budget 2011 and beyond.

**Legislative
Implications**

If a single source of policy advice is established in the Department of Building and Housing, the Housing Corporation Act 1974 will need to be amended. Technical amendments may also be made to the Housing Restructuring and Tenancy Matters Act 1992.

Timing Issues

Appendix 4 on pages 28-29 lists the various report backs to selected Ministers or SOC.

Announcement

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

Consultation

Paper prepared by DBH. Treasury, SSC, MSD, HNZC, TPK, Pacific Island Affairs, DIA, and Women's Affairs were consulted. DPMC was informed.

The Minister of Finance and the Minister of Housing indicate that there will be discussion with the government caucus and with other parties represented in Parliament.

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

Government's response to report of the Housing Shareholders' Advisory Group

- 1 agree:
 - 1.1 with the current and future challenges for social housing in New Zealand as identified in the Housing Shareholders' Advisory Group's (the Advisory Group) report;
 - 1.2 to a direction for change to social housing that closely reflects the vision as described in the Advisory Group's report [STR Min (10) 16/1];
- 2 agree that a transformation of the social housing sector is required;
- 3 agree that the direction for change for the social housing sector involves delivering the following outcomes:
 - 3.1 greater involvement of third party providers of social housing;
 - 3.2 increasing the effectiveness of financial assistance;
 - 3.3 focusing the Housing New Zealand Corporation (HNZC) on providing social housing to tenants with the greatest housing need;
 - 3.4 aligning the organisation and responsibilities of government agencies;
- 4 note that there are some differences in timing, specifics, and emphasis compared with the Advisory Group's detailed recommendations;

Greater involvement of third party providers of social housing

- 5 note that greater involvement of third party providers offers the ability to grow the overall quantum of available social housing, as well as the potential for better efficiency and value for money through:
 - 5.1 greater innovation, diversity, and specialisation;
 - 5.2 access to additional sources of capital;
- 6 direct the Department of Building and Housing (DBH), in consultation with the Treasury and the State Services Commission (SSC), to report to the Minister of Finance, the Minister of State Services, and the Minister of Housing by 31 March 2011 on the future structure of the social housing sector, including the future role of HNZC as a provider of social housing;
- 7 note that the preconditions for greater third party participation in the provision of social housing are:
 - 7.1 clear specification of social housing providers' rights and obligations through the regulation and potential registration of approved providers;
 - 7.2 financial assistance to tenants to enable them to meet a reasonable rent;

- 7.3 an independent and nationally consistent system for allocating tenants to properties;
 - 7.4 access to a subsidy to the housing provider, either operating or capital, to improve the value proposition;
 - 7.5 potentially, a mechanism to mitigate the risk of fluctuating incomes, for example due to vacancies and arrears;
 - 7.6 certainty of cash flow, which includes certainty around the criteria and quantum of Crown subsidies to cover operating costs;
- 8 direct DBH, in consultation with the Treasury, to report to the Minister of Finance and the Minister of Housing by 30 June 2011 with advice on how to facilitate increased third party provision of social housing, including how to establish the necessary preconditions including practical steps that can be actioned quickly;
 - 9 direct DBH, in conjunction with the Ministry of Pacific Island Affairs and Te Puni Kokiri, to report to the Minister of Pacific Island Affairs, the Minister of Housing, and the Minister of Maori Affairs by 30 June 2011 on progress on a scheme or initiatives to develop the role of iwi and hapu, and the Pasifika community, as providers of social housing;
 - 10 note that the Minister of Housing will develop specific initiatives for continuing to support specialist community housing providers currently able to access the Housing Innovation Fund, and for supporting rural housing and Community Group Housing, for consideration as part of the Budget 2011 process;

Increase effectiveness of financial assistance

- 11 agree that significant change to housing assistance is required to support the alternative provision of social housing and to achieve better outcomes, more consistently and fairly, for households receiving financial assistance;
- 12 direct the Ministry of Social Development (MSD), in consultation with the Treasury, HNZA, and DBH, to prepare an interim report to the Minister of Finance, the Minister for Social Development and Employment, and the Minister of Housing by 30 June 2011 with advice on improving the performance of housing assistance, including:
 - 12.1 the problems associated with the current financial support for housing;
 - 12.2 options and recommendations for change to financial support for housing;
 - 12.3 an appropriate transition path to a new housing financial assistance regime;
- 13 direct MSD, in consultation with the Treasury, SSC, HNZA, and DBH, to report to the Minister of Finance, the Minister of State Services, the Minister for Social Development and Employment, and the Minister of Housing by 30 June 2011 with advice on how to integrate the assessment of housing needs with assessments for wider social support;

Focus Housing New Zealand Corporation on providing social housing to high need tenants

- 14 agree that HNZC focus on providing social housing to those with high needs and:
- 14.1 more actively assess and manage tenants, to focus on high need for the duration of need;
 - 14.2 reconfigure the state housing portfolio to deliver social housing where the need is greatest;
- 15 agree that, from 1 July 2011 HNZC introduce reviewable tenancies for new tenants;
- 16 direct HNZC, in conjunction with DBH, and in consultation with the Treasury, to report to the Minister of Finance and the Minister of Housing by 31 March 2011 on:
- 16.1 the proposed policy framework for reviewable tenancies for new state house tenants and how this will be implemented and introduced by 1 July 2011;
 - 16.2 options for extending reviewable tenancies to existing tenants;
 - 16.3 options for transitioning state house tenants to more suitable accommodation as their circumstances change (*Incentives to Independence* programme);
- 17 agree that, due to the significant change that the introduction of reviewable tenancies will bring to state housing, the Minister of Finance and the Minister of Housing have the final sign-off on the high level policy framework;
- 18 agree to replace the state housing stock targets with performance-based measures in HNZC's Statement of Intent from 2011/12;
- 19 note that HNZC review and redevelop the leasing model to increase the volume of leases by engaging with housing providers at scale;
- 20 invite the Minister of Housing to report to the Cabinet Social Policy Committee (SOC) by 30 March 2011 with proposals to support the efficiency and effectiveness of HNZC focussing on those with high needs, including:
- 20.1 to make improvements, if necessary, to HNZC's Social Allocation System;
 - 20.2 to make technical amendments to the Housing Restructuring and Tenancy Matters Act 1992;
 - 20.3 other amendments to the Housing Restructuring and Tenancy Matters Act 1992 and/or the Housing Corporation Act 1974, as required;

Align organisation and responsibilities of government agencies

- 21 agree to consolidate housing policy advice to Ministers in DBH by 1 July 2011;
- 22 note that HNZC will retain an operational policy capability to support its business activity;
- 23 agree to amend the Housing Corporation Act 1974 to give effect to the above change;

- 24 invite the Minister of Housing to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above proposals;
- 25 note that SSC, in consultation with the Treasury, HNZC, and DBH, will provide a plan setting out the key implementation steps to give effect to the above changes to the Minister of Finance, the Minister of State Services, and the Minister of Housing, by 6 December 2010;
- 26 direct SSC, the Treasury and DBH, in consultation with HNZC, to report to the Minister of Finance, the Minister of State Services, and the Minister of Housing by 28 February 2011 with detailed advice on the transfer of functions, including:
 - 26.1 the scope and scale of the housing policy functions and associated resourcing transferring to DBH;
 - 26.2 the process for staff affected by the transfer of policy functions to DBH;
 - 26.3 the legislative and financial implications of the proposed changes;
 - 26.4 the timeframe and transitional issues, and how these are to be addressed;
 - 26.5 the communication plan;

Financial implications

- 27 note that operating funding of \$1.000 million is required in 2010/11 for the additional policy development work to formulate the new direction for social housing;
- 28 approve the following fiscally neutral adjustments to fund this additional policy advice, with no impact on the operating balance or debt:

	\$m – increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Vote Housing					
Minister of Housing					
Non Departmental Output Expense:					
Mortgage Insurance Scheme (Welcome Home Loans)	(1.000)	-	-	-	-
Vote Housing					
Minister for Building and Construction					
Departmental Output Expense:					
Sector and Regulatory Policy (funded by Revenue Crown)	1.000	-	-	-	-
Total Operating	-	-	-	-	-
Total Capital	-	-	-	-	-

- 29 agree that the proposed changes to appropriations for 2010/11 above be included in the 2010/11 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

Next steps

- 30 invite the Minister of Housing to report to SOC in June 2011 with progress on the proposals contained in the paper under SOC (10) 128;
- 31 note that the Minister of Housing will co-ordinate any announcements with the Prime Minister and the Minister of Finance.

Saphron Powell
Committee Secretary

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Cabinet Social Policy Committee

A new direction for social and affordable housing in New Zealand: Government's response to the report of the Housing Shareholders' Advisory Group

PURPOSE

- 1 This paper proposes a new direction for social and affordable housing, and the approach for achieving this, following advice from the Housing Shareholders' Advisory Group.

EXECUTIVE SUMMARY

- 2 The current delivery model for social housing is not sustainable. It is failing to meet the needs of a growing number of households and, at the same time, is increasingly unaffordable for the Government. We face a number of challenges:
 - state housing assistance is not well-matched to need
 - increasing demand for social housing, coupled with constraints on housing supply and a shortfall in construction
 - lack of at-scale alternatives to state housing, that offer adequate security of tenure and affordability
 - financial assistance for housing that is unfair and inadequate for a growing number of people
 - continuing affordability problems, especially for low-income renters in the private sector
 - government cannot meet all these needs on its own.
- 3 Our goal is that all New Zealanders should be able to access affordable, sound-quality housing that provides secure tenure appropriate to their needs. This will require a transformation in the way that social housing is delivered in future, with four key imperatives:
 - A more efficient and innovative social housing sector characterised by greater third party provision, resulting in growth in the overall quantum of social housing.

- Housing assistance that is fair and equitable, and that provides incentives and pathways towards greater independence.
 - State housing that is focused on those with the highest need for the duration of that need, taking account of individual circumstances.
 - Structures and functions of government agencies that support the direction of change.
- 4 The Housing Shareholders' Advisory Group (HSAG) report highlights these challenges, and proposes a direction for this transformation. We agree with this general direction, and have developed a set of detailed recommendations to deliver this direction – many, but not all, of these recommendations reflect those from the HSAG report. This reform will achieve improved outcomes and better value-for-money from the Government's investment in state and social housing.
- 5 Transformative change to the delivery of social housing is complex and affects a significant element of the lives of often vulnerable households. We have choices and trade-offs around the pace and scale of change, the additional fiscal cost of change, and the level of risk associated with the change – including to service delivery and distributional impacts. We are keen to make the decisions we can as a matter of urgency, and also to set the direction of change. However, we are also mindful of the need to be careful and deliberate, to ensure these reforms are enduring.
- 6 In this paper, we seek agreement to:
- a proposed new direction for the social housing sector, transform the future delivery of social housing,
 - key policy decisions that we can take now to start the process of change, and
 - direct officials to develop specific proposals to give effect to this new direction for social housing.

CONTEXT

The Housing Shareholders' Advisory Group report

- 7 In February 2010 the Minister of Finance and the Minister of Housing established the Housing Shareholders' Advisory Group (HSAG) to provide independent advice to assist government address the increasing social and fiscal pressures on social housing¹. They were asked to provide a vision for social housing and a clear action path over the next three to five years for how to deliver better housing

¹ Social housing is the provision of housing assistance to those who cannot otherwise meet their own housing needs. Social housing is currently provided primarily by central government, by direct provision delivered by Housing New Zealand Corporation (HNZC) through state housing and the Income Related Rent Subsidy, and by direct assistance delivered by the Ministry of Social Development, primarily the Accommodation Supplement. In addition, a small amount of social housing (approximately 5%) is provided by local government and community housing organisations.

outcomes for those most in need and how to achieve better value from investment. A list of HSAG members is attached as Appendix 1.

- 8 The HSAG report “Home and Housed: A Vision for Social Housing in New Zealand”, was delivered to the Minister of Finance and the Minister of Housing on 7 May 2010 and made public in August 2010. A summary of the recommendations in the HSAG report is attached as Appendix 2.
- 9 The HSAG engaged with key stakeholders and interest groups across the country on the findings and recommendations in the report. In October 2010, the HSAG reported the outcome of this engagement to Ministers and reaffirmed their recommendations in light of the strong endorsement of the vision and strategic direction outlined in their report. Appendix 3 outlines the key stakeholder responses to the HSAG report.

Government’s response to the HSAG report

- 10 This paper proposes a government response to the HSAG report comprising:
 - endorsement of the current and future challenges for social housing in New Zealand as identified in the HSAG report
 - a direction for change to social and affordable housing in New Zealand that closely reflects the vision described in the HSAG report, and discussed at the Cabinet Strategy Committee meeting of 18 October 2010 [STR Min (10) 16/1 refers]
 - proposals for a way forward that build on the recommendations made in the HSAG report, and are supported by significant action to progress the proposals.

CURRENT AND FUTURE CHALLENGES FOR SOCIAL HOUSING

- 11 The current delivery model for social housing is not sustainable. The following table summarises the current and future challenges for social housing based on those identified in the HSAG report and endorsed as making the case for why change is needed.

Table 1: Current and future challenges for social housing

<p>State housing assistance is not well matched to need</p>	<ul style="list-style-type: none"> ▪ ‘House for life expectation’ means that some houses continue to be occupied by those with less need, including those paying market rent, making them unavailable for high need individuals and families ▪ HNZC is currently unable to provide housing solutions for approximately 33% of high need applicants ▪ Performance measures for HNZC based on number of houses per region at any one time drive inefficient outcomes ▪ Significant under-utilisation of HNZC housing stock and land
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<p>Increasing demand means increasing fiscal pressures on social housing</p>	<ul style="list-style-type: none"> ▪ Demand for social housing is increasing, particularly for those with high needs² ▪ Government expenditure on housing assistance (IRRS and AS) was \$1.7 billion in 2009/10, and is forecast to grow to \$3.7 billion by 2019/20 ▪ The Crown also holds \$15 billion of property in the state housing portfolio
<p>Lack of alternatives to state housing that offer security of tenure and are affordable</p>	<ul style="list-style-type: none"> ▪ Limited viable alternatives for 'lower need' state house tenants ▪ Lack of diversity of social housing services, lack of tailoring to regional and local need and individual circumstances ▪ Government doesn't actively seek private sector capital and expertise for social housing
<p>Financial assistance for housing that is unfair and inadequate for some</p>	<ul style="list-style-type: none"> ▪ State house tenants generally receive more generous subsidy than AS recipients in apparently equivalent situations. ▪ Some AS recipients showing signs of housing stress. ▪ Existing two subsidies for housing assistance not well suited to extension to third party providers
<p>Continuing affordability problems, especially for low-income renters</p>	<ul style="list-style-type: none"> ▪ Significant affordability issues for some low-income renters in the private sector, especially beneficiaries and NZS recipients ▪ Home ownership affordability has improved but remains out of reach to many
<p>Constrained housing supply and shortfall in construction</p>	<ul style="list-style-type: none"> ▪ Construction volumes well below population growth rates since 2008, especially in Auckland ▪ Outlook uncertain but significant risk of prolonged period of low construction affecting supply ▪ Sustained shortfall in house construction will adversely impact affordability
<p>Government cannot meet needs on its own / significant risk of future capital demands / need to leverage third party \$</p>	<ul style="list-style-type: none"> ▪ Ageing HNZC stock and deferred maintenance means likely future capital demands ▪ Current fiscal constraints mean that new and better ways to use the Crown's resources to deliver desired social housing outcomes are needed

THE WAY FORWARD

12 Our goal is that all New Zealanders should be able to access affordable, sound-quality housing that provides secure tenure appropriate to their needs. This will require a transformation to the delivery of social housing and to the provision of

² HNZC estimates that it will encounter a 15% increase in priority applicants by 2020, to 9,500 applications per annum

financial assistance to achieve improved outcomes and better value-for-money from the Government's investment in state and social housing.

Four broad imperatives

- 13 We propose the following four broad imperatives, based on HSAG's recommendations that together provide an integrated and coherent programme to achieve the transformation required to deliver these outcomes:
- **Greater involvement of third party providers of social housing:** Drive greater involvement of new and existing alternative and third party providers of social housing in order to grow the total quantum of social housing available, promote choice and contestability, access to a wider pool of capital, and more efficient and innovative use of housing resources across the whole social housing sector.
 - **Increase effectiveness of financial assistance:** Improve financial assistance so that it is based on the level and nature of housing need rather than who is providing the house, is adequate to address that need, and creates incentives to reduce the level of dependence on government as need reduces
 - **Focus HNZC on providing social housing to high need tenants:** Empower HNZC to focus on providing social housing to tenants with the greatest housing need, for the duration of their need, to ensure the greatest need is consistently met, and to create room for other providers.
 - **Align organisation and responsibilities of government agencies:** Ensure the organisation and functions of government agencies support the direction of change.
- 14 Over time, this transformation will result in:
- a significant increase in the number of social housing units over the next 5 - 10 years
 - more individual and families housed for every Crown dollar spent
 - more people receiving financial assistance that is better-matched to their housing affordability need, for the duration of that need
 - a state house portfolio that is better able to accommodate those with the greatest need, for the duration of that need
 - state house tenants who have options to move towards greater independence, with a wider range of pathways to do so
 - a more innovative and efficient social housing sector with an increased number and diversity of providers
 - more leveraging of wider sources of investment and capability in social housing – including scale and niche, consortia, partnerships with iwi, profit or not-for-profit providers – and an increase in the supply of houses in the social housing sector

The HSAG report provides the platform for change

- 15 Overall, officials agree with the general direction of change recommended in the HSAG report. In order to deliver the four broad imperatives, there are a number of differences in timing, specifics and emphasis in the advice provided by officials.
- 16 We have choices and trade-offs around the pace and scale of change, the additional fiscal costs of change, and the level of risk associated with that change (e.g. including to service delivery and distributional impacts). Substantial change to social housing provision is complex and affects a significant element of the lives of often vulnerable households. Officials are keen to take enough time to work through this complexity to ensure any measures introduced are robust, durable and well-designed and are the best way to move towards and achieve the goals without imposing unnecessary disruption of households. The HSAG report underestimates these risks and complexities.
- 17 The reforms outlined in this paper are likely to require some additional funding and are unlikely to be self-financing. It will take time and effort to realise significant operating and capital efficiencies from existing state and social housing activities, and realise these efficiencies. For example, funding investment in developing alternative providers of social housing will reduce the working capital available for restructuring the state housing portfolio.
- 18 Officials do not recommend offering the current Income-Related Rent Subsidy (IRRS) in its current form to third party providers, as recommended by the HSAG. The current IRRS creates poor incentives for landlords and tenants and financial risks for the Government. New forms of support for social housing providers and for tenants will need to be developed.
- 19 Officials have recommended a focus on rental affordability, in particular at the lower-income end of rental, as the greatest affordability challenge and the most direct pressure on social housing. The government already has a significant agenda to remove barriers to the broader supply of affordable housing – in particular, regulatory reforms to the Building Act and Resource Management Act, and home ownership initiatives such as Welcome Home Loans. Unlike the HSAG, officials do not believe that further large scale home ownership assistance is the highest priority at this time.
- 20 Officials note that home ownership affordability has improved over the last two years as a result of static/declining house prices and rising incomes, and expect that trend to continue. Rental market pressures (tightening supply in some localities and the risk of reduced levels of new investment) suggest that addressing rental affordability should be a higher priority for scarce Government resources. Officials also suggest that any home ownership assistance should seek to strengthen and increase the supply of affordable housing – rather than provide subsidies to particular households to help them afford existing homes – as demand side subsidies tend to have limited impact on overall affordability.

- 21 Officials have applied a relatively high hurdle to possible changes in the structure and responsibilities of government agencies – there needs to be a strong case for change in this area. The HSAG report advocates setting up various new agencies. In our view the case for these new agencies is more finely balanced than HSAG suggest, with a mix of advantages and disadvantages – for example, it is possible to achieve many of the benefits of clearer roles and responsibilities without creating new agencies, and there are risks in shifting significant decisions on funding further away from accountability to Ministers and Parliament.

PROPOSALS FOR THE WAY FORWARD UNDER EACH IMPERATIVE

- 22 The following is a package of proposals that progress the four imperatives and that align with the HSAG recommendations. In addition, these proposals take account of the scale and magnitude of the proposed changes, and consider the timing, sequencing, and interdependencies of the HSAG recommendations. Consideration has also been given to the cost, risks and potential trade-offs for government. The result is a range of proposals and recommended decisions that would deliver the Government's long term strategic direction for the social housing sector.
- 23 The proposals that follow are an integrated package. It will be important to make progress on all the dimensions in order to achieve the desired transformation of social housing and, through this new approach to social housing, to achieve improved housing affordability outcomes (in particular for renters).
- 24 This new direction involves a long term commitment by Government. This new direction also involves a long term commitment by third parties to develop and grow their capability to be significant providers of social housing. To achieve this, third parties will need to invest significantly to build their finances and capability over the next five years or more. The benefits of improved delivery of social housing will be apparent in the immediate and short term, but substantially improved outcomes will be visible only after three to five years and more.
- 25 The new direction will be a catalyst for a change away from the traditional mindset in the way New Zealanders think about support for those who need assistance with their housing. Housing is an important part of the wellbeing of New Zealanders and change will need to be managed compassionately.
- 26 Table 2 below provides a broad overview of the proposals and other related actions across the social housing sector, organised under the four imperatives. The following sections provide more details of the specific proposals for each imperative.

Table 2: Overview of proposals and related actions

To Dec 2010	mid 2011	Late 2011 - 2013
Greater involvement of third party providers of social housing		
Vote Housing four year Budget Plan (create headroom for interim options on HIF, rural housing, community group housing for Budget 2011/12)	<p>Advice on future model(s) and delivery of social housing including HIF, Rural Housing and Community Group Housing programmes for Budget 2012/13 and outyears</p> <p>Advice on regulatory framework for social housing provision</p> <p>Options to address third party access to finance and access to property (e.g. stock, land and/or cash transfers and institutional investment)</p> <p>Options to build sector capability (incl. with NGOs, CHOs, iwi, and private sector providers)</p> <p>Develop social partnership programme (enhance HIF)</p> <p>Advice on information sharing between government and third party providers</p>	<p>Implement specific measures to drive greater involvement of alternative providers, e.g.</p> <ul style="list-style-type: none"> • Establish regulatory framework • Establish a partnership subsidy model to purchase social housing outcomes (if required) • Specific investments of Crown equity in providers
Effective financial assistance for housing costs		
	<p>Advice on longer term options for changes to AS and IRRS and transition path.</p> <p>Advice on integrated assessment of financial need (i.e. for housing costs and more broadly), and assessment of housing need (i.e. access and allocation to both social housing)</p>	<p>Implement integrated needs assessment</p> <p>Implement changes to IRRS and AS</p>
Focus HNZA on providing social housing to high needs tenants		
<p>Enhance Options and Advice service (already underway)</p> <p>Decisions to be made on Hobsonville</p> <p>Decisions made on Tamaki</p>	<ul style="list-style-type: none"> • Introduce reviewable tenancies for new tenants (eg three, five and ten years) • Review the Social Allocation System • Signal intentions for existing tenants. • Prepare required amendments to the HRTMA to better gauge ongoing need etc • Launch an "Incentives to independence" programme • Facilitate and incentivise transitions to other providers • Develop and implement a new leasing model • Align information sharing to detect fraud 	<p>Proposing to introduce reviewable tenancies for existing tenants</p> <p>Amend the HRTMA</p>
Align organisation and responsibilities of government agencies		
<p>Tamaki board to develop UDA approach (already decided)</p> <p>Consolidate policy functions (decision and implementation plan)</p>	<p>Advice on HNZA future role</p> <p>Introduce amendments to HNZA Act to support change to policy arrangements</p>	<p>Implement a clearer separation between funder and provider(s) of social housing</p> <p>Advice on use of UDAs more broadly to support housing supply and provide mix of tenure options</p>

Greater involvement of third party providers of social housing

- 27 The HSAG recommends rapid growth in third party provision of social housing, in order to grow the overall quantum of available social housing, increase contestability and leverage private sector capital and innovation. In particular, it recommends transferring either capital or dwellings to selected third parties (ie. non-government organisations) to meet 20% of the social housing sector's need in five years, and making the Income Related Rent Subsidy (IRRS) which is currently available only to Housing New Zealand Corporation (HNZC) available to third party providers.
- 28 HSAG found that New Zealand lags international benchmarks for third party provision of social and affordable housing. It considered that, given predicted increases in demand for social housing assistance and the constraints on government finances, this issue must be addressed through explicit development of third party scale and niche housing providers.
- 29 We agree that the potential benefits of expanded third party provision include:
- growing the total quantum of available social housing
 - the ability to leverage funding and assets from a broad range of non-government sources (including commercial, local government, iwi and philanthropic)
 - the ability to shift development and/or operating risk to the private sector
 - access to wider skills, specialisation and services
 - costs savings through increased contestability and innovation
 - greater ability to tailor solutions to local and individual circumstances
 - dynamic changes to the wider rental housing market, for example, in standards, supply of affordable and secure rental housing.
- 30 While we agree with the general direction of HSAG's recommendation, we consider that they underestimate the complexities involved in expanding third party provision, the length of time it will take and the mechanisms required to support it. We also consider there are options for developing at scale providers that were not considered by HSAG that warrant further work.
- 31 The growth of third party providers is currently constrained by the dominance of HNZC and therefore they experience difficulty in establishing a market presence and access to the required capital or income certainty. At scale providers are more likely to see the opportunity to enter this market where they can access some of HNZC assets (cash, land or houses) and where room is created in the market for social housing for third party providers to achieve a viable scale.
- 32 The growth of a sustainable social housing sector that includes third party providers may not be successful if we rely solely on growing incumbent social providers. To be successful we may also need new providers. All providers who wish to operate at scale will need to take responsibility for growing their capability and expertise, including in sourcing and managing capital, bringing ideas from other sectors, and

managing assets and tenancies. This will require Government to set a clear direction for the future structure of the social housing sector – including the on-going role and size of HNZC – and to support the growth of all providers by ensuring the necessary pre-conditions are in place.

- 33 HSAG's engagement with stakeholders suggests that iwi and hapu organisations want to have the primary role in providing housing solutions for their people, working in partnership with the Crown/government agencies at a community level. Our experience through the Rural Housing Programme confirmed a similar message, and suggests that in some communities there is significant capability to progress such an approach, as well as specific barriers that could be addressed, for example the ability to provide security against multiply-owned land.
- 34 We propose that the Department of Building and Housing (DBH), in consultation with the Treasury and the State Services Commission (SSC), provide further advice on the future sector structure that is likely to deliver the best value for money, by 31 March 2011. We envisage that the sector would:
- include a more diverse range of players in social housing provision, including scale and niche, consortia, partnerships with iwi, profit or not-for-profit
 - include different approaches to how providers interact with one another and the government to deliver social housing, for example, split of asset management and tenancy management functions, drawing on more specialist expertise, accessing different sources of capital
 - include a reasonable share of social housing being delivered by third parties
 - provide a seamless choice or transition between state housing and the provision of social or private rental housing where tenants are currently supported through AS
 - involve creating a level playing field between state-owned and other providers
 - entail quite a different role for HNZC, where it will be more focused on those with greatest housing need.
- 35 We have identified the preconditions for the successful growth of third party provision as:
- clear specification of social housing providers' rights and obligations through regulation and potential registration of approved providers to:
 - ensure they are financially viable, well governed and properly managed
 - secure desired housing outcomes including appropriate security of tenure, protections and obligations for tenants
 - protect government investment
 - provide confidence to financiers and development partners
 - encourage consolidation and economies of scale
 - financial assistance to tenants to enable them to meet a reasonable rent
 - an independent system for allocating tenants to properties

- access to a subsidy to the landlord, either operating or capital (cash, land or houses) to improve the value proposition
 - potentially, a mechanism to mitigate the risk of fluctuating incomes, for example due to vacancies and arrears
 - certainty of cash flow (which includes certainty around the criteria and quantum of Crown subsidies) to cover operating costs.
- 36 The transition to greater third party provision is a large scale change and there are a number of critical dependencies between elements. For example, alternative providers need enough market share and scale to give them the cash flow and economies of scale to operate successfully which will undoubtedly require government investment or withdrawal of equity from HNZZ. Furthermore, there is a strong interdependency with the shape and delivery of financial assistance for housing.
- 37 There are also inherent trade-offs and choices between the:
- speed of change, and thus impact in the short to medium term
 - level of risk to service continuity
 - overall fiscal cost in the short-term (in the long-term, we expect that achieving the future vision would result in a more sustainable fiscal track broadly consistent with, or possibly lower than current total spending).
- 38 A work programme is required to develop a carefully considered approach designed to deliver best value for money in the long-term, and manage the transition risks, in progressing the expansion of third party providers. We recommend that DBH, in consultation with the Treasury, develop options and recommendations, on how to facilitate increased third party participation in the provision of social housing, including how to establish the necessary pre-conditions, by 30 June 2011. This will include considering:
- development of the regulatory framework and wider system settings and incentives required to ensure the effective functioning of a social housing market, including consideration of the Australian and other relevant models
 - how social housing providers could receive a market rent with appropriate certainty, through reforms to the level of financial assistance and the way it is delivered
 - how tenants of social housing could have an appropriate level of rights and obligations, protections and security of tenure
 - measures to address access to finance, where this is a constraint on the development of at-scale alternative providers
 - measures to facilitate access to property and/or land, where this is a constraint on the development of at-scale alternative providers
 - measures to build capability and specialisation in the different aspects of the provision of social housing, including tenant management, property

development, provision of finance, facilities management, provision of social services

- 39 We propose that DBH and Te Puni Kokiri (TPK) will work together to provide advice on a scheme or initiatives to develop the role of iwi and hapu as providers of social housing. This advice would need to develop the parameters for such an initiative, and the design of a process for obtaining and choosing between bids or proposals in terms of potential partners or locations for such an initiative. There are also opportunities to work with groups reflecting the Pasifika community, and we propose that DBH and the Ministry for Pacific Island Affairs (MPIA) will work together to explore the potential for a similar initiatives in this area. We propose that DBH, TPK and MPIA will report back on to Ministers on progress by 30 June 2011.
- 40 There are steps we could take to start to grow and support current third party providers. Options include:
- grants through an enhanced Housing Innovation Fund (HIF), for example, a "Social Partnership Programme"
 - transfers of HNZC cash land or house assets including a broad brush inventory of specific land options in each region
 - contracts for tenancy management where tenants are a fit with an agency's clients
 - access to a direct subsidy that provides a similar income per tenant to the landlord as that received by HNZC.
- 41 Advice will be provided on recommendations for continuing to support a small range of niche community housing providers currently funded under the Housing Innovation Fund (HIF), Community Group Housing and Maori Housing, as part of the Budget 2011 process.
- 42 In addition, the four-year Budget Plan for Vote Housing will signal further work to develop a "Social Housing Partnership Programme", that provides a single coherent framework for this support for niche providers as well as the wider subsidy that is a pre-condition for at-scale third party provider of social housing to emerge. Advice on these options will be provided by 31 March 2011.

Increase effectiveness of financial assistance

- 43 The Income Related Rent Subsidy (IRRS) is paid directly to HNZC and is only available for state house tenants. The effective subsidy is the difference between the rent charged (Income Related Rent based on income – IRR) and the assessed market rent for the property.
- 44 The Accommodation Supplement (AS) is available to non-HNZC tenants who rent, board or are homeowners with a mortgage, and is paid directly to the householder. It is calculated at 70% of housing costs up to a maximum. The maxima vary by geographical region and family type.

- 45 The HSAG report recommends alignment of existing subsidies, and identifies a number of problems, including misalignment between AS and IRRS which creates distortions, fiscal affordability and adequacy issues.
- 46 The HSAG report suggests that the current misalignment between AS and IRRS is resulting in:
- poorly targeted financial assistance that is not matched to need
 - different levels of financial assistance for people with otherwise identical circumstances
 - pressure on providers, as similar tenants can have different abilities to pay a market rent depending on the subsidy available
 - inequitable and inefficient use of state and social housing resources
 - distorted housing choices by individuals.
- 47 For some AS recipients, the current system of financial assistance is not ensuring that they can pay a market rent for an appropriate property without facing significant financial hardship and the need for additional income/benefit support. At the same time that the system is underperforming in addressing need, fiscal cost is rising, and there is evidence that some IRRS and AS recipients receive more support than their level of need would justify.
- 48 Officials agree with HSAG that a review of IRRS and AS is needed, and we propose to look at options for significant change to financial assistance for housing to address the unevenness and level of assistance received by tenants, and to reduce the pressures on the rent paid to alternative providers of social housing.
- 49 We do not see the only way forward as being to offer the IRRS in its current form to third party housing providers, as recommended by HSAG. We propose looking at a range of options, including the development of a separate subsidy for approved providers that better matches the assistance that HNZC receives. This would allow state house tenants to transition to other housing (often more appropriate to their needs) and for those providers to have certainty of income so as to fund growth. MSD, in conjunction with DBH and the Treasury, will report back on the design and cost of this assistance to providers by 30 June 2011, as part of the wider work on increasing involvement of third parties in the provision of social housing.
- 50 Policy work on changes to financial assistance to tenants for their housing costs will be progressed in tandem with any wider changes to welfare, developed as part of the government's response to the Welfare Working Group.
- 51 We propose that MSD, in consultation with DBH, the Treasury and HNZC, report back to the Ministers of Social Development, Housing and Finance with advice on:
- the pressures and problems associated with the current design of financial support for housing

- longer-term options and recommendations for reform of financial support for housing, including greater integration and alignment of the levels of support for any given set of circumstances
 - an appropriate transition path to a new housing financial assistance regime.
- 52 Work will begin now, with a progress report to Ministers by June 2011 and a further report back in early 2012. This will allow time for full consideration of changes to the wider welfare system in response to the Welfare Working Group's report, prior to embarking upon significant changes to financial support for housing. In the interim, we will consider advice on the possibility of short-term targeted changes to existing policies to improve housing affordability.

Integration of needs assessment

- 53 HSAG recommends that MSD assess tenants housing needs along with their other social assistance requirements.
- 54 We propose that assessment of housing need be incorporated as part of the overall welfare assessment, so that people's need is treated in an integrated way. This will allow a decision to be made at that point as to the type of assistance required, for example financial assistance, specialised / supported housing or a state house. This proposal would achieve significant cost savings alongside better outcomes for tenants.
- 55 Officials, as part of the work on financial assistance, will provide advice on options for how to integrate assessment of housing needs with assessments for wider social support. The design and implementation of the assessment and allocation process must be aligned with decisions arising from the Welfare Working Group. Policy work will begin now and will report back by 30 June 2011.

Focus HNZC on providing social housing to high need tenants

- 56 As recommended by HSAG, and signalled through the 2010 Letter of Expectations, we propose empowering HNZC to focus on providing social housing to those with the greatest housing need, for the duration of their need. This will improve fairness in the allocation of scarce resources by targeting those most in need at any one time, and provide a safety net for the most vulnerable. It will also clarify the role of HNZC and other social housing providers. We also propose changes to enable HNZC to more easily reconfigure the state housing portfolio to provide state housing where the need is greatest.
- 57 The proposed approach is to empower HNZC to focus on those with the highest needs and to start to change the expectations of New Zealanders that a state house is a house for life. To give effect to this, we propose that on 1 July 2011, HNZC will introduce reviewable tenancies for new state house tenants.
- 58 A reviewable tenancy is one where tenants housing needs are assessed at appropriate intervals, for example on a 3, 5 or 10 year basis, taking into account individual circumstances and any special needs, to determine the ongoing

suitability of their current accommodation. If need be, support and incentives will then be provided to assist a transition to more suitable accommodation which may include an alternative state house, another more appropriate social housing provider, the private rental market or where feasible, homeownership.

- 59 HNZC, in conjunction with DBH, and in consultation with the Treasury, will report back to the Ministers of Finance and Housing by 31 March 2011 on:
- the proposed policy framework for reviewable tenancies for new state house tenants and how this will be implemented and introduced on 1 July 2011. Final sign-off on this framework will be by Ministers.
 - options for extending reviewable tenancies to existing tenants
 - options for transitioning state house tenants to more suitable accommodation as their circumstances change. These options may include specific measures to encourage private landlords to rent to "higher risk" tenants and to provide better quality, more stable housing options; and the provision of incentives and financial support to tenants.
- 60 We propose changes to enable HNZC to more easily reconfigure the state housing portfolio to better match need, and to allow for more flexible portfolio management, including:
- replacing state housing stock targets with replacement performance measures in HNZC's Statement of Intent from 2011/12
 - HNZC reviewing and redeveloping/refining the leasing model to increase the volume of leases by engaging with housing providers at scale, through a more sustainable model.
- 61 There are a number of technical actions that will improve the efficiency and effectiveness of focussing HNZC on those with high needs, for the duration of their need. HNZC, in conjunction with DBH, will report back to Cabinet Social Policy Committee by 31 March 2011 with detailed proposals including:
- a technical review of the Social Allocation System (SAS), to ensure that it effectively assesses housing need, prioritises need appropriately, and better identifies ability to sustain other housing options
 - technical changes to the Housing Restructuring and Tenancy Matters Act 1992 to allow HNZC to require the supply of certain information on income and assets, and apply penalties in relation to housing assistance-related fraud
 - other changes to the Housing Restructuring and Tenancy Matters Act 1992 and/or the Housing Corporation Act 1974, as required, depending on decisions taken.
- 62 The Enterprise Transformation Programme (ETP) is planned to go-live in April 2012. Prior to deciding to sign contracts and proceed with ETP in August 2010, the HNZC Board considered the possible implications of the HSAG report, including potential government decisions on future sector arrangements. They considered such decisions would not adversely impact the ETP business case as

core service delivery would be required by any potential future entities, and the programme was sufficiently flexible to accommodate potential changes. Further advice will be provided to Ministers if necessary.

Align organisation and responsibilities of government agencies

- 63 HSAG proposed wide ranging structural and organisational reform to government agencies in relation to the delivery of social and affordable housing, and housing policy. Under our proposed response to HSAG, changes to the organisation and responsibilities of government agencies will be necessary to ensure that they are fit-for-purpose both to deliver the further work recommended in this paper, and to deliver the outcomes government expects for social housing under our proposed reforms.
- 64 We propose a staged consideration of changes to the organisation and responsibilities of government agencies.

Consolidation of housing policy advice function in a single agency

- 65 The current arrangements for policy advice on housing create issues of poor co-ordination and unclear leadership for the sector. Over 2009 and 2010, Ministers have indicated their concern about the possible duplication of effort between HNZC and DBH, and lack of clarity regarding their roles.
- 66 We propose consolidating housing policy within DBH by 1 July 2011. This will allow for a more coherent, integrated overview of housing sector issues and advice to Ministers. It will also provide greater synergy, strengthened capability and avoid duplication of effort and resources.
- 67 These functions should be consolidated within DBH as:
- There is currently a risk around gaps in housing policy where Ministers' expectations for advice are not matched by mandate and resourcing for housing policy
 - The sector is about to enter a period of considerable change, and a strong policy agency providing advice on the changes through this period is desirable
 - Through its monitoring of HNZC and its regulatory role, DBH has a strong base of knowledge and networks in the housing sector. We see DBH as being able to build on this base to quickly establish itself as the lead policy advisor on housing.
- 68 To support this change, the Housing Corporation Act 1974 will need to be amended to remove the housing policy role from the Corporation's objectives, while retaining its operational policy capability to support its business activities. The State Services Commission, in conjunction with DBH, will report back to Ministers on legislative changes by 28 February 2011.
- 69 We propose that DBH continue to lead the work on the new direction for social housing in advance of the formal transfer of policy functions. The delivery of this

advice will require significant work. In order to lead this advice, DBH will require additional resources. The consolidation of policy functions will require careful management of the transition to ensure a smooth handover of roles and a robust consolidated housing policy function. This paper seeks agreement to a fiscally-neutral transfer within Vote Housing of \$1.000 million to fund this further policy work and the planning and management of this transition.

- 70 Given the nature of the work programme, consideration will be given to secondment of staff from HNZC to DBH to support this work.

Changes to government agencies flowing from introduction of third party providers

- 71 The introduction of contestable provision of social housing will require the introduction of a separate housing needs assessment function, a housing allocation service, a system to manage the overall waiting list for social housing, a purchase function and a monitoring function for social housing purchased. It is not yet clear when these new functions will need to be established.
- 72 These functions are currently provided by HNZC as part of their Options and Advice and Tenant Management services. Establishing new functions is complex and costly, and resourcing associated with these functions would first need to be unbundled from within HNZC's current services.
- 73 Further advice will be provided on machinery of government matters as part of substantive advice on growing third party providers, financial assistance and integrated needs assessment.

NEXT STEPS

- 74 We propose that the Minister of Housing will report to Cabinet in June 2011 with progress on the recommendations in this paper.
- 75 Refer to Appendix Four for a summary and sequencing of report backs recommended in this paper
- 76 The Minister of Housing will coordinate a communications strategy and any announcements with the Prime Minister and Minister of Finance.

CONSULTATION

- 77 The following agencies have been consulted on this paper: the Treasury, State Services Commission, Ministry of Social Development, Housing New Zealand Corporation, Te Puni Kokiri, Ministry of Pacific Island Affairs, Department of Internal Affairs and Ministry of Women's Affairs.
- 78 The Department of Prime Minister and Cabinet has been informed.

FINANCIAL IMPLICATIONS

Short-term implications

- 79 These changes require significant further policy analysis and advice on the key elements of the reform and transformation of social housing. In order to lead and deliver this advice, DBH will require additional policy advice resources, as the additional funding provided to support the HSAG process [SOC Min (10) 17/1 refers] has largely been exhausted. DBH and HNZC will also each need specific capacity to manage the transition, including any short-term transactions costs, arising from the consolidation of housing policy advice within DBH, for the period until 1 July 2011.
- 80 This paper proposes the reprioritisation of \$1,000,000 of operational funding from the Mortgage Insurance Scheme (Welcome Home Loans) appropriation within the Vote Housing baseline, which is currently underspent, to provide this policy advice and to manage the transition around the consolidation of housing policy advice within DBH over the remainder of 2010/11.

Budget 2011 and beyond

- 81 The paper's recommendations have implications for Budget 2011 and beyond.
- 82 The proposed change in HNZC policy to house those with the greatest housing need has implications for the IRRS paid to HNZC tenants. The change should – over time – result in “higher needs” tenants with lower incomes (on average), and therefore higher IRRS payments. HNZC will need to calculate the likely impact of the change and reflect the updated IRRS forecast in the Vote Housing four year Budget Plan.
- 83 While not directly related to the recommendations in this paper, the Minister of Housing is in the process of considering options to nurture existing specialist social housing providers (and ensure retention of existing capability), including: Housing Innovation Fund, rural housing and community group housing, until a more enduring solution is agreed to grow third party providers of social housing. If relevant, this decision will be progressed via the Vote Housing four year Budget Plan.

HUMAN RIGHTS

- 84 There are no direct human rights implications in this paper. However, if the Housing Restructuring and Tenancy Matters Act 1992 is amended in order to improve HNZC's ability to manage existing tenants (as envisaged), this may have implications under the Bill of Rights Act 1990, Human Rights Act 1993 and Privacy Act 1993. These implications will be assessed once a specific proposal has been developed.

GENDER IMPLICATIONS

- 85 A high proportion (around 68 percent) of HNZN's primary tenants are women. Sole parent families, largely headed by women and elderly women, represent two key groups of HNZN's tenants. Stability and security, including good educational outcomes, are important to achieving positive outcomes for sole parent families, and will be taken into account when assessing ongoing need for housing.

DISABILITY PERSPECTIVE ISSUES

- 86 The special needs of tenants with disabilities and/or other health conditions will be taken into account during the design of HNZN's reviewable tenancy policies and practices. It is acknowledged that suitable housing options in the private rental market are limited for people with disabilities and other special needs, such as elderly people or people experiencing mental illness.

LEGISLATIVE IMPLICATIONS

- 87 Possible legislative implications in this paper include:
- amendment of the Housing Corporation Act 1974, to amend HNZN's objectives and functions, if Ministers agree to establish a single source of housing policy advice within the Department of Building and Housing
 - amendment of the Housing Restructuring and Tenancy Matters Act 1992, to improve HNZN's ability to manage existing tenants.

REGULATORY IMPACT ANALYSIS

- 88 An interim regulatory impact statement has been prepared and is attached to this paper as Appendix Five.

PUBLICITY

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

RECOMMENDATIONS

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

Government's response to the HSAG report

1. agree with the current and future challenges for social housing in New Zealand as identified in the Housing Shareholders' Advisory Group (HSAG) report, and to a direction for change to social housing that closely reflects the vision as described in the HSAG report [STR Min (10) 16/1 refers]

2. **agree** that a transformation of the social housing sector is required
3. **agree** that the direction for change for the social housing sector involves delivering these outcomes:
 - greater involvement of third party providers of social housing
 - increase effectiveness of financial assistance
 - focus Housing New Zealand Corporation (HNZC) on providing social housing to tenants with the greatest housing need
 - align organisation and responsibilities of government agencies
4. **note** that there are some differences in timing, specifics and emphasis, relative to HSAG's detailed recommendations

Greater involvement of third party providers of social housing

5. **note** that greater involvement of third party providers offers the ability to grow the overall quantum of available social housing, as well as the potential for better efficiency and value for money through: greater innovation, diversity and specialisation, and access to additional sources of capital
6. **direct** DBH, in consultation with the Treasury and the State Services Commission (SSC), to report to the Ministers of Housing, Finance and State Services by 31 March 2011 on the future structure of the social housing sector, including the future role of HNZC as a provider of social housing
7. **note** that the preconditions for greater third party participation in the provision of social housing are:
 - clear specification of social housing providers' rights and obligations through regulation and potential registration of approved providers
 - financial assistance to tenants to enable them to meet a reasonable rent
 - an independent and nationally consistent system for allocating tenants to properties
 - access to a subsidy to the housing provider, either operating or capital, to improve the value proposition
 - potentially, a mechanism to mitigate the risk of fluctuating incomes, for example due to vacancies and arrears
 - certainty of cash flow, which includes certainty around the criteria and quantum of Crown subsidies to cover operating costs
8. **direct** DBH, in consultation with the Treasury, to report to the Ministers of Housing and Finance by 30 June 2011 with advice on how to facilitate increased third party provision of social housing, including how to establish the necessary preconditions including practical steps that can be actioned quickly
9. **direct** DBH, in conjunction with Te Puni Kokiri and the Ministry of Pacific Island Affairs, to report to Ministers by 30 June 2011 on progress on a scheme or

initiatives to develop the role of iwi and hapu, and the Pasifika community, as providers of social housing.

10. **note** that the Minister of Housing will develop specific initiative(s) for continuing to support specialist community housing providers currently able to access the Housing Innovation Fund (HIF), and for supporting rural housing and Community Group Housing, for consideration as part of the Budget 2011 process

Increase effectiveness of financial assistance

11. **agree** that significant change to housing assistance is required in order to support alternative provision of social housing and to achieve better outcomes, more consistently and fairly, for households receiving financial assistance
12. **direct** the Ministry of Social Development (MSD), in consultation with HNZC, DBH and the Treasury to prepare an interim report to the Ministers of Social Development, Housing and Finance by 30 June 2011 with advice on improving the performance of housing assistance, including.
 - the problems associated with the current financial support for housing
 - options and recommendations for change to financial support for housing
 - an appropriate transition path to a new housing financial assistance regime.
13. **direct** MSD, in consultation with HNZC, DBH, the Treasury and SSC to report to the Ministers of Social Development, Housing, Finance and State Services by 30 June 2011 with advice on how to integrate assessment of housing needs with assessments for wider social support

Focus HNZC on providing social housing to high need tenants

14. **agree** that HNZC will focus on providing social housing to those with high needs and will:
 - more actively assess and manage tenants, to focus on high need for the duration of need
 - reconfigure the state housing portfolio to deliver social housing where the need is greatest
15. **agree** that from 1 July 2011 HNZC will introduce reviewable tenancies for new tenants
16. **direct** HNZC, in conjunction with DBH, and in consultation with the Treasury, to report back to the Ministers of Finance and Housing by 31 March 2011 on:
 - the proposed policy framework for reviewable tenancies for new state house tenants and how this will be implemented and introduced by 1 July 2011
 - options for extending reviewable tenancies to existing tenants

- options for transitioning state house tenants to more suitable accommodation as their circumstances change (Incentives to independence programme)
17. **agree** that due to the significant change that the introduction of reviewable tenancies will bring to state housing, the Ministers of Finance and Housing will have final sign-off on the high level policy framework
 18. **agree** to replace the state housing stock targets with performance-based measures in HNZC's Statement of Intent from 2011/12
 19. **note** that HNZC will review and redevelop the leasing model to increase the volume of leases by engaging with housing providers at scale
 20. **invite** the Minister of Housing to report back to Cabinet Social Policy Committee by 30 March 2011, with proposals to support the efficiency and effectiveness of HNZC focussing on those with high needs, including:
 - to make improvements if necessary to HNZC's Social Allocation System
 - to make technical changes to the Housing Restructuring and Tenancy Matters Act 1992
 - other changes to the Housing Restructuring and Tenancy Matters Act 1992 and/or the Housing Corporation Act 1974, as required

Align organisation and responsibilities of government agencies

21. **agree** to consolidate housing policy advice to Ministers within DBH by 1 July 2011
22. **note** that HNZC will retain an operational policy capability to support their business activity
23. **agree** to amend the Housing Corporation Act 1974 to give effect to this change
24. **invite** the Minister of Housing to issue drafting instructions required to give effect to these decisions
25. **note** that SSC in consultation with DBH, the Treasury and HNZC will provide a plan setting out key implementation steps to give effect to these changes to the Ministers State Services, Finance and Housing by 6 December 2010
26. **direct** SSC, the Treasury and DBH, in consultation with HNZC, to report to the Ministers of State Services, Finance and Housing by 28 February 2011 with the detailed advice on the transfer of functions, including:
 - the scope and scale of the housing policy functions and associated resourcing transferring to DBH
 - process for staff affected by the transfer of policy functions to DBH
 - the legislative and financial implications of the proposed changes
 - timeframe and transitional issues, and how these are to be addressed
 - communication plan

Financial implications

26. **note** that operating funding of \$1.000 million is required in 2010/11 for the additional policy development work to formulate the new direction for social housing
27. **approve** the following fiscally neutral adjustments to fund this additional policy advice, with no impact on the operating balance or debt:

	\$m – increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Vote Housing					
Minister of Housing					
Non Departmental Output Expense:					
Mortgage Insurance Scheme (Welcome Home Loans)	(1.000)	-	-	-	-
Vote Housing					
Minister for Building and Construction					
Departmental Output Expense Sector and Regulatory Policy (funded by Revenue Crown)	1.000	-	-	-	-
Total Operating	-	-	-	-	-
Total Capital	-	-	-	-	-

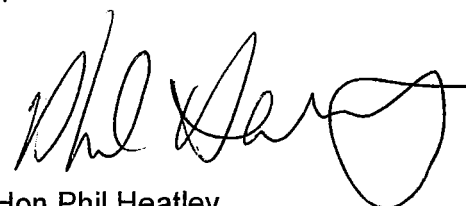
28. **agree** that the proposed changes to appropriations for 2010/11 above be included in the 2010/11 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Next steps

29. **invite** the Minister of Housing to report to Cabinet in June 2011 with progress on the recommendations in this paper
30. **agree** that the Minister of Housing will coordinate any announcements with the Prime Minister and Minister of Finance.


 Hon Bill English
 Minister of Finance

11/11/10


 Hon Phil Heatley
 Minister of Housing

11/11/10

APPENDIX 1: MEMBERS OF THE HOUSING SHAREHOLDERS' ADVISORY GROUP

- Dr Alan Jackson – former senior vice president in the Auckland office of The Boston Consulting Group and director of Fletcher Building
- Major Campbell Roberts – the director of the New Zealand, Fiji and Tonga Territory Social Policy and Parliamentary Unit of the Salvation Army
- Andrew Body – director of Crown Fibre Holdings and various private sector companies
- Martin Udale – former chief executive of McConnell Property and an independent property consultant
- Diane Robertson – head of the Auckland City Mission
- Brian Donnelly – executive director of the New Zealand Housing Foundation
- Paul White – Principal of Torea Tai Consultants, specialising in Maori development, housing and strategic planning

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APPENDIX 2: SUMMARY OF HOUSING SHAREHOLDERS' ADVISORY GROUP RECOMMENDATIONS

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

- Ministers set policy expectations that emphasise best match of dwelling to tenant needs.
- HNZC develops new policies to manage its tenant base and their needs.
- Introduce new tenancy agreements for those entering the state housing portfolio in future to enable support to be provided for the duration of the need.
- HNZC actively manages the portfolio of dwellings to match future demand.
- Use multiple supply choices available to provide new state housing stock.
- HNZC explicitly develops scale and niche service third party providers to the sector.

Initiative II: Driving Involvement of third-party suppliers

- Work with non-governmental sector groups and Iwi to develop the 'pre-housing' and 'cost-based' sectors that can deliver more intensely supported housing for high needs individuals.
- Transfer either capital or dwellings to selected non-government organisations (NGOs) to initially meet 20% of this sector's need in five years, thereby developing a limited number of scale and niche providers.
- Support with income related rent supplement, not accommodation supplement, payments to develop financial viability of NGOs serving the 'high needs' segment.
- Embrace new development and funding approaches to leverage capital and for the provision of new dwelling stock in the state and affordable housing portfolio.
- Establish location specific urban renewal agencies as limited life and purpose joint ventures between the Crown and local government, separate from HNZC, to create the necessary conditions and develop the land to the point that private sector developers are willing to acquire the land and undertake further development.

Initiative III: Initiatives across the broader housing spectrum

- Charge MSD / DBH / HNZC with reviewing and aligning IRRS and the Accommodation Supplement as part of broader MSD work on delivery of the benefit system.
- DBH and the private sector should lead a major initiative to develop accessibility products for affordable home ownership in this sector that are designed to have significant take-up in the marketplace.
- HNZC, DBH and Treasury must co-operate to produce co-ordinated policy to agree:
 - The extent of the affordable housing shortage
 - Broad interventions needed to develop this segment, inspired by some of the offshore examples provided in the report.
 - Specific programmes to underpin the delivery of new affordable homes and products to provide relevant assistance to more families. [NB increased

emphasis on this point in light of consultation, esp to removing barrier to implementing solutions to the development of housing on Māori land.]

Initiative IV: Future sector arrangements

- MSD to assess tenant needs and administer both IRRS and AS subsidies.
- Responsibilities for planning policy and support around affordable housing supply issues should be in one organisation, most likely DBH.
- Clear accountability for the development of third-party involvement within state housing and across the broader housing spectrum.
- Establish a unit specifically charged to deliver and administer state-owned dwellings and services to those whose 'need is greatest'.
- Evolve the sector structure to create a funding organisation, responsible for the development of the affordable housing sector, referred to as the Affordable Housing Agency (AHA), and a delivery organisation, referred to as the Crown Housing Agency (CHC), as the preferred option for future sector arrangements.

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APPENDIX 3: SECTOR ENGAGEMENT BY THE HOUSING SHAREHOLDERS' ADVISORY GROUP

- 91 The HSAG reported to the Ministers of Finance and Housing on 8 October 2010 on the outcome of their sector engagement.
- 92 The key messages from the HSAG sector engagement process were:
- There is strong support for the HSAG finding that the current model for social housing is no longer sustainable, and that Housing New Zealand Corporation (HNZC) cannot meet the current and future demand for social housing on its own – many agree that significant structural change is required
 - Many stakeholders support a “simplification” of HNZC’s role and the report’s recommendation that it focus on “high needs” tenants
 - Despite the general endorsement for change, there is a strongly held view that the government needs to remain committed to providing state housing, and that HNZC will continue to play a major role going forward
 - There was also widespread support for better aligning the Income-Related Rent Subsidy (IRRS) and Accommodation Supplement (AS) (i.e. social housing assistance), and for developing new products and pathways to help people become more independent and move into home ownership
 - Most stakeholders agree with the social housing challenges outlined by HSAG, in particular the increasing pressure on affordability and demand for social housing
 - Many stakeholders felt these social housing challenges were larger than suggested by HSAG, and raised concerns about a lack of recognition in the report concerning: the poor quality of the current housing stock (in particular, the rural housing stock), the greater extent of homelessness, and the harmful impact of inadequate housing on health and other important social outcomes
 - A number of stakeholders (including iwi) are willing to play a greater role in providing social housing services, but lack the ability to do so, mainly due to inadequate capital.

APPENDIX 4: TABLE OF REPORT BACKS ON RECOMMENDATIONS IN THIS PAPER

Report	To	Lead	Other	Date	Cab paper ref
Advice on the legislative and financial implications of the proposed changes, timeframe and transitional issues and communication of the proposed changes	Ministers of State Services, Finance and Housing	SSC	DBH Treasury HNZC	28 Feb 2011	Rec 25
Report on the future structure of the social housing sector, including the future role of HNZC as a provider of social housing	Ministers of State Services, Finance and Housing	DBH	Treasury SSC	31 March 2011	Rec 6
Advice on continuing to support a small number of niche community housing providers currently funded under the Housing Innovation Fund, and for supporting rural housing and Community Group Housing	Ministers of Finance and Housing	DBH	HNZC	Budget	Rec 10
Report on the proposed policy framework for reviewable tenancies for new state housing tenants and how this will be implemented and introduced by 1 July 2010. Options for extending reviewable tenancies for other tenants. Options for transitioning state house tenants to more suitable accommodation as their circumstances change (Incentives to independence programme)	Ministers of Finance and Housing	HNZC	DBH Treasury	31 March 2011	Rec 16
Report on proposals to support the efficiency and effectiveness of HNZC focusing on those with high needs including how to improve the Social Allocation System, technical changes to the Housing Restructuring and Tenancy Matters Act 1992 and other changes to the above Acts as required	SOC	HNZC	DBH	31 March 2011	Rec 20

Advice on how to facilitate increased third party participation in the provision of social housing, including how to establish the necessary pre-conditions including practical steps that can be actioned quickly	Ministers of Finance and Housing	DBH	Treasury	30 June 2011	Rec 8
Advice on progress on a scheme or initiatives to develop the role of iwi and hapu, and the Pasifika community, as providers of social housing	Ministers	DBH	TPK MPIA	30 June 2011	Rec 9
Interim report on improving the performance of housing assistance including the problems associated with the current financial support for housing, options and recommendations for reform of financial support for housing and an appropriate transition path to a new housing financial assistance regime	Ministers of Finance and Housing	MSD	DBH Treasury	30 June 2011	Rec 12
Advice on how to integrate assessment of housing needs with assessments for wider social support	Ministers of Finance, Social Development, State Services and Housing	MSD	DBH Treasury HNZC SSC	30 June 2011	Rec 13

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APPENDIX 5: INTERIM REGULATORY IMPACT STATEMENT

Agency Disclosure Statement

This Interim Regulatory Impact Statement has been prepared by the Department of Building and Housing (DBH).

It provides an analysis of options to address the recommendations provided by the Housing Shareholders' Advisory Group (HSAG) in its report *Home and Housed: A Vision for Social Housing in New Zealand*.

Officials from DBH, the Treasury, State Services Commission, Ministry of Social Development and Housing New Zealand Corporation (HNZC) worked collaboratively to analyse the impact and implications of HSAG's 19 recommendations, and to identify (and where possible, fill) the gaps in its analysis. The work programme was organised into a series of workstreams, each led by a different agency and each focussed on specific HSAG recommendations.

Ministers have set a clear direction for the transformation of the provision of social housing. The current SOC paper seeks some initial decisions and also seeks to commission further work on more detailed analysis and advice to give effect to this direction, including:

- Development of advice on the preconditions for growth of third party provision of social housing (including the future structure of the social housing sector) and advice on specific options to implement this
- Reform of housing assistance, in particular the Accommodation Supplement and Income Related Rent Subsidy (coupled with a review of housing needs assessment)
- Specific proposals to give effect to HNZC more actively managing and assessing tenants, to focus on high need for the direction of need, and also to facilitate faster restructuring the state housing portfolio by HNZC.

This new direction for the provision of social housing will create opportunities for a range of possible providers to participate in the provision of social housing, and will improve outcomes for tenants. The policy options in this paper do not impose additional costs on businesses, impair private property rights, market competition, or impair the incentives on businesses to innovate and invest. The options do not override fundamental common law principles.

Status Quo and Problem Definition

The current delivery model for social housing is not sustainable. The current social housing market is characterised by a number of key challenges:

- state housing assistance is not well-matched to need
- increasing demand for social housing, coupled with constraints on housing supply and a shortfall in construction
- lack of at-scale alternatives to state housing, that offer adequate security of tenure and affordability

- financial assistance for housing that is unfair and inadequate for a growing number of people
- continuing affordability problems, especially for low-income renters in the private sector
- government cannot meet all these needs on its own.

Objectives

The goal for policy is that all New Zealanders should be able to access affordable, sound-quality housing that provides secure tenure appropriate to their needs. This will require a transformation to the delivery of social housing and to the provision of financial assistance to achieve improved outcomes and better value-for-money from the Government's investment in state and social housing.

Officials have proposed four broad imperatives that are based on HSAG's recommendations, and that together provide an integrated and coherent programme to achieve the transformation required to deliver these outcomes:

- **Greater involvement of third party providers of social housing:** Drive greater involvement of new and existing alternative and third party providers of social housing in order to grow the total quantum of social housing available, promote choice and contestability, access to a wider pool of capital, and more efficient and innovative use of housing resources across the whole social housing sector.
- **Increase effectiveness of financial assistance:** Improve financial assistance so that it is based on the level and nature of housing need rather than who is providing the house, is adequate to address that need, and creates incentives to reduce the level of dependence on government as need reduces
- **Focus HNZC on providing social housing to high need tenants:** Empower HNZC to focus on providing social housing to "high needs" tenants for the duration of their need, to ensure the greatest need is consistently met, and to create room for other providers.
- **Align organisation and responsibilities of government agencies:** Ensure the organisation and functions of government agencies support the direction of change.

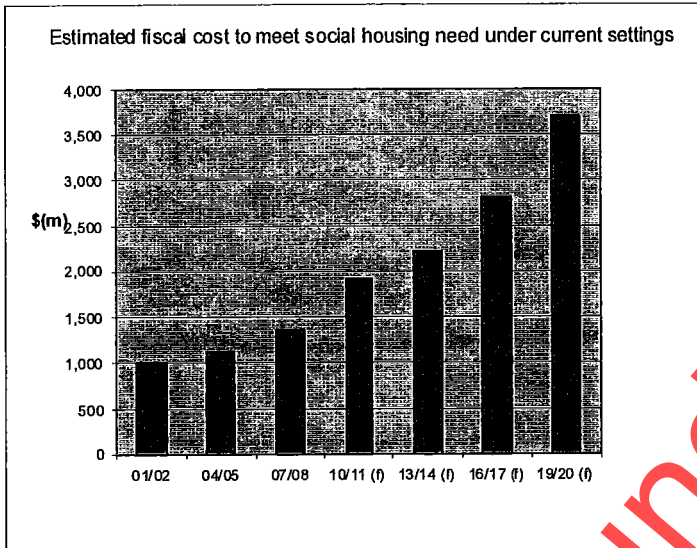
Regulatory Impact Analysis

There are three broad options under consideration:

- The status quo
- Officials' proposed package of recommendations (as outlined in this SOC paper)
- The HSAG recommendations.

The costs and benefits of the status quo

Social housing services cost the government nearly \$2 billion per annum. This is forecast to increase dramatically over the next ten years under current policy settings.



In addition, HNZC does not currently pay a full cost of capital, and the HSAG analysis suggests this has a further cost of \$880 million to the Government. Non-financial costs associated with the status quo are poor outcomes for some social housing tenants with private landlords (i.e. not in state housing), and the opportunity cost of government and private sector resources – including land and property – that are being under-utilised.

The benefits of the status quo model of social housing provision are:

- HNZC delivers relatively good housing outcomes for its tenants and measured financial stress for HNZC tenants is low
- HNZC is a known entity; despite being imperfect, its deficiencies are well known
- The government has 'direct' control over the outcomes, given that the dominant provider is a Crown entity.

The root cause of the problem is the combination of households with inadequate incomes to sustain market-provided housing, and weaknesses in the supply of housing that result in higher house prices and market rents (and the provision of housing that is a poor match to tenants' needs). The provision of state housing and financial assistance are parts of the Government's response to these root causes, but they are imperfect solutions and have created further problems over time.

Costs and benefits of officials' proposed approach

Successfully implemented, officials' proposed approach should result in:

- An increase in the total number of social housing units over 5-10 years
- Significantly better housing outcomes/value for each dollar spent

- Improved adequacy and equity for recipients of housing assistance
- State house tenants who are able move towards greater independence
- More innovative and efficient social housing sector with increased number and diversity of providers
- Leverage more third sector/private investment in social housing
- Reduced demand on state housing over time.

Officials' proposed approach may involve some increases in cost over the first 3-5 years, but this will also generate improved outcomes for tenants and should help to develop a lower cost model of delivery for social housing that is able to meet projected growth in demand within a more constrained fiscal envelope.

Costs and benefits of HSAG's proposed approach

Officials identified a number of key points of difference with the HSAG analysis, including:

- the need to carefully manage the costs/risks of rapid growth in third party provision of social housing;
- that reform of social housing provision is likely to involve additional costs, at least in the short to medium term;
- that the Income Related Rent Subsidy creates perverse incentives for tenants and landlords and should not be extended in its current form to additional providers;
- that the case for setting up new agencies is more mixed and needs to be assessed carefully; and
- that addressing rental affordability is a higher priority for the Government's scarce resources than home ownership affordability and, if/when they are pursued, that efforts to improve home ownership affordability should concentrate on improving the supply of affordable housing.

Consultation

The following agencies were actively involved in the officials' work programme: DBH, Treasury, State Services Commission, Housing New Zealand Corporation and Ministry of Social Development. The Department of Prime Minister and Cabinet was represented on the project Steering Group, chaired by the Chief Executive of DBH.

Other agencies consulted on the draft Cabinet Strategy Committee and Cabinet Social Policy Committee papers were: the Department of Internal Affairs, Te Puni Kokiri, the Ministry of Pacific Island Affairs, and the Ministry of Women's Affairs.

Conclusions and recommendations

There are three broad options for addressing the problems associated with the current social housing regime, and for achieving the desired outcome outlined above. While the status quo potentially represents one of these three options, it is not regarded as a viable alternative to the package of proposals recommended by HSAG and officials.

There is inadequate information at present to analyse the costs and benefits of officials' package of recommendations; therefore, DBH is unable to recommend one option over another at this stage. A more complete and detailed Regulatory Impact Statement will be completed once officials have adequate information about its package of measures.

Implementation

Because officials are currently unable to recommend one of the options, it is not in a position to summarise how it might be implemented.

Monitoring, evaluation and review

Because officials are currently unable to recommend one of the options, it is not in a position to summarise how it might be monitored, evaluated and reviewed.

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