



Briefing for the Minister of Housing

19 October 2005

Table of Contents

<i>Introduction</i>	3
<i>Strategic issues in achieving social housing outcomes and objectives</i>	5
<i>Roles in respect of social housing</i>	9
<i>Priority areas for focusing monitoring effort</i>	12
<i>Policy functions of DBH and their relationship to HNZC</i>	15
<i>Department's structure and key staff</i>	16

Appendices

Appendix 1 Summary of June 2005 quarter and 2004/05 financial performance

Appendix 2 Department of Building and Housing structure

Introduction

1. Access to affordable and stable housing of appropriate quality is important to the wellbeing and health of all New Zealanders. While most New Zealanders meet their housing needs through either direct purchase or renting from a private landlord, some cannot. This may be because of lack of income or limited ability to take on a mortgage, or other personal and family circumstances pose a barrier to access to housing.

2. For those unable to access suitable housing government provides specific support, including:

- Income support - the accommodation supplement;
- The direct provision of state houses¹ and income related rents;
- Initiatives to encourage and support third parties to provide not-for-profit social housing;
- Initiatives to encourage and support home ownership;
- Initiatives to improve the quality of houses in targeted rural areas.

3. The Department of Building and Housing is responsible for regulatory policy advice in relation to the housing sector, and administration and advice in relation to Vote Housing. This includes coordination of Budget initiatives and statutory financial reporting requirements. In this second role the Department reports directly to the Minister of Housing. The Department of Building and Housing also monitors the performance of HNZC.

4. The Housing New Zealand Corporation (HNZC) advises on and delivers policies and services in support of government's social housing outcomes and objectives. HNZC is a Crown entity, specifically a Crown agent, with a board and two shareholding Ministers; the Minister of Housing and the Minister of Finance.

5. In summary, HNZC:

- Manages around \$11.5 billion of state housing assets (up in value from \$6.9 billion in 2002) and has the second largest asset base of any Crown entity;
- Manages some 65,000 tenancies – it is the country's largest landlord;
- Manages \$690 million of total income and \$630 million of costs (including finance but excluding tax) annually;

¹ Throughout this briefing the term "houses" refers to all types of dwellings supplied by HNZC for rent.

- Produced a net profit after tax of \$14.27 million, a return on equity of 0.16%;
- Delivers Government programmes in the housing sector, including encouraging third party provision of social housing and home ownership initiatives;
- Provides policy advice on the housing sector, including lead responsibility for policy advice for social housing interventions by the Government;

6. Because of the large amount of capital invested in the Corporation and the volume of services purchased through HNZN, its performance is critical to the effective achievement of social housing outcomes. A summary of some key performance measures is attached as Annex 1.

Strategic issues in achieving social housing outcomes and objectives

7. Government has a range of options to meet its social housing objectives. These options are not mutually exclusive, and the balance between them will result in different outcomes with different cost implications. No one option is likely to achieve all social housing objectives, and virtually all the options listed below are currently being implemented to a greater or lesser degree. Some options include:

- encouraging/facilitating housing supply in the private market (not currently being applied, but this is an area of work under the New Zealand Housing Strategy);
- brokerage and support for private rental arrangements;
- regulatory intervention to ensure a proportion of housing in key areas and/or large developments is 'affordable' (*not currently being applied*);
- encouraging third party social housing providers;
- grants and other support to improve the quality of existing housing;
- government encouragement of and support for home ownership;
- income support;
- addressing demand through better utilisation and reconfiguring existing state housing stock;
- addressing demand through reallocating some state houses; and
- addressing demand through direct provision of additional state houses.

8. A number of key issues and trends that will influence the emphasis or balance between options are discussed below. Ministers will need to consider some of these issues in the context of preparing for Budget 2006.

Private market will remain the key housing provider

9. The state owned housing estate, while of high capital value, represents a little over 4% of the total housing estate in New Zealand. Consequently, the overwhelming majority of New Zealanders will continue to rely on private markets and private capital investment to supply their housing needs.

10. The broader regulatory framework affecting the supply and quality of houses and the rights and obligations of tenants and landlords therefore plays an important part in consideration of social housing policies and initiatives.

Costs of housing have been increasing rapidly and home ownership is becoming less affordable

11. The rate of homeownership has fallen from 74% of people owning their own home in 1991 to 65% in 2004. This trend is expected to continue, with the cost of owning a home having risen rapidly in recent years. These trends will tend to put further pressure on the rental sector.

Rising costs of housing state tenants

12. The trend in real cost to the Crown of housing a state tenant has been increasing. Key drivers of this trend are:

- the cost of the Income Related Rent subsidies, which have risen by 57% in total between 2000 and 2005 and 32% per qualifying tenant over the same period; and
- the cost of the capital now held in housing stock.

13. Future capital and operating cost requirements are uncertain. These costs will be driven by projected long-term housing needs, including unmet demand, the need to maintain, modernise and reconfigure HNZC's aging housing stock, and policy decisions about approaches to supporting housing needs.

Allocating state houses

14. Not all people seeking a state house are able to get one. The size of the state housing estate, combined with the practical and financial limitations to increasing the number of state houses and policy constraints on reallocating houses occupied by existing tenants, means that access to state housing is currently rationed via the Social Allocation System (SAS) operated by HNZC. HNZC uses a classification system for the waiting list, in which "A" category applicants are "at risk" – people with severe and persistent housing need and "B" category applicants are in "serious need" – people with significant and persistent housing need. Together, at June 2005, the A and B category applicants made up the priority waiting list of 4288 prospective tenants. Of these, 150 were A category applicants. A further 7170 applicants are defined as C or D category. Significant numbers of applicants will find alternative accommodation arrangements while they are on the waiting list.

15. At the same time around 10% or 6000 existing HNZN tenants currently do not qualify for an income related rent, meaning they are paying full market rent for their properties. A significant number of such tenants are likely to have lower housing need than those people on the priority waiting list. However, making these houses available may require trading off existing tenants' security of tenure and ties to the community against increased access to housing for people in higher need.

Aging housing stock

16. The state housing stock has been accumulated over many years and is relatively old, with an average age of over 35 years. There has been limited investment in modernising the stock and some evidence that maintenance expenditure has been too low to keep pace with wear and tear. HNZN is currently looking at possible investment requirements for both modernisation and maintenance of the stock, and it is likely to recommend increased investment.

Matching the stock to changing housing demand

17. Over time, the size and location of houses demanded by HNZN tenants has been changing. In particular, there has been increasing pressure on Auckland and increased demand for small (1-2 bedroom) and large (4+ bedroom) houses.

18. Reconfiguring the stock to meet these changing demands can be capital intensive and complex to manage.

Expanding the state housing stock

19. HNZN has received significant new government investment, principally directed at the acquisition of new houses.

20. Last year HNZN acquired 1,050 (net) new properties at a total cost of \$200 million. The Corporation is currently appropriated to acquire a net new 1019 units in 2005/06, 969 units in 2006/07, and 650 units in each of 2007/08 and 2008/09.

Building sector at or near capacity

21. The building sector has been operating at or near capacity in recent years. This has created cost pressures on HNZN, for example in carrying out maintenance. It has also created challenges in achieving new acquisition targets, in particular targets for building new houses. This has meant HNZN has had to purchase more already built

houses than originally intended, which potentially exacerbates demand pressures as there is no increase in net housing stock.

Land development

22. HNZC is engaged in a number of medium to large scale land development projects, the largest of which is at Hobsonville. This project is ambitious and innovative. It seeks to develop an integrated urban community at Hobsonville, an undertaking different in nature and larger in magnitude than projects previously undertaken by HNZC. As such, there is a higher element of potential risk. The Department and Treasury are working with HNZC on this project and will be providing advice to shareholding Ministers.

HNZC is delivering a range of new and/or expanded services

23. HNZC is increasingly delivering a range of new and/or expanded Government programmes to encourage homeownership, third party provision of social housing, and improved housing in rural areas.

Roles in respect of social housing

24. HNZC, DBH and Treasury each have important roles in respect of social housing interventions. The Department is responsible for the administration of Vote: Housing and the management of the Budget process for the Vote and reports directly to the Minister of Housing on this.

25. In addition to state housing asset management, tenancy management and delivery of housing initiatives, HNZC has responsibility for providing policy advice and undertaking research on social housing interventions and housing systems.

26. In respect of the strategic issues discussed above, this includes advising Ministers on the types of social housing interventions the Government may wish to consider and developing specific proposals for such interventions.

27. Because of HNZC's policy role the Department does not provide purchase advice in this area. Rather, the Department monitors HNZC's performance in giving effect to Government's purchase decisions. The Minister of Housing can request second opinion advice from the Department.

28. This situation is unusual in that it is more common for a government department (often the monitoring department) to provide policy and purchase advice, rather than the Crown entity responsible for implementing Government's purchase decisions. However, the review of housing agencies completed in 2004, which established the Department of Building and Housing, retained a policy role in HNZC.

29. In terms of the statutory framework for Crown entities, the primary ownership and purchase accountabilities reside with the Responsible and Vote Ministers respectively. The Minister of Housing is responsible for HNZC and is the joint shareholding Minister together with the Minister of Finance.

30. The Crown Entities Act 2004 sets out the framework for the governance and operation of Crown entities and the accountability relationships between Crown entities, their board members and their Responsible Ministers.

31. DBH monitors the performance of HNZC and supports the Minister of Housing in a number of other governance and administrative functions related to the Corporation. These functions are discussed further in table 1 below.

32. The Department continues the monitoring role undertaken by the former Ministry of Housing. This function was based on a comprehensive Memorandum of Understanding (MoU) agreed between the then Ministry and HNZC which set out the framework for the ongoing relationship between the two organisations. A priority over the coming weeks is to 'refresh' the MoU. Part of this process will be to better systematise relationships and information flows. Work on this is underway.

33. The Treasury also has responsibilities for monitoring aspects of HNZC, particularly from the Crown’s ownership perspective. Treasury also provides second opinion advice in respect of social housing interventions and through the Budget process.

Table 1: Responsibilities of the Department of Building and Housing in Relation to HNZC Monitoring Functions

<p>Assisting Ministers with board appointments</p>	<ul style="list-style-type: none"> • Providing advice to Ministers on Board appointments; • Monitoring the performance of the Board on behalf of Ministers.
<p>Assistance with setting performance expectations and accountability</p>	<ul style="list-style-type: none"> • Assisting Ministers to negotiate expected performance through the statement of intent and any purchase agreement; • Providing Ministers with relevant advice and support to assist them in accounting to Parliament for the actions and performance of HNZC; • Providing Ministers with advice on any emerging fiscal difficulties or irregularities that could lead to ownership or purchase risks.
<p>Vote administration</p>	<ul style="list-style-type: none"> • Co-ordinating the annual Budget process for Vote Housing; • Provide advice to Ministers on the robustness, feasibility and alignment to high-level objectives of HNZC budget proposals. • Release funds to HNZC and financial reporting in accordance with Cabinet decisions and the Public Finance Act; • Forecast Income Related Rent Subsidy payments;
<p>Purchase monitoring</p>	<ul style="list-style-type: none"> • Monitoring HNZC’s performance, including efficiency and effectiveness, in producing agreed outputs and delivering the agreed services; • Ensure appropriate evaluations and reviews of programmes and interventions are undertaken and incorporated into future activities.
<p>Ownership monitoring</p>	<ul style="list-style-type: none"> • Monitoring the financial performance of HNZC against agreed targets and other benchmarks; • Monitoring commercial and fiscal risks associated

	with Crown ownership; <ul style="list-style-type: none">• Monitoring HNZN performance in asset management.
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34. In addition, to (and separate from) its monitoring functions, DBH works collaboratively with HNZN on a number of areas of housing policy. These are discussed in more detail in paragraphs 47 to 48 below.

Priority areas for focusing monitoring effort

35. The key objective of monitoring is to provide assurance and advice to Ministers and Parliament on:

- Strategy - what is the organisation trying to achieve, why this organisation and what are its priorities?
- Progress towards achievement of outcomes - is the entity having the effects predicted?
- delivery of agreed outputs - is the entity delivering what it said it would; how is the entity incorporating monitoring and review into its planning processes;
- value for money – is the entity efficient and looking to improve efficiency, how does it compare against other similar entities;
- management of risk – have key risks been identified; are risk management and contingency plans in place; and
- future capability - what does the entity need in order to deliver the strategy now and in the future; what capability does it have, or expect to have; how will it manage any differences between required and actual capability?

36. The monitoring regime needs to be able to deliver an early warning of any significant threats to HNZC’s operational effectiveness or viability, as well as tracking performance against its accountability documents; in particular the Statement of Intent.

37. To enable the Department to provide assurance and advice in these areas, monitoring agencies need to develop an informed view on each of the monitoring questions outlined above.

Issues of priority for DBH’s monitoring functions

38. Generally, HNZC’s performance has been sound, though there are some areas that warrant further attention. Looking at specific issues, the department has identified the following areas as priority for its monitoring of HNZC.

Issue	Timing
Budget 2006 – co-ordinating the Budget process for Vote Housing. Providing advice to Ministers on the robustness, feasibility and alignment to high-level objectives of HNZC budget proposals.	Process now underway

Role of land development in HNZC's business strategy.	30 September 2005 HNZC report due
'Refresh' the Memorandum of Understanding between DBH (formerly the Ministry of Housing) and HNZC setting out the framework for the ongoing relationship between the two organisations.	October 2005
Board appointments – support the Minister to appoint new members to the board as required.	Possible appointment in October – November 2005
Indication of Government priorities. HNZC is seeking early indication of Government's strategic priorities so these can be considered in strategic planning. The Minister of Housing could address the Board once or twice a year as an informal way – other than the Letter of Expectations - of conveying government expectations and priorities.	October – November 2005
Long-term capital requirements – understanding the possible capital implications for HNZC from modernisation, re-configuration, urban renewal, new acquisitions, and working capital under a range of scenarios and the trade-offs between policy options and capital needs.	Budget 2006 and beyond
Hobsonville – comment on business cases and implementation issues as required.	Early 2006 – possible business case for first stage of development
Social housing outcomes framework – in line with new requirements under the Crown Entities Act 2004, ensuring the elaboration and articulation of a hierarchy of outcomes Government wishes to achieve in the social housing sector.	2006/07 SOI
Development of a output agreement. The Department considers it should be a priority to develop a output agreement between responsible Ministers and HNZC that covers at least the Corporation's policy function and the delivery of Government programmes.	In time for 2006 financial year
Dividend policy – clarification of the policy for payments of 'surplus' to the Crown and/or the use of unforeseen increases in internal funding that occur within a financial year.	Completed during 2006
Performance Indicators and Benchmarking - developing with HNZC a comprehensive set of performance indicators incorporating benchmarking information and where possible establishing an historical track record of indicators	Completed during 2006

to place performance in perspective.	
Financial Performance – developing a better understanding of HNZC’s financial performance, key drivers and possible strategies for improving efficiency and effectiveness.	Ongoing – HNZC’s quarterly reports
Possible risks to asset management programme – monitor implementation of new acquisition programme, maintenance programme, reconfiguration of housing stock, etc	Ongoing – monthly and quarterly reports
Possible risks to housing innovation programmes – monitor implementation and outcomes of initiatives to encourage third party providers of housing stock, the rural housing programme, home ownership initiatives.	Ongoing – monthly and quarterly reports
Priority Waiting List – monitor trends in waiting lists and management of waiting lists.	Ongoing – quarterly reports

Resources in DBH for monitoring HNZC

39. DBH is funded for its HNZC monitoring activities (\$400,000 per year). The Department maintains a small monitoring team in its Building and Housing Sector Policy group.

40. DBH also funds regular external ‘reviews’ of certain activities that are key Crown cost drivers, such as HNZC’s implementation of the Income Related Rent setting process. Some forecasting activities relating to income related rents are currently sub-contracted to the Ministry for Social Development, which has forecasting expertise not available in DBH.

41. Given current funding levels the department has limited capacity to provide second opinion advice on HNZC housing initiatives.

Policy functions of DBH and their relationship to HNZN

42. The Department's interest and involvement in the building and housing sector is diverse. It covers provision of policy advice, maintaining a system of controls over the building and construction industry, administering the law covering landlords and tenants, providing dispute resolution services, the regulation of retirement villages, as well as administering a variety of building and property legislation.

43. The Department works closely with Housing New Zealand Corporation as the other government agency involved in housing issues. Both DBH and HNZN have policy functions that are distinct in focus and generally complementary, while allowing for some contestability of advice and ideas. In the case of DBH, policy advice functions are separate from HNZN monitoring functions.

44. HNZN is mandated, under the Housing Corporation Act 1974, to "ensure that the Minister of Housing receives appropriate policy advice, other advice, and information on housing and services related to housing."

45. In practice, this has meant HNZN has responsibility for policy advice on access to housing and services related to housing (excluding regulatory policy), in particular on social housing interventions by the Government.

46. HNZN therefore impacts on social housing outcomes not only through its direct provision of state housing and housing programmes but also through its policy advice on how government can best achieve desired social housing outcomes.

47. Officials from both organizations have recently reviewed each agency's respective policy work programmes to ensure that, where relevant, they are generally aligned and complementary. During this process a number of areas of mutual interest were identified, including:

- understanding the market dynamics and possible impediments to the supply of new housing;
- the collection and dissemination of housing sector information; and
- the co-ordination of research.

48. Where such areas are identified, the agencies work closely together to ensure that they make the best use of appropriated funds.

49. Both agencies also have clearly laid out areas of responsibility under the New Zealand Housing Strategy, which was released in May 2005.

Department's structure and key staff

50. Attached as Annex two is a diagram outlining the structure and senior staff within the Department of Building and Housing.

51. The HNZC monitoring functions are the responsibility of the General Manager, Building and Housing Sector Policy, Michael Mills.

52. Within the policy group Bryan Smith, Manager - Sector Strategy & Monitoring, and Emma Speight, Senior Advisor – Monitoring, are key contacts for general enquiries or information needs.

Annex 1: Summary of June 2005 Quarter and 2004/05 Financial Year Performance

This section is withheld pursuant to sections 9 (2) (ba)(i) and 18(d) of the Official Information Act 1982.

The full year Financial Performance of HNZN is available in the HNZN Annual Report, available on their website at www.hnzn.co.nz.

Annex Two: Department of Building and Housing Structure

