

BRIEFING FOR THE INCOMING MINISTER OF HOUSING AND URBAN DEVELOPMENT

Housing New Zealand October 2017

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Foreword

Introduction

Housing New Zealand has undergone significant growth and change in recent years in response to changing Government priorities and tenant needs. The previous Government extended our mandate beyond the provision of state housing to include emergency, transitional, affordable and market housing. Rather than continuing to accelerate divestments in areas of low demand we are now limiting divestments and expanding our portfolio in areas outside Auckland. This is in direct response to the Ministry of Social Development's purchasing intentions and the unprecedented surge in demand. Our Auckland build programme is financed outside of Government and construction work has started. We are considering future financing and funding options for the rest of New Zealand, including possible changes to policy settings.

We have responded to both the increasing demand for housing support and the growing proportion of our tenants with complex needs, as we continue to house New Zealand's most vulnerable. We provide not only warm, dry and safe homes; we also work with other providers to ensure our tenants get the help they need from those with deep experience to sustain their tenancies and, if possible, move on to housing independence. We have taken a lead role in the previous Government's Social Housing Reform Programme and have been committed to growing the capability and capacity of the social housing sector.

We are well poised to move forward at pace; supporting the new Government and other agencies to achieve positive social outcomes for our tenants and for New Zealand. This briefing provides a detailed description of what we have already delivered, our current plans for the future, and the challenges we are still solving.

We have been busy and there is much to be proud of

To achieve better social outcomes for our tenants it is essential they have warm, dry and safe homes to live in that meet their needs. They also require access to appropriate social support services in order to thrive. We have a clear long term view of our financial and asset position through our Asset Management Strategy. We are creating a better performing portfolio not only through our new build programmes, but also through the renewal and maintenance of our existing properties. Asset management plans are in place or being developed for every property and piece of land we own. We know what we are going to do and when with them.

We have a deeper understanding of the individual needs of our tenants and continue to improve our service delivery, ensuring they have access to the support they require. We are working with a range of social service providers such as the Auckland City Mission, the Wellington Downtown City Mission, Vision West, He Korowai Trust, and the Kotahitanga Alliance. We also work closely with other agencies such as the Ministry of Social Development and the Department of Corrections.

We repaired 5,140 damaged homes in Christchurch and built 700 new homes. This huge programme of work restored Christchurch's state housing numbers to pre-earthquake levels and increased the supply of affordable housing. Christchurch now has some of the most modern state housing in the country. The lessons learned in Christchurch are invaluable as we accelerate our build and maintenance programmes across New Zealand.

We delivered 1,524 new homes (gross) across New Zealand in 2016/17. Of these, 1,146 were state homes and 275 were for emergency housing. The remaining 103 were affordable or market. They were a combination of new builds, bought properties and lease renewals. This compares with 871 new homes in 2015/16.

We made a major contribution to the Government's emergency and transitional housing programme, delivering 363 new emergency housing placements (344 units including new builds and repurposed state housing) across New Zealand by the end of June 2017. This included the sourcing of land, planning and delivery of new build programmes. A further 262 will be completed during the first half of the 2017/18 financial year.

Hobsonville Point in Auckland showcases the ability of HLC (our wholly owned subsidiary) to deliver quality urban development at scale. When completed in 2024, the development programme will have delivered in excess of 4,000 homes. Hobsonville Point is about developing community and providing significant amenities for its more than 11,000 residents.

Housing New Zealand and HLC are delivering the Auckland Housing Programme (AHP). We have separated out land and building, reflecting our individual strengths and experience, and the need to manage construction industry dynamics. HLC will deliver large-scale master planning, civil works, land remediation and sell surplus land to builders with development agreements. Housing New Zealand will focus on the building of fit-for-purpose state homes to meet our tenants' needs.

Our input into the Auckland Unitary plan has enabled significant intensification of our land in Auckland. We are now able to include a range of typologies in our redevelopments and to provide additional funding through the sale of affordable and market housing. We are in a strong position to meet the needs of our tenants and to contribute to the demand for increased housing in Auckland.

Our build and rebuild programme is enabled by our strong balance sheet and level of financial performance. The programme is financed outside of the Crown's balance sheet and land transactions can be smoothed across projects with the Corporation's reserves. This means budget allocations are not required for capital works.

We have improved the warmth and dryness of over 25,000 homes through our targeted Warm and Dry programme. These are mostly older homes not addressed through other programmes or larger homes where children are most likely to live. Many more homes have had similar amenities (e.g. curtains, carpets, heaters) installed through our regular programmes of work. We have created safe outdoor play areas at over 16,000 homes where children are living and installed around 275,000 long-life smoke alarms.

We have worked hard to reduce both the number of vacant properties and the turnaround times between tenancies, ensuring properties are quickly returned to the letting pool. Over the past year this has meant more than 800 additional homes are available for letting every day. Our utilisation is now over 98%. In 2016/17 we reduced the national average turnaround time for vacated homes to 34 days, compared with 38 days in 2015/16. We are continuing to improve on this time. In April 2017, a 15 day target was introduced for Auckland as part of an IRRS contract variation. In recent months we have achieved less than 12 days.

As a result of all this work we are now poised to deliver even more

Our goal is to create a modern, high quality state housing portfolio that meets the complex needs and requirement for high levels of social support of an increasing proportion of our tenants. We are working to better understand their individual needs. This will enable us to support them to sustain their tenancies and, where possible, move on to housing independence. To achieve this, we are moving to increase the social support our tenants receive. This includes strengthening our partnerships with a range of social service providers and other agencies. Our policies and processes are also being revised to fit with this change in role and paradigm.

Our Asset Management Strategy will see 75% of our homes made fit-for-purpose over the next 20 years. This equates to renovating or rebuilding approximately 45,500 homes. As a result, our homes will not only be the right size and in the right place for our tenants; they will also be of a high quality. Our redevelopments will be designed in a way that supports our tenants to build positive relationships with each other and to participate in their communities. They will also enable, where possible, built-in access to key social agencies and support groups.

Over the next three years, Housing New Zealand is moving from contracting building at low volumes to significant volumes. A large number of suppliers will be required to deliver the volume of work planned. We are able to provide longer-term certainty for suppliers through multi-year contracts and confidence in the pipeline of work we are offering. Building firms can grow their capability and capacity with the surety of future work. This protects our potential to deliver in the event of any changes in the building and construction market. Our target is to reduce the cost of building by 15%, while improving quality and performance, through the use of innovative construction methods at scale. These include modular housing and prefabrication.

Our Auckland portfolio will be modernised and renewed through the Auckland Housing Programme (AHP). Phase 1 of the Auckland Housing Programme (2016-2020) is now finalised and Phase 2 is under development. The AHP would have provided the bulk of new properties for the previous Government's Crown Building Project (CBP) in Auckland. Over the next 20 years there is the potential to build an additional 30,000 homes on our land in Auckland. This complements other housing development in Auckland, driven by the MBIE Crown Land Programme and the Tāmaki Regeneration Company. The pace at which we can build is influenced by a number of challenges including infrastructure, funding, and the capacity of the construction sector to meet demand.

Our Regional Housing Programme (RHP) is focussed on meeting the Ministry of Social Development's purchasing intentions in 11 areas; from the Far North to Wellington and including Marlborough District and Dunedin City in the South Island.

Part A: Moving forward at pace

Introduction

Housing New Zealand is the largest residential landlord in New Zealand, providing homes to 180,000 of New Zealand's most vulnerable. As a social landlord we go above and beyond what other landlords are required to do. We ensure the homes we are providing are in the right places, of the right size and to a high quality; and that our tenants have access to the social services they require to thrive.

As an organisation, Housing New Zealand is focussed on increasing the supply of housing across the housing continuum, driving down the costs of construction and getting the basics of asset management right. We are well positioned to deliver the Government's building programme and to take a leading role in building the capacity of the social housing sector. Our national housing development programme is the largest residential building programme New Zealand has seen in decades.

In the following sections we describe our strategic intentions, what we have already achieved and the challenges we are still actively seeking solutions for. Unless stated otherwise all figures and programme status updates are as at the end of June 2017.

Housing New Zealand's Expanded Role

Government expectations for Housing New Zealand have shifted over time. In 2016/17, the previous Government asked us to take on new roles beyond our core functions of tenancy and asset management. In response, the Housing New Zealand Board identified four roles for Housing New Zealand. These roles contribute to four intermediate outcomes, reflecting our Statement of Performance Expectations and the current social and economic environment we operate in. They are areas where our scale and experience can add the most value and we believe they remain relevant.

The four roles and the immediate outcomes are:

- Social housing landlord: *New Zealanders with social housing need have access to, and sustain tenancies for the duration of their need and, where possible, move to housing independence.*
- Contributing to the affordability and accessibility of housing: *The housing market provides affordable accommodation for more New Zealanders.*
- Providing transitional housing: *New Zealanders with emergency need have access to, and sustain, temporary accommodation for the duration of their need.*
- Being a market leader in social housing: *Supporting a healthy and diverse social housing sector able to meet demand.*

These four roles work together to meet our tenants' needs through both service delivery and our redevelopment and renewal programmes. Our asset management and tenancy management programmes are closely linked.

By delivering on the outcomes described in our strategic plan we will contribute to the outcomes New Zealand needs from state housing and the housing sector more generally. Ultimately our contributions are about enabling healthier and more stable families and communities.

Housing is one important part of a wider set of public services working towards this overall outcome. We have aligned our outcomes statements with those of other government agencies. We are working with those agencies, iwi, community housing providers, councils and other non-government organisations to ensure positive social outcomes for our tenants.

Ensuring our organisation is well positioned to deliver

To be successful in our four roles, Housing New Zealand must operate as a high performing organisation. We need to be able to respond quickly to future changes in demand or in our tenant demographics. To achieve this we continue to embed a culture of sustainable and continuous improvement. This means we are strategy driven, employ brilliant and engaged people, and are operationally excellent and efficient. Our Strategic Plan sets out how our organisation will deliver on our priorities.

Key operational changes include the growth of our Strategy Group, a newly established Business Innovation and Development Group, the reorganisation of the Asset Development Group and the use of our subsidiary HLC's expertise in land development. This has streamlined our engagement with our build partners and stakeholders such as Auckland Council. Collectively, these changes mean we are well positioned to increase the supply of emergency, transitional and state housing and to improve the way we deliver services to our tenants. We are also able to deliver more affordable and accessible housing for all New Zealanders.

Four key operational strategies provide the necessary guidance for our organisation. These are our Asset Management Strategy, Long-Term Financial Strategy, Customer Strategy and Supplier Strategy. Our Asset Management Strategy is being refreshed to ensure it is aligned with the Ministry of Social Development's purchasing intentions and the increased demand for state housing across New Zealand.

We are developing a performance measurement framework enabling us to report on more meaningful measures than the outputs reported on in the past. These include positive social outcomes such as sustaining tenancies and supporting our tenants to move into private rental or home ownership where possible.

We are working closely with the Ministry of Social Development regarding the use of their purchasing intentions to guide our investment and divestment decisions. The development of a more sophisticated demand forecasting tool has been identified as one area for future refinement. We have agreed a high level approach for consultation on divestments, particularly in areas of low demand or where joint solutions are required to meet demand, and are currently finalising the process.

The need for a long-term financial strategy

Housing New Zealand operates in a residential housing market characterised by high construction costs, variable land costs (ranging from very high in urban centres, to very low in provincial areas), and high levels of speculative investment predominantly driven by real or perceived capital gains (which are typically not accessible to Housing New Zealand as a long-term landlord).

In this context, as a long-term landlord, it is important to note that rents are not sufficient to meet the total costs of supply, which includes the costs of land, buildings, property rates, water rates insurance, tenancy services, repairs and maintenance. In some markets, rents are not even

sufficient to cover operating costs, let alone costs of land and buildings. Housing New Zealand is generally able to manage these gaps by leveraging its balance sheet, including through targeted sales in poorer performing areas, sale of high value land, intensification of land use, particularly in Auckland, and free rental cash flows stemming from having low debt levels, and a shareholder willing to forego surplus payments. Our balance sheet enables Housing New Zealand to finance its capital programme outside of the Government's core debt. The balance sheet also enables Housing New Zealand to manage value issues without affecting the Crown financial performance.

However, as our business changes and, in particular, as we look to both increase the supply of state housing across the country and renew our ageing portfolio, it is crucial that we understand the implications for long-term financial sustainability, through the development of a long-term (30 year) financial strategy. The challenge for the strategy is to balance trade-offs between generating internal funds, servicing external finance and the scale and pace of portfolio reconfiguration, growth and renewal.

Delivering effective tenant support

The underlying purpose of our Customer Strategy is to move Housing New Zealand beyond being simply a landlord, to an organisation that is focussed on broader social outcomes for its tenants. This will be achieved through the provision of opportunities for our tenants to thrive in our homes, to sustain their tenancies and, if possible, to move onto housing independence. We recognise the latter may not always be possible.

Our tenants are some of the most vulnerable people in the country and the proportion with high and complex needs is increasing. In 2016/17, we provided housing to 5,681 Priority 'A' (at-risk) applicants and 457 Priority 'B' (serious housing need) from the Social Housing Register. Our goal is to create a modern and 'fit-for-purpose' state housing portfolio that is matched to their individual needs. This means more than building homes of the right sizes and in the right places. They must also be of a high quality and, where necessary, provide built in access to social support services through their design.

Developing a better understanding of our different tenant groups will enable us to assist them to sustain their tenancies and to ensure our homes cater to their needs. Our redevelopments are designed to support our tenants to build positive relationships with each other and to participate in their communities. Intensification potentially requires greater support as they will be living in close proximity to each other and the wider community. However, it also provides an opportunity to diversify the types of homes we offer and the social services that can be provided. Partnerships with social support providers can enable access to the support services required in other areas of our tenants' lives. We are working closely with a number of organisations to meet this growing challenge.

Our tenancy managers have a wealth of experience. We are the only agency that regularly interacts with our tenants in their homes. This gives us unique insight into their lives. One of our immediate goals is to better utilise this knowledge to inform our ongoing service delivery and asset design. We recently commissioned a research project designed to give our tenants a voice. This project has highlighted the opportunity we have to deal with potential issues through simple service responses.

We are implementing a number of initiatives to better understand our tenants and how we can support them through housing. These include the development of a Cost to Serve Model, which will inform our service delivery when finalised. We are also reviewing and revising our policies and processes to align them with both our tenants' circumstances and our sustaining tenancies objectives. That means far fewer evictions; an acknowledgement that tenants will bring issues with them and a greater focus on getting support for them.

Housing New Zealand has partnered with the Ministry of Social Development to trial an approach for supporting approximately 1,000 tenants in Auckland, Wellington and Christchurch to sustain their tenancies. We are also involved in the Vulnerable Tenancies initiative implemented by the South Auckland Investment Board. Other initiatives include our work with the Te Tihi o Ruahine Whānau Ora Alliance in Palmerston North

Increasing the supply of homes across New Zealand through our building programmes

As an organisation, we are firmly focussed on increasing the scale and pace of our build programmes to deliver an unprecedented volume of new and replacement homes, particularly in Auckland where demand is greatest. We have spent the last two years building the necessary organisational capacity and capability, including developing productive relationships with our suppliers. In addition to new builds, we also acquire additional state homes to meet demand by purchasing or leasing existing properties.

Our Investor Confidence Rating, where we achieved one of only four 'A' ratings given to government agencies, confirms we can deliver large complex programmes of work. This has been demonstrated through the redevelopment work in Christchurch, the speed with which we implemented our emergency housing response and the housing growth we delivered nationally last year.

A total of 9,351 new dwellings (gross), at various stages of development, from planning through to construction, are already in the pipeline¹. Of these 66% (6,168) are Housing New Zealand owned homes and 16% (1,475) are currently under construction or contracted. To build these new homes it will be necessary to demolish some older homes for redevelopment purposes.

The Auckland Housing Programme

The Auckland Housing Programme (AHP) is driving the modernisation and renewal of our Auckland portfolio. It is also a significant contributor to the previous Government's Crown Building Project (CBP) in Auckland². Phase 1 of the AHP (2016-2020) is now finalised and Phase 2 is under development. This programme could provide a useful contribution to the KiwiBuild Programme and we welcome the opportunity to discuss this with appropriate Ministers.

The AHP initially focuses on delivering a high volume of state housing to meet our housing requirements and the renewal challenges due to our ageing portfolio, but will increasingly move to affordable and market homes. The AHP includes options to acquire additional state housing through purchasing and leasing existing homes and we estimate adding 4,750 state homes (gross)

¹ These figures are correct as of 31 August 2017. It should be noted that they are subject to change as planning progresses.

² Note Phase 1 of the AHP started in July 2016 while the CBP commenced in July 2017 so there are some disparities in figures. It is also difficult to precisely align construction numbers with financial years.

by 2020. The net addition of state homes to our portfolio will be at least 1,700. This minimum net increase allows for divestment beyond the demolitions required for redevelopment as part of our overall asset management programme of work. We anticipate delivering an additional 2,380 market and affordable homes in that time. Phase 2 is expected to deliver about 3,000 units gross per year, equating to around 300-350 additional state homes (net per year) and about 2,000 market and affordable homes (per year).

The Auckland Unitary Plan has enabled significant intensification of our land in Auckland; something not possible in other areas. This has provided us with the opportunity to include a range of typologies in our redevelopments and to provide additional funding through the sale of affordable and market housing. Increased infrastructure funding and a further freeing of density controls will enable us to increase our delivery of new homes.

Over the next ten years, our initiatives through the AHP and Hobsonville Point will contribute a significant number of builds to the Auckland housing market. We will build 11,505 new state homes (gross). Land will be freed up to accommodate 12,829 new affordable and market homes (gross). The result will be a net addition of 17,207 homes in Auckland, with 7,127 demolitions required to enable the necessary intensification and redevelopment. These homes will be fully funded by Housing New Zealand.

We have expanded the role of our subsidiary HLC to leverage its considerable experience of large-scale quality urban development at Hobsonville Point. When complete, Hobsonville Point will comprise 4,500 homes with a wide range of amenities to meet the needs of the more than 11,000 residents. HLC will focus on large-scale master planning, civil works, land remediation, and the sale of surplus land with development agreements across key areas of Auckland.

The AHP is part of a wider body of development activity in Auckland. The Ministry for Business, Innovation and Employment has a programme of work underway to identify vacant or under-utilised Crown-owned land in Auckland that is suitable and available for housing development and to facilitate the construction of dwellings to increase housing supply. The Tāmaki Regeneration Company is redeveloping former Housing New Zealand properties in Tāmaki.

Regional Housing Programme

In April 2017, the Ministry of Social Development requested that Housing New Zealand increase housing supply in eleven areas, many of which were previously considered low demand. These were the Far North, Whangarei, Hamilton, Rotorua, Whakatane, Gisborne, Hastings, Napier, Palmerston North, Marlborough and Dunedin. Wellington was not included due to the build programme we already have underway (see below).

It is likely that vacant land will provide part of the solution. This blended approach focuses on minimising capital cost and requirements for operating subsidies by the Ministry of Social Development.

An indicative programme case was presented to the Housing New Zealand Board in August 2017. Next steps include the agreement of policy settings with the Ministry of Social Development, an

understanding of the financial implications, and consultation with appropriate Ministers.

Wellington Programme

We have plans to deliver up to 330 new state homes in the Hutt Valley and 145 in Wellington City. Construction is already underway in Wellington. The first new homes are expected in June 2018. Master planning has commenced in the Hutt Valley. The first of these homes will also be completed by mid-2018. We are investigating the potential to increase the scale of our housing programmes, particularly in the Hutt Valley, including the release of land for affordable housing. Any changes will be advised to the Minister as building programmes are confirmed.

Emergency and Transitional Housing

As a member of the cross-agency Emergency Housing Response Team, we have responsibility for providing a portion of the additional 1,400 emergency and transitional homes required across New Zealand³. Housing New Zealand has put a significant amount of resource and time into this provision. We have developed new skills and knowledge applicable to other projects. These include innovation in construction and partnering with other providers to ensure they are able to deliver the necessary social support for our tenants to thrive.

At 30 June, 2017 we had delivered 255 new places⁴ in Auckland and 108 in selected areas across New Zealand. By the end of 2017, we anticipate delivering a further 222 in Auckland and 40 in other areas. These include transitional housing built on vacant Crown land in Auckland and able to be moved to other sites as required.

Managing our existing properties to ensure they are of a high standard and meet our tenants' needs.

To achieve better social outcomes for our tenants it is essential they have warm, dry and safe homes to live in. We are creating better performing properties not only through our new build programmes, but also through the renewal and maintenance of our existing properties.

Our Asset Management Strategy has enabled us to better understand the natural lifecycle of our homes and what is required to ensure they remain fit-for-purpose across their lives. The majority were built over two periods of time. Those built in the 1940s and 50s, while durable, are now reaching the end of their life cycle. Those built in the 1960s and 70s were built to meet immediate need and are less durable and of lower quality. The challenge we face is that the average age of our homes is 45 years with 40% of the portfolio built before 1966. This means around 75% of our homes (approximately 45,500) will need significant spend over the next 20 years to ensure they are of a high quality, the right size, and in the right location to meet our tenants' needs.

Depending on the life cycle stage of the property, and its suitability for our tenants, our options include: continuing maintenance and repair; retrofitting the property; redeveloping it to make the best use of the land; disposing of it. Disposals are an important function of good asset

³ This is in addition to the approximately 750 already in place when the target was announced.

⁴ Note that one house (or unit) can be used for multiple placements due to the short-term nature of many tenancies

management and in some instances may be the most appropriate option within an overarching portfolio management strategy. We are currently working with the Ministry of Social Development to ensure any decision to divest a property is aligned with demand and their purchasing intentions.

In 2017/18, we anticipate spending \$488 million in maintaining, upgrading and retrofitting our portfolio. Over the last two financial years we spent a cumulative \$970 million⁵. This compares with 2011/12 when the cost was \$235 million. Since June 2015, we have improved the warmth and dryness in over 25,000 homes, through our targeted Warm and Dry programme alone. We have created safe outdoor play areas at over 16,000 homes where children are living through our Driveway Safety programme and installed around 275,000 long-life smoke alarms. In 2016/17, we completed 438,289 work orders for responsive repairs and 6,890 for vacant repairs. We spent \$52 million on chemical testing, decontamination and reinstatement/demolition costs in response to the methamphetamine challenge. We have managed to reduce the time required for testing and this has reduced the number of homes unavailable for letting as a result of potential contamination.

Having vacant properties is not desirable and as part of our asset management we are working to reduce both the number of vacant properties and the turnaround time between tenancies. We substantially reduced the number of vacant properties in the last year from 2,490 in June 2016 to 1,592 in June 2017. This reduction is mainly due to long term vacancies being returned to the letting pool. However, a certain level of vacant properties is normal and to be expected through tenant turnover. In the medium term, both vacant properties and vacant land may increase as we progress the large scale development of occupied sites.

In 2016/17, we reduced the average turnaround time for a property nationally to 34 days, compared with 38 days in 2015/16. In Auckland, the average turnaround time for the three months from April to June was 23 days, compared with 31 days at the end of March 2017. This was due to the Auckland Void Programme, implemented in April 2017 as part of our contracting arrangements with the Ministry of Social Development.

Making housing more affordable and accessible for New Zealanders

As one of the country's largest landowners we are well placed to make a real difference to the affordability and accessibility of housing in New Zealand. We can achieve this in three ways: leveraging our large scale development programmes to reduce construction costs, freeing up land through intensification and providing home ownership products for our tenants and first home buyers.

Reducing construction costs and building at scale and pace while improving quality

As a Crown Entity and steward of one of the government's largest assets, it is essential we are fiscally responsible in our building programmes. We are in a unique position to influence the building and construction sector; to show how things can be done and to promote changes that will enable others to follow suit. We can demonstrate how to build at scale and pace; driving down construction costs while achieving improved quality and performance through a range of innovative approaches towards design and construction.

⁵ This is approximately 2% of the total portfolio value.

Our target is to reduce construction costs by at least 15%. To achieve this, we are investigating a number of cost-saving options including:

- Increasing the standardisation of design and build components
- Building to higher densities
- Using industrial build techniques such as modular and prefabrication approaches
- Negotiating better labour costs and margins from builders through the surety of work provided
- Eliminating valueless margins such as development margins around sales risks.

We are also contributing to better health and safety practices across the industry through a sharing of our knowledge, toolkits and policies. Strong professional relationships with trusted partners will lead to better work flows and other efficiencies as well as better health and safety performance.

Freeing up land through intensification

Housing New Zealand, particularly through the Auckland Housing Programme, is intensifying the use of its land and freeing up development ready land for new development. Where possible, our aim should be to maximise the amount of development that occurs on our land and hence our contribution to addressing overall supply constraints.

Home ownership products

Housing New Zealand provides two home ownership products that we fund internally: the FirstHome Ownership Scheme and the Tenant Home Ownership Programme. Both schemes are only available outside areas of high demand and our ability to offer homes is limited by the current demand for social housing. The previous Government's Social Housing Reform Programme transaction process, along with tightened bank lending criteria, is also having an effect on both the number of homes available for tenants to purchase and their ability to do so. In 2016/17 we sold a total of 163 homes through these schemes.



This builds on the successful Axis Series programme used at Hobsonville Point, which requires build partners to deliver at least 20 percent of all homes at or beneath \$650,000. These homes are sold through a ballot system to first home buyers. Other options are being considered, including investigating other products in the market and how they can be aligned with our build programmes.

Housing New Zealand administers the Welcome Home Loan, Kāinga Whenua Loans and KiwiSaver HomeStart Grant for the Crown. These are all aimed at helping first home buyers into the market. In 2016/17, a total of 16,712 first home buyers were supported to purchase their own home through the KiwiSaver HomeStart Grant. Under the previous Government the Minister for

Building and Construction was responsible for these Crown home ownership products with the Ministry of Business, Innovation and Employment being the responsible policy agency. Looking ahead, we would welcome the opportunity to discuss with appropriate Ministers how the review of our products can inform any policy advice on home ownership assistance they may require.

Taking a leading role in building an effective social housing sector

There is a real opportunity and a clear need for Housing New Zealand to show leadership in the social housing sector. Through our scale and experience we can support the continued growth of the sector, in terms of both capability and capacity. As of 30 June 2017, the Ministry of Social Development reported a total of 62,926 Income-Related Rent Subsidy tenancies, of which 93% (58,277) were Housing New Zealand placements. The rest were with Community Housing Providers. In addition, Housing New Zealand provides homes to 1,541 'market renters'; that is tenants who are paying full market rent. The Ministry of Social Development undertakes tenancy reviews to determine their ongoing eligibility for state housing and to support transition to housing independence.

We are forming effective partnerships with other agencies and organisations that can provide social services and support to our tenants beyond our areas of expertise. Examples include our work with the Auckland City Mission and Vision West through Housing First. We are also working with the Downtown City Mission in Wellington. We have a key role to play in the New Zealand Disability Strategy and are modifying our homes to meet the needs of tenants with disabilities such as the provision of ramps and wheel chair appropriate doorways and fittings.

We are a member of the Kotahitanga Alliance, the governing body for the Kāinga Whānau Ora initiative. Through this initiative, the Te Tihi o Ruahine Whānau Ora Alliance aims to work with 100 whānau from Housing New Zealand homes to ensure: their homes are fit for purpose, safe and healthy; the families have pathways to education, training and employment; family relationships are free from violence. We also support He Korowai Trust, based in Kaitiāia. This is a consortium of Māori organisations working collectively to improve the quality of life to whānau. They provide a range of services including budgeting, whānau assistance, health and social housing. They are an emergency housing provider.

Through our Community Group Housing programme we provide housing solutions to community groups that offer a variety of services, including long term residential care, to the most vulnerable people in New Zealand. These include those with physical, intellectual, and psychiatric disabilities, women who require refuge, at risk youth and ex-prisoners being reintegrated into society.

Our focus is on ensuring all providers work together, to their strengths, to deliver the best possible outcomes for those requiring emergency, transitional, or state housing. Other examples are in our transitional housing projects where we provide a home, while others provide the support services needed.

Housing New Zealand is a member of the inter-agency Social Housing Reform Programme (SHRP) governance structure. We have been a key stakeholder in the achievement of the objectives of SHRP. As a Crown Entity, we are responsive to the government of the day and actively played our role in the implementation of the previous Government's policies, such as the Treasury-led property transfers.

The implementation of SHRP has led to a number of challenges for us with regard to the ongoing management of our assets and service delivery. Clear direction is still required regarding the size and role of Housing New Zealand in relation to other providers. Consequential impacts of the Treasury-led transactions have included the need to manage isolated tenancies at the periphery of the transferred areas, or where homes are leased and not part of the transaction, and limitations on the land available for Housing New Zealand to redevelop in some high demand areas.

Future considerations

We will engage with the appropriate Ministers as soon as possible on the new Government's priorities for KiwiBuild, the Affordable Housing Authority and the focus for Housing New Zealand moving forward. We believe we are in a strong position to deliver in all areas of the housing agenda.

While we are well placed to deliver on our four current roles of being a social housing landlord, contributing to the affordability and accessibility of homes, providing transitional housing, and being a market leader in social housing, we still face a number of challenges and/or barriers. These include areas where policy guidance and/or support could be required.

Further exploration is required around:

1. The intended shape of the social housing sector and the relative roles of the different providers, including Housing New Zealand, tasked with ensuring New Zealand's most vulnerable are looked after.
2. Implementing a funding model that encourages new supply and addresses the growing costs and complexity of social housing tenants, particularly outside Auckland
3. Removing barriers to innovation in construction including the regulation of new products while ensuring appropriate quality and performance and the nature and size of the residential building sector.
4. Modifying the legislative and policy settings Housing New Zealand operates within to allow greater flexibility and responsiveness. For example tax treatment and exploring the ability to rent to non social housing tenants as part of our mixed tenure options.
5. Ensuring Housing New Zealand tenants have access to the necessary social support services through partnering or contracting with others so that housing pathways can be developed that are realistic and meet their individual needs.

Future briefings

Table 1: Ministerial briefings and business cases

Programme	Purpose	Estimated date
Auckland Housing Programme	Phase 2 business case	2018
Auckland Housing Programme	Mt Roskill and [REDACTED] business cases	November 2017
Auckland Housing Programme	[REDACTED] business case	December 2017
Regional Housing Programme	Indicative Programme Case	Late 2017
Small Building Retrofit	Programme Business Case	2018

Note: The Housing New Zealand Annual Report for 2016/17 is required to be published on the 31st October and tabled on the second day of the meeting of the new Parliament.

Part B: Facts at a glance

FACTS AT A GLANCE

Housing New Zealand

Who we are

Housing New Zealand is the largest residential landlord in New Zealand.

Providing homes for approximately

63,276 properties

Valued at

\$25.2b

Providing

1,480 Community Group Homes

Of the 63,276 properties that Housing New Zealand manages:

60,660 houses are owned by Housing New Zealand

2,616 houses are leased



Our portfolio

97% are occupied

44% are in Auckland

The average age in

45 years

40% were built before 1956

40% have three bedrooms



A diverse and changing tenant base

We made

8086 placements in 2016/17.

- 39.9% of the people living in our houses are under 18, 41% are over 55
- The most common household type is a single parent with children followed by single person households.
- 20% of tenants have been in a Housing New Zealand house for over 15 years.
- 97% of tenancies are supported by the Income-Related Rent Subsidy managed by Ministry of Social Development; the remainder pay market rent.



- Approximately 25% tenancy in Māori
- 27% tenancy in Pasifika people
- 20% tenancy in European

In 2016/17 we provided housing to **146** refugees/transients. This is approximately 20% of those eligible for social housing.

A&EB

We only house 'Priority A' (at risk) and 'B' (serious housing need) applicants from the Social Housing Register; this means an increasing proportion of our customers have complex needs.

93%

of all social houses are managed by Housing New Zealand.

We need to replace or renew

75% of our portfolio within the next 20 years - 45,500 houses.

Our portfolio is equivalent to **456,195** work orders. In 2016/17 **840,000** work orders were spent maintaining, upgrading and improving our houses.

The total spend on maintenance per house was **\$7,500**



The nationwide turnaround time was

34 days

days in 2016/17. In Auckland over the three months from April to June we achieved a turnaround of 23 days.

We completed **456,195** work orders. We answered **840,000** calls from tenants.

- Warm and dry programme has been implemented in over 25,000 older homes where children are most likely to live.
- We have created safe outdoor play areas at over 30,000 homes.

Increasing supply across our portfolio

There are 8,351 new properties (gross) in the construction pipeline; 6,568 (66%) are social housing; 1,475 (16%) are currently under construction or contracted.

The Auckland Housing programme will deliver

11,500 new social houses (gross) and **12,800** new affordable and market houses over the next five years. Net addition of **17,707** homes.

in 2016/17 we provided

363 new emergency houses with a further

262 by the end of 2017

Regional housing programme could provide up to **1,000** new social houses (gross).

Part C: A snapshot of our current state

1.0 Background

1.1 Roles and responsibilities as a Crown Entity

The Crown Entities Act 2004 is the principal Act governing the relationship between Housing New Zealand and the Crown. Housing New Zealand is described in Schedule 1 of the Act as a 'Crown Agent'. Crown Agents are the least autonomous category of Crown Entities in that they must give effect to Government policies.

Housing New Zealand's role as a Crown Entity balances government direction on the achievement of social objectives with operating in a business-like manner. It means we play a critical role in advising and supporting policy agencies with the practical realities of delivery against government policies.

Housing New Zealand's role and responsibilities is derived from three sources:

- Governing legislation, including the Housing Corporation Act 1974 and the Crown Entities Act 2004 (more detail in 4.1.1)
- Crown social objectives for housing and services related to housing provided by Housing New Zealand (more detail in 1.3)
- Expectations of shareholding Ministers, which inform both our strategic direction over a four year period (set out in the Statement of Intent) and our priorities for the coming year (set out in the Statement of Performance Expectations).

Housing New Zealand is governed by a Board, whose members are accountable to the responsible Minister. The role of the responsible Minister is to oversee and manage the Crown's interests in and relationship with Housing New Zealand. We report every quarter to the responsible Minister and the Minister of Finance to demonstrate performance against the objectives set out in our Statement of Intent. The Minister conveys the Government's expectations to Housing New Zealand and monitors performance. The Statement of Intent and Statement of Performance Expectations are tabled in Parliament. At the end of the year our Annual Report is also tabled in Parliament.

1.2 The Social Housing Sector

Social housing is currently provided by Housing New Zealand and a number of Community Housing Providers (CHPs) registered under the Housing Restructuring and Tenancy Matters Act and subject to its regulatory powers and standards. From 2014, registered CHPs have received the Income-Related Rent Subsidy for eligible new tenants. Social housing is also provided by some local authorities. Social housing direction is currently influenced by the Ministry of Social Development, the Ministry of Business, Innovation and Employment, and the Treasury through various roles.

At 30 June 2017, there were 5,353 individuals and families waiting for a house on the Social Housing Register⁶. The majority (3,690, 69%) were classified as Priority 'A' (at risk).

In 2016/17 Housing New Zealand placed 8,086 families. We currently provide 93% of all social housing in New Zealand.

1.3 The Crown's Social Objectives for Housing

Government priorities for Housing New Zealand have undergone changes over recent years. The previous Government provided a broad mandate to Housing New Zealand to provide affordable and market housing in addition to state housing; moved from an expectation that we accelerate divestments in areas of low demand to one where divestments are limited to areas where the Ministry of Social Development confirms specific disposals are consistent with its purchasing intentions; and placed weight on redeveloping our portfolio outside of Auckland, in addition to the previous focus on redevelopments in Auckland.

More specifically, the Crown identified the following social objectives for housing and services related to housing provided by Housing New Zealand for 2017/18:

- Providing cost-effective social housing across New Zealand that is of the right size and in the right place, for those most in need, for the duration of their need
- Aligning asset and tenancy management decisions with the Ministry of Social Development's contracting framework and purchasing intentions
- Assisting tenants to sustain their tenancy for the time they require social housing and to transition into housing independence, in conjunction with other agencies, when and where appropriate
- Supporting the Social Housing Reform Package (SHRP) by working with Government and the social housing sector to help achieve the SHRP objectives
- Providing affordable and other housing in areas of high housing shortages, including undertaking urban development and building social amenities and other facilities necessary to support the communities that will live in the housing.

The previous Government's priorities for Housing New Zealand, as outlined in the Letter of Expectations from the Minister to the Board Chair, included:

- Growing the net supply of housing, including emergency, social, affordable and market properties both within Auckland and across the rest of the country
- Positioning ourselves to achieve greater cost reductions in our redevelopment activity
- Considering how we can best support the Government's Social Investment approach in the way we manage our tenants
- Supporting wider Government work on creating and applying transitional pathways for social housing tenants to leave social housing and enter the private rental market as and when appropriate

⁶ This is new applicants and does not include those on Transfer Register

- Continuing to work with the Ministry of Social Development, in its role as purchaser, to support long-term asset planning and the development of contractual arrangements
- Continuing to support Community Housing Providers, including through the Social Housing Reform programme transactions
- Limiting divestment activity (including sales, lease expires or demolitions) to instances where the Ministry of Social Development confirms specific disposals are consistent with its purchasing intentions and that the property is not suitable for emergency housing.

1.4 Better Public Services

Of the ten Better Public Service results, announced by the previous Government in May 2017, two targets were specifically identified as requiring Housing New Zealand contribution.

- *To reduce the median number of days to house 'A' priority applicants from the social housing register by 20% by 2021.* This result is led by the Ministry of Social Development. We will contribute to this target by increasing the supply of state housing; ensuring homes are quickly made available to those in need; supporting tenants who are able to move out of state housing. Programmes such as the Auckland Housing Programme (Section 3.2.2), the Regional Housing Programme (Section 3.2.4) and the Auckland Void Programme (Section 3.2.10) will support the attainment of this target.
- *To reduce avoidable hospitalisations for preventable conditions in children aged 0 – 12 by 15% by 2019 and 25% by 2021.* This result is led by the Ministry of Health. Children make up a large proportion of our households with 9% of household occupants under 5 and 40% under 18. Given the role housing plays in supporting health outcomes, we directly contribute to this target through a continued focus on ensuring our homes are healthy and safe. Targeted programmes such as Warm and Dry and Driveway Safety are important to the attainment of this target as well as our ongoing maintenance and renewal programme (Section 3.2.9). Also important is ensuring that housing is of the right size to avoid overcrowding.

1.5 The Housing Market

The housing market continues to be a key issue in New Zealand. Fundamentals of the market affect the affordability of housing for home owners and renters. High net migration, low interest rates, and constrained land supply have contributed to the fast pace of growth in housing prices, particularly in Auckland.

Building activity has picked up since 2010. However, it has not been at a pace to match population growth. The result has been a pressurised housing market. This has led to steady declines in residential rental yields, as rents have greater constraints than house price growth fuelled through borrowing. Value has been further concentrated into land as house values have increased above the costs of construction. This has incentivised the market away from the provision of affordable housing, as it seeks to maximise the return on land.

The resulting housing affordability issues have continued to affect demand for state housing and social support services. Affordability pressures have increased the demand for state housing

across New Zealand. At 30 June 2017, there were 5,353 applicants on the Social Housing Register compared with 3,352 at 30 June 2015. Growing investment is needed in emergency housing and increased intervention is required in the provision of affordable housing for home ownership, particularly in Auckland.

How can Housing New Zealand contribute?

Fully addressing New Zealand's challenges with housing affordability is likely to require a range of interventions. Two broad areas where Housing New Zealand can influence housing supply are:

- Shaping the housing market by pursuing broad improvements in construction costs and methods; or by supplying development ready sections and/or finished dwellings
- Managing affordability within the existing market by supporting the delivery of new affordable housing options that are not currently available.

Both options are discussed more fully in Section 3.2.7.

The effect on Housing New Zealand

Housing New Zealand faces the same pressures as many other property owners and landlords. In particular, the pace of house price increases affects our financial position. In Auckland, residential rental returns are currently weighted toward capital gain rather than holding property for long term rental yields. This means any growth in house prices further reduces rental yields compared with other parts of the country.

We are a property manager investing on rental return, rather than a property investor investing for capital return, or a developer looking to realise cash from their developments. There is a limit to which Housing New Zealand can leverage off its strong balance sheet and cover the interest cost from higher debt, given our ability to realise capital gain as cash is significantly constrained in the current market.

2.0: Strategic Framework

2.1 The Role of Housing New Zealand

The Housing New Zealand Board has identified an expanded role for Housing New Zealand as a leader in housing people and influencing outcomes across the housing continuum. These roles relate to four distinct housing outcomes where Housing New Zealand can make a direct contribution.


A social housing landlord

Our changing tenant base and the changing dynamics of the social housing sector are creating challenges to how we deliver on our core role as a social housing landlord. Our goal is to ensure that New Zealanders with housing needs have access to, and can sustain, tenancies for the duration of their need.

To achieve this we are incorporating a broader understanding of our tenants' needs into our decision making and service delivery model. This will enable us to deliver the right number of quality state homes in the right place and matched to their individual needs. We will renew and realign our existing portfolio of homes where necessary. We will also continue to support our tenants to sustain their tenancies and to move to housing independence, where possible.

Contributing to the affordability and accessibility of housing

We contribute to the affordability and accessibility of housing through innovation and leadership, leveraging our land and scale, administering effective affordability products and increasing supply. By June 2020, our target is to have enabled 2,383 new affordable or market homes in Auckland. Of these, at least 20% will be affordable. We will also look to release land for affordable and market homes through the Regional Housing Programme.



We are working to reduce construction costs, while retaining quality and improving performance, for all new builds by trialling new and innovative building materials and construction techniques as identified in Section 3.2.7. Our aim is to ensure these methods and materials are not only fit for the New Zealand context, but also are more readily available at scale across the sector.

Providing transitional housing

Transitional housing has a broader focus than emergency housing alone. It is a new approach to housing, providing warm, dry and safe short-term accommodation for people in need, along with tailored social support while they are there. It is aimed at recognising the potential need for housing solutions that support a broad range of people who are currently unable to access long-term sustainable housing.

Housing New Zealand is part of the Ministry of Social Development's cross-agency emergency housing response. This includes the construction of transitional housing to be managed by emergency housing service providers, enabling wrap-around services to tenants (Section 3.2.8).

A market leader in social housing

In line with the previous Government's intentions, our goal has been to support a healthy, diverse social housing sector able to meet demand. We have provided leadership through the provision of quality advice on the social and wider housing market and through innovation; positively influencing results and decision-making to achieve the desired outcomes of the Social Housing Reform Programme.

In June 2017, the Ministry of Social Development reported a total of 66,332 social homes owned or leased by Housing New Zealand and registered Community Housing Providers. Of these 93% are Housing New Zealand properties. We have 1,480 Community Group Housing leases with agencies supporting households with specialised housing needs (Section 3.2.8 & 4.5.2).

2.2 Our Priorities

Five priorities have been identified for our 2017 – 2021 Statement of Intent and the 2017/18 annual planning cycle.

These are:

Increasing our understanding of our tenants and putting their needs at the centre of our decisions

As our tenants change we need to be focussed on making sure our service delivery stays relevant to their needs. The growing proportion with complex needs means we need to think more carefully about the best way to support them to sustain their tenancies and/or reach housing independence.

An improved understanding of their individual needs will enable us to design coordinated support services for them that improve social outcomes and to become more thoughtful regarding the design of our homes.

Increasing the pace and scale of housing supply

We have a significant amount of work ahead of us in delivering our Asset Management Strategy. This strategy is focussed on realigning and growing our portfolio to meet the needs of current and future tenants, as well as renewing our homes as they age and reach the end of their economic/functional life.

This is primarily focussed on our role in social housing, but also encompasses what we need to do to support an increased supply of housing more generally; particularly in areas like Auckland where there are significant affordability challenges.

Reducing our cost of building and, in turn, influencing cost in the sector

We need to be focussed on driving the cost of construction down to ensure that the scale of renewal required for our housing portfolio is financially viable. Doing so will contribute to more

affordable housing in general by demonstrating to others how to drive costs out of construction. It is an opportunity to support the building and construction sector to deliver housing at scale.

Optimising the management of our homes

Managing our homes well is a core capability for us as a social housing provider. Good management of the lifetime costs of homes is a central driver behind us being financially sustainable. We need to continually improve in this space.

Using our experience to influence performance in the housing sector

We have a real opportunity to use our scale and experience to help the sector as a whole develop successfully. We need to be focussed on influencing the best way for the sector to work together to achieve the right outcomes for New Zealanders; to think honestly about what our strengths are and what strengths other providers/organisations can bring to the table.

2.3 Performance Measures

Our 2017/18 Statement of Performance Expectations measures performance across five output classes. These are directly related to our roles as a social housing landlord and the provider of affordable housing as well as our own organisational performance measures. Section 4.6 presents our results for 2016/17 and the 2017/18 targets.

We are continuing to develop new measures for success based on the four roles described in Section 2.1. These will include qualitative measures for our roles as a social housing market leader, in sustaining tenancies and a wider range of measures for transitional housing. Currently, success in the latter is measured in terms of our provision of emergency housing as part of the cross-agency Emergency Housing Response Team led by the Ministry of Social Development.

3.0: Putting our Strategy into Action

3.1 Delivering Effective Tenant Support

As a social housing landlord, our core role is to ensure that those in need have access to warm, dry and safe housing for the duration of their need. Housing New Zealand provides homes to people with serious housing need who are often at a crisis point in their lives. Many of these people have wide-ranging issues; including drug and alcohol abuse problems, anti-social behaviour and varying degrees of mental health issues. State housing provides them with time to stabilise and rebuild.

Alongside collecting rent, inspecting homes and maintaining the safety and value of our properties, we work with our tenants to manage their debt, link them to support services and ensure their homes and communities are places they want to live in. We are enhancing our service model to enable a wider range of support for our tenants, recognising the increasing proportion with diverse and complex needs and the changing social and economic environment we operate in.

We are the only social agency that regularly visits our tenants in their homes and we are working to more fully utilise the knowledge of tenancy managers in meeting the individual needs of our tenants. We also work with a number of government agencies and social support providers to achieve integration and to ensure our tenants thrive. Examples include our work with the Auckland City Mission and Vision West through Housing First. We are also working with the Downtown City Mission in Wellington, the Kotahitanga Alliance and He Korowai Trust.

3.1.1 Developing a better understanding of our tenants' individual needs

Understanding our tenants' individual needs enhances Housing New Zealand's ability to improve their integration into the community where they are housed. We develop this understanding through a range of tenant and organisational surveys, the experiential knowledge of our tenancy managers and increasingly through an evidence-based approach. We are currently implementing, or are involved in, a range of initiatives that consider ways of providing a wider range of support for our tenants.



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Sustaining Tenancies Initiative

Housing New Zealand has partnered with the Ministry of Social Development to trial an approach to supporting approximately 1,000 state housing tenants in Auckland, Wellington, and Christchurch. The Ministry contracts with specialist service providers to provide a range of tailored support services to the participant families.

The initiative was launched in January 2017 and the funding (\$5 million) is spread over two years. Both Housing New Zealand and the Ministry of Social Development have selected groups of participants based on data and/or the knowledge of our tenancy managers.

The purpose of the initiative is to provide targeted support to tenants in order to reduce the social and financial impact of adverse exits from state housing (e.g. having a tenancy terminated for anti-social behaviour). The insights we gain will help us to develop future initiatives so that our tenants receive effective social support when they need it.

Place Based Initiatives

In 2016, Cabinet agreed to progress three Place-Based Initiatives (PBI): South Auckland, Te Tai Tokerau (Northland) and Tairāwhiti (Gisborne). These initiatives aim to improve social outcomes for children and young adults by strengthening local governance, decision making and service delivery. Each PBI targets different 'at risk' groups and comprises distinct local leadership models, interventions and key stakeholders. The intention is to give local social sector leaders the flexibility and support to collectively tailor responses to what works in their specific communities.

Housing New Zealand is involved in the South Auckland Investment Board initiative (see below). We are currently working with the Social Investment Agency to develop an evaluation framework that will consider the effectiveness of both the overarching service model and the individual initiatives. We have recently joined the other two initiatives.

Vulnerable Tenancies

This PBI is implemented by the South Auckland Social Investment Board (SIB). The SIB includes Housing New Zealand, Ministry of Social Development, Ministry of Health, Counties Manukau District Health Board, Ministry of Education, New Zealand Police, Te Puni Kōkiri, Ministry for Pacific Peoples, Department of Corrections, and Ministry of Justice. The purpose of the initiative is to work with 150 families, with private and public landlords, to stabilise their housing and ensure continuity of service for their children.

The initial target group is 0-5 year olds with two or more risk factors within the Mangere community. The SIB's work programme is managed through a cross agency SIB Working Group. The Chair of the SIB is Sandra Alofivae, who is also on the Housing New Zealand Board. Housing New Zealand is represented on the Board and in supporting roles for the SIB.

Understanding the financial cost of state housing provision

A test Cost to Serve model is currently under development. The aim is to improve our understanding of the cost to Housing New Zealand of managing tenancies. Once finalised, the model will present a robust and consistent picture of the fully absorbed cost of operating our core Tenancy and Property Management services. It will enable a comparison between costs of service provision for different cohorts, and inform options for partnerships with other agencies.

3.1.2 Placing people in our state homes

Housing New Zealand places people in our properties from two registers: the Social Housing Register managed by the Ministry of Social Development and our own Business Initiated Transfer (BIT) Register. Applicants are matched to available properties through our placement function. We work property by property to undertake this matching. Careful consideration is given to whether the property is appropriate and the tenancy will be sustainable. We generally place tenants off the BIT first to enable our redevelopment programmes and to ensure housing is of the right size and in the right location to meet individual tenant needs.

A total of 8,086 new tenancies were started in the 2016/17 financial year; compared with 7,384 in 2015/16; including both new applicants and transfers from other state housing. This figure excludes community group housing, emergency and transitional housing.

The Social Housing Register

The Social Housing Register is comprised of two different registers. The Housing Register is for new applicants, while current social housing tenants who have applied to transfer to another property are on the Transfer Register.

The Social Allocation System provides the criteria for acceptance onto the Social Housing Register. This system is administered by the Ministry of Social Development. In order to be eligible for social housing the applicant or family must be on a low income, be a permanent resident of New Zealand and have a housing need priority rating of either Priority 'A' (at risk) or Priority 'B' (serious housing need) as defined by the Ministry criteria.

The Ministry provides Housing New Zealand with a short list of 20 applicants that meet the requirements of an available property. These requirements include bedroom size, location and features such as modifications. Matching can also take into account requirements for special property features (e.g. level access or a wheelchair ramp), location requirements (e.g. close to certain schools) and factors such as gang affiliation.

Applicants are expected to accept the first offer of a suitable property. Under a recently introduced policy, the Ministry will remove the applicant from the Social Housing Register for 13 weeks if they decline any suitable property without sufficient reason.

In 2016/17 we provided housing to 5,681 Priority 'A' applicants and 457 Priority 'B' applicants from the Housing Register.

The Business Initiated Transfer Register

Housing New Zealand maintains its own register of Business Initiated Transfers (BIT). These are tenants who require a transfer to a different house for a number of reasons including their

current home being redeveloped, undergoing major repair or the lease expiring. Other reasons include a household underutilising or seriously overcrowding a property.

In the medium term, as we scale up the volume of development work, it is likely that an increasing proportion of our placements will be from the BIT register. This will need to be carefully managed and will depend on the extent to which demolitions are required to enable intensification.

In 2016/17, 1,932 placements were from this register.

Relocating tenants and those eligible for social housing from Auckland

In July 2016, the previous Government released a package to help current social housing tenants and those on the register to relocate from Auckland to a different part of the country. The voluntary scheme is led by the Ministry of Social Development.

We assisted 404 state housing tenants to successfully exit their Auckland tenancy and start a new one either with us or a private landlord. Of the households relocated, 260 were applicants on the Social Housing Register at the time and have now been moved off the register.

3.1.3 Ending Housing New Zealand tenancies

Housing New Zealand may end tenancies for a variety of reasons including redevelopment, lease expiry and earthquake prone buildings. These are handled through the Business Initiated Transfer register. Other reasons include the death of a tenant, Ministry of Social Development tenancy reviews, antisocial behaviour, fraud or other illegal activity. We are aware of the limited opportunities our tenants may have for rehousing and we work with the Ministry of Social Development to sustain tenancies wherever possible.

Reviewable tenancies

The Ministry of Social Development has carried out tenancy reviews since 1 July 2014. The main focus is on those tenants who are currently paying market rent or near market rent. When the Ministry makes the decision that a tenant is no longer eligible for state housing, the Ministry informs Housing New Zealand and we issue a 90-day termination notice to end the tenancy.

The review process occurs over a number of months and involves the Ministry working on a plan with the tenant to help them move. The Ministry may offer support for costs associated with moving and setting up in their new property. The Ministry has started reviews in Christchurch, which was initially exempt.

Tenant deaths

Tenancies are legally only with the tenant and as such end on the tenant's death. When this occurs, our first step is always to express sympathy and give the family space to grieve. We will generally wait for ten days before contacting the family to arrange a meeting to discuss the next steps. At this meeting a date for the tenancy to end is mutually agreed. This is generally around one month, which allows for a Ministry of Social Development review of the residents' eligibility for ongoing housing support.

Where they are eligible, they will not be expected to vacate the current tenancy until another suitable home has been located for them. Dependent on their circumstances, it may be possible

they can remain in the same house under a new tenancy agreement. When they are not eligible they will need to vacate the house on the agreed date. A formal extension to this is possible where necessary.

Tenancy Breaches

We respond to all breaches of a tenancy agreement on a case-by-case basis according to the severity of the behaviour and the circumstances of the tenant and their family. Our first step is to talk to our tenants to resolve the issue. We may also issue a breach notice under the Residential Tenancies Act requiring them to meet the terms of their tenancy agreement. Ending a tenancy is a last resort.

Anti-social behaviour

The vast majority of Housing New Zealand tenants are good neighbours and abide by the terms and conditions of their tenancy agreement. In the event of severe or persistent anti-social behaviour, Housing New Zealand may issue the tenant with a 90-day notice to vacate the property and can suspend them from a Housing New Zealand home for up to 12 months where appropriate.

Rent arrears or property damage

In the case of rent arrears or property damage, we will work closely with the tenant to make a sustainable repayment arrangement. If they choose not to engage in this process we may be required to apply for mediation or to make an application to the Tenancy Tribunal. The Tribunal may grant Housing New Zealand an order to terminate a tenancy due to rent arrears. However, in almost all cases we will not enforce the order if the tenant agrees to repay their debt.

Methamphetamine contamination

When one of our properties is contaminated, our first priority is the safety of the tenant and their family. In all cases we will rehouse the tenant and their family in another Housing New Zealand property unless there is clear evidence, such as a police report or an eye witness, that the contamination has occurred as a result of a breach of the tenancy agreement.

The Residential Tenancies Act

The Residential Tenancies Act allows any landlord to issue a 90 day termination notice to end a tenancy without providing a reason. It also provides an alternative method of termination in cases of a breach of tenancy agreement by application to the Tenancy Tribunal.

90-day termination notices

Housing New Zealand uses 90 day termination notices in two ways:

- To end tenancies for redevelopments or upgrades of the properties. The tenants are moved into another Housing New Zealand property and start a new tenancy.
- When we believe, on reasonable grounds, that the tenant has either repeatedly breached the terms of their agreement or committed a very serious breach of their agreement.

When considering whether or not to issue a 90 day notice, Housing New Zealand will take into consideration other circumstances such as the effect on the family. We will work with Oranga Tamariki, Ministry for Vulnerable Children, where children are involved.

A total of 1,194 termination notices⁷ were issued in 2016/17. The majority of termination notices were for business initiated transfers. Only 192 were issued for anti-social behaviour in 2016/17 compared with 273 in 2015/16.

Tenancy Tribunal

The most common reason for a Tribunal application is if the tenant is more than 21 days in rent arrears and we wish to formalise a rent payment plan. We have 90 days to enforce an order once it is granted. In most cases, we choose to continue to work with the tenant to sustain their tenancy.

Other reasons for applying to the Tribunal for a termination order include severe anti-social behaviour and allowing the tenancy to be used for an illegal purpose. In these instances, the Tribunal order may allow us to ask the tenant to leave earlier than the 90 days.

Evictions

Evictions are a last resort and occur very rarely. They occur only when a tenant refuses to vacate their tenancy after the Tenancy Tribunal has granted a termination order. All evictions are carried out by court bailiffs.

In 2016/17 there were 19 evictions compared with 39 in 2015/16.

3.1.4 Customer Support Centre

The Customer Support Centre (CSC) operates a 24/7/365 service. Core hours are between 8am and 6pm, Monday to Friday, with urgent calls only outside these hours. The CSC operates from two locations: Porirua and Manukau. It operates as a virtual site with any tenant call able to be answered by a housing advisor at either location. In November 2016, the CSC was an inbound call centre only. It now operates as both an inbound and outbound centre as well as a processing unit.

In 2016/17 the CSC answered 840,000 calls, an average of one call per home per month.

3.2 Managing and Investing in our Portfolio

Our Asset Management Strategy (2016-2026) provides a framework for Housing New Zealand to make decisions about our properties. Our primary objective is to ensure all tenants have access to suitable, dry, warm and safe homes that they can operate within their means.

The Asset Management Strategy (AMS) is implemented through three broad work streams: new supply; maintenance and renewal; disposals. It addresses the renewal and growth challenges faced across the Housing New Zealand portfolio and responds to the purchasing intentions of the Ministry of Social Development.

The AMS is currently being revised, based on additional purchasing requirements and changing funding parameters. Specifically, the Ministry's purchasing intentions for 2016 to 2020 included

⁷ Some of these termination notices were 7 day notices.

more properties in provincial areas than our strategy assumed would be required. We are no longer planning to divest older homes in the regions to support our renewal programme. This has impacted on our ability to fund the renewal of existing properties, particularly in the regions.

3.2.1 Investing in our portfolio

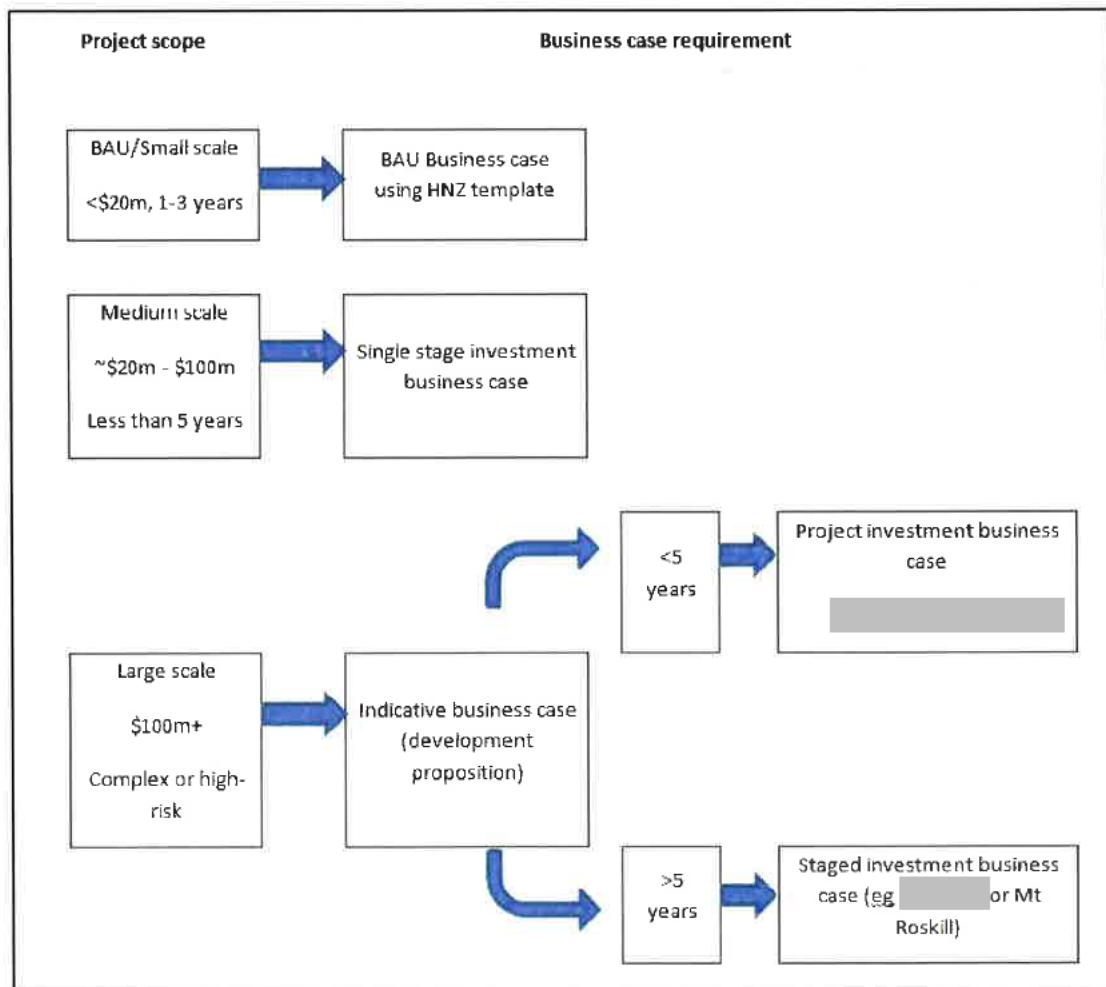
The approval process for projects and programmes is underpinned by total project capital expenditure:

- Projects with a >\$20 million total budget are reviewed by the **Investment Committee** and approved by the **Board**
- Projects with <\$20 million total budget are reviewed by the **General Manager Asset Development Group** and approved by the **Chief Executive**

In addition, it is a requirement that for any project or programme with total costs in excess of \$30m, the minister will be consulted before the project or programme is approved.

Similarly, the level of business case documentation required to support decision making varies depending on the scale, cost and complexity of the project. Figure 1 provides a high-level summary of the business case requirements based on project scope.

Figure 1: Summary of business case requirements



3.2.2 An ageing portfolio

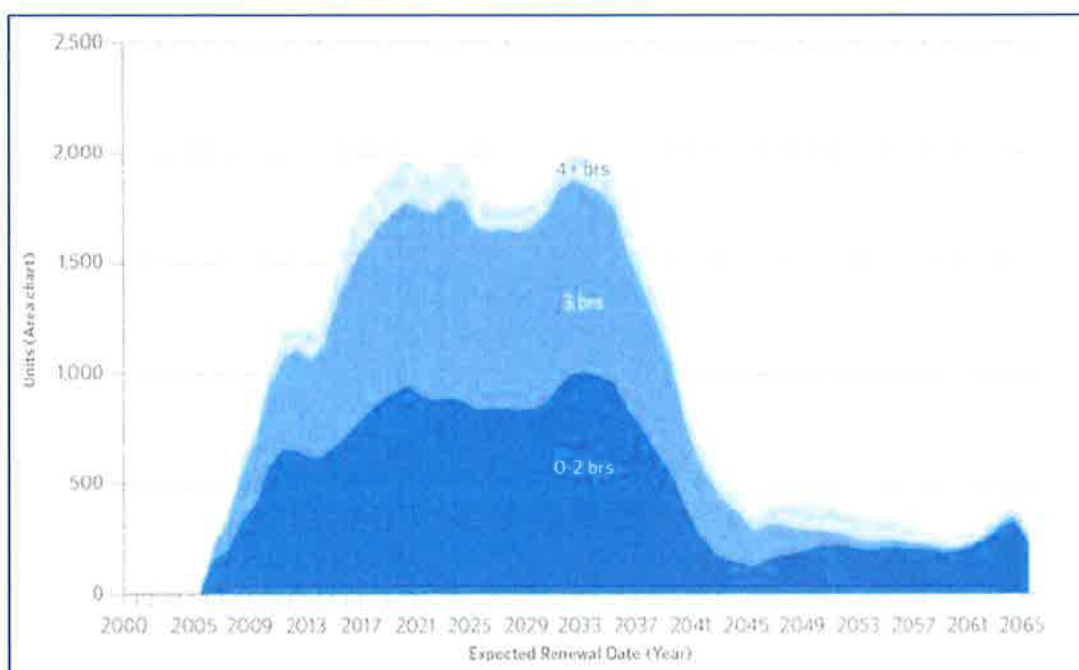
Most of Housing New Zealand's properties were built from the 1930s to 1980s and are expected to reach major lifecycle decision points within the next thirty years. Many are nearing the end of their economic and/or functional life. This presents us with a renewal challenge along with the need to increase the pace of new supply.

Figure 2 depicts the number of properties forecast to need renewal through to 2065, by the number of bedrooms in each. Almost half of these are in Auckland and some of the required renewal will be through the Auckland Housing Programme. The Regional Housing Programme, once approved, will also support the renewal of our portfolio. However, new supply is not the only option. For each of these properties we can:

- Continue maintenance and repair in its current configuration
- Retrofit making it fit for another 30-50 years
- Redevelop making the best use of its land
- Sell and replace with a modern equivalent through new supply.

We anticipate needing to renew between 1,800 and 2,250 properties per annum over the next 20 to 30 years, dependent on the pace of renewal. Ideally, 45,500 (75% of current portfolio) will be rebuilt or renovated over the next 20 years. Through the development of our Long-Term Financial Strategy and the refresh of our Asset Management Strategy, we are working out what the funding requirements are and the pace at which we can achieve this renewal.

Figure 2: Number of properties needing renewal



3.2.3 The Auckland Housing Programme

Our biggest new supply programme is the Auckland Housing Programme (AHP). In April 2017, the previous Cabinet noted the objectives of the AHP as being to increase the volumes of new housing, including both affordable and state, as well as reducing the costs of new housing supply through development projects.

The AHP will deliver this new supply through two phases. Phase 1 is designed to ramp up supply over a four year period (2016-2020); while Phase 2 will continue delivering about 3,000 units per year (gross). The need to rehouse tenants due to the redevelopment of occupied sites means that significant growth in state housing supply does not emerge until years three and four of the current programme.

In addition to new builds, the AHP includes purchasing or leasing existing properties as new supply. By 2020 we anticipate adding approximately 4,750 state homes to our Auckland portfolio through both new builds and acquisitions, for a minimum net increase of 1,700. This minimum net increase allows for divestment beyond the demolitions required for redevelopment as part of our overall asset management programme of work. We anticipate the majority of additional state homes will comprise either new builds (as part of our redevelopment programme) or new properties we acquire, with new and re-signed leases to meet the balance⁸.

We are also actively working to renew and realign our ageing portfolio in Auckland (44% of all our state homes are in Auckland). The AHP is enabling us to reconfigure these properties to better suit our tenants' individual needs, for example, ensuring their location and typology are suitable.

The AHP was a significant contributor to the previous Government's Crown Building Project in Auckland and, as such, is part of a wider body of development activity including the Crown Land programme (Ministry of Business, Innovation and Employment) and the Tāmaki Regeneration Company's redevelopment of former Housing New Zealand land in Tāmaki.

Building new homes through the AHP

The amount of new housing we are able to build on our land has increased significantly, enabled by Housing New Zealand's submission to the Auckland Unitary Plan and the implementation of the previous Government's Housing Accords and Special Housing Areas Act (HASHA). The Auckland Unitary Plan provides the potential to build up to an additional 30,000 homes on Housing New Zealand's land in Auckland.

Over the next ten years, it is anticipated that the Auckland Housing Programme (AHP) will deliver 11,505 state homes (gross) and 12,829 affordable and market homes. We will need to demolish 7,127 older homes to facilitate redevelopment, resulting in a net increase of 17,207 homes. Table 2 summarises the two phases of the AHP as it pertains to new builds only. It does not take into account any acquisitions beyond new builds or other divestments beyond demolition for redevelopment.

⁸ We count re-signed leases as new supply because if the lease is not renewed we would have to complete a new build or buy a property.

Table 2: Contributing to the Auckland Housing Market through the AHP

	Phase 1	Phase 2	Total
Total State Houses built (Gross)	4,305	7,200	11,505
Total Affordable/Market Houses built (Gross)	2,383	10,446	12,829
Total Houses Built (Gross)	6,668	17,646	24,334
Demolitions for redevelopment	(1,727)	(5,400)	(7,127)
Net Additions over 10 years	4,961	12,246	17,207

The Mt. Roskill Programme

The redevelopment of Mt. Roskill will deliver around 9,500 new homes to Auckland over a 20 year period. Around 2,900 of these new homes will replace and extend our ageing portfolio of 2,480 homes in the area.

The balance of 6,600 new homes will comprise 3,300 affordable homes and 3,300 market homes. Approximately, \$1.5 billion in net revenue from market land sales will be retained by Housing New Zealand and reinvested into delivering our portfolio of 2,900 homes.

Upcoming business cases

We have agreed to submit any significant business cases to the shareholding Ministers for consultation. Our Board has recently approved business cases for the Mt. Roskill and [REDACTED] Programmes, and we expect to consult with Ministers shortly.

We are tabling the [REDACTED] Programme business case with our Board later in the year, with Ministerial consultation to follow. Work is underway regarding the details of Phase 2 and a business case will be provided for Ministerial consideration when completed.

Financing for Phase 1 of the AHP

The total gross capital investment over Phase 1 is \$2,231 million (net of a performance construction cost reduction target of 10 percent). We estimate that procuring at our intended scale will enable us to achieve our target of a 15 percent reduction in total construction costs over the next three years (when compared to 2016 figures). This is a total cost reduction of \$180 million.

The distribution of net capital expenditure reflects the staged nature of the AHP and the changing focus. The AHP initially focuses on delivering a high volume of state housing to meet our rehousing requirements. The delivery priority increasingly switches to affordable and market housing in years two and three. The net capital expenditure required to fund Phase 1 of the AHP peaks in Years 2 and 3 (2017/18 and 2018/20). This has significant funding implications, given that the growth in revenue generated by the sale of affordable and market homes is forecast to peak in Year 4 of the programme.

The role of HLC

Housing New Zealand's wholly owned subsidiary, HLC, has been mandated to expand its activities beyond the Hobsonville Point land site. Where large-scale redevelopments are being undertaken, as part of the Auckland Housing Programme (AHP), Housing New Zealand and HLC are delivering these together. Large-scale redevelopments are those where we take a holistic view of an area across multiple sites to deliver significant renewal and growth of our portfolio along with community change.

To deliver the AHP as effectively and efficiently as possible, Housing New Zealand and HLC have agreed that our respective responsibilities are:

- Housing New Zealand will continue to focus on delivering fit-for-purpose state homes to meet demand and our tenants' needs
- HLC will focus on large-scale master-planning, civil works, land remediation and commercial land sales, to enable the delivery of market and affordable homes through the sale of redevelopment land.

This change will streamline our engagement with our build partners and stakeholders, such as Auckland Council, facilitate collaboration and give builders and land buyers clarity.

HLC is now working on Housing New Zealand's North Shore land release strategy centred on the Northcote redevelopment. This will deliver over 400 state homes and 800 affordable and market homes through the reconfiguration of 298 Housing New Zealand properties. This equates to a net gain of over 102 state homes. Other areas where HLC is mandated to conduct large-scale master planning are Mt Roskill, [REDACTED]. HLC's role is to lead the master planning and urban design of these large scale redevelopment areas and, once approved, to lead the delivery of affordable and market housing at scale and pace.

3.2.4 The Wellington Build Programme

Wellington City

Housing New Zealand is investing \$48.5 million to build 145 new state homes across five sites in Wellington City. These will be one-bedroom homes designed to meet our state housing demand, which is mostly from single people and couples without children.

Construction work to deliver these new state homes is already underway. The first new properties are expected to be delivered by June 2018. This significant building programme will drive a

transformation of our Wellington portfolio, creating high quality housing designed to meet our tenants' needs. We are also renewing significant levels of our portfolio.

Hutt Valley

Housing New Zealand is delivering 30 new homes at a cost of about \$9.5 million across four sites in Epuni, Waiwhetu, and Naenae. We have also commenced master planning for another 300 properties and anticipate the first of these will be completed by mid-2018. In addition to these new builds, we intend to renew 383 of our existing properties. Of these, 323 are part of a programme to modernize 29 large buildings. The remaining 60 are standalone homes or units in smaller buildings.

Porirua

changes to Transmission Gully providing more entry points; the age of our homes in the area requiring renewal; the demand for housing in the greater Wellington area.

3.2.5 The Regional Housing Programme

In April 2017, the Ministry of Social Development requested that Housing New Zealand increase housing supply by up to 90% of the Purchasing Strategy in eleven areas, many of which were previously considered low demand. The required properties are in the Far North, Whangarei, Hamilton, Rotorua, Whakatane, Gisborne, Hastings, Napier, Palmerston North, Marlborough, and Dunedin⁹.

Responding to this request will require a mix of build and buy activity to deliver over 800 state homes. This is a 7 percent growth in our portfolio of 11,986 properties across these regions. In addition to this new supply, renewal of many of these is required to achieve better alignment to demand, to improve health and social outcomes for our tenants and to reduce future liabilities from an increasingly ageing portfolio.

⁹ Housing New Zealand already has a number of supply initiatives underway in the Wellington Region so this location was not considered as part of this request from the Ministry



3.2.6 The National Construction Pipeline

As at 31 August 2017, Housing New Zealand's total pipeline was 9,351 properties (gross). These comprise 6,168 state, 2,336 market and 847 affordable homes. These figures do not include leases or buy-ins. Nor do they include smaller redevelopment and new build opportunities, yet to be identified, that can be delivered in short timeframes.

The net increase in state housing is dependent on the level of divestment possible and the number of demolitions required for redevelopment. Over 90 percent of the intended homes are in Auckland with the others primarily in Christchurch, Wellington and the Waikato. They do not include the Regional Housing Programme, which is yet to be funded.

Table 3 summarises both the typology of homes (number of bedrooms) anticipated through the pipeline and their stage of development. We are committed to building 1,466 of these (16 percent of the pipeline); including 1,110 state and 356 market or affordable homes. There will be movements in the numbers identified as being in planning, undergoing feasibility testing or in procurement. The focus on 1 and 2 bedroom homes reflects the changing demographic of our tenants and the purchasing intentions. The most common household type is a single parent with children followed by single person households.

Table 3: Stage of development of homes across the pipeline by typology

	Bedsit	1 bed	2 bed	3 bed	4 bed	5 bed	6 bed	TBC	Total
Construction	1	132	363	94	142	17	0	0	749
Contracted	0	136	325	54	175	26	1	0	717
Procurement	14	531	492	134	94	25	1	0	1291
Feasibility	0	906	1,004	661	288	40	3	23	2,925
Planning	0	957	825	601	240	86	1	959	3,669
TOTAL	15	2662	3,009	1544	939	194	6	982	9,351

3.2.7 Challenges to achieving our build targets

There are a number of challenges to achieving our targets for the Auckland Housing Programme. Many of these will also relate to the Regional Housing Programme once it is finalised.

Financing

Housing New Zealand is developing its Long-Term Financial Strategy. The strategy is concerned with Housing New Zealand's ability to fund the renewal and reconfiguration of its national property portfolio. The strategy takes into account:

- Future expectations for the quantity and location of state housing
- The age, condition and renewal requirements of the portfolio
- Our ability to intensify land use and release land to support the supply of market and affordable homes.

The challenge for the strategy is to balance trade-offs between generating internal funds, servicing external finance, and the pace of portfolio reconfiguration, growth and renewal.

Tenant rehousing programme

Central to the Auckland Housing Programme is the redevelopment of properties that are currently occupied. Housing New Zealand has to rehouse these tenants before land is cleared for development. Much of the initial new state housing is required for this purpose rather than meeting new demand. This is likely to be less of a challenge for the Regional Housing Programme due to its blended approach and limited opportunities for intensification to the same level as in Auckland.

Infrastructure limitations

Significant population growth in Auckland is applying pressure on its existing infrastructure. This requires careful planning with Auckland Council to ensure any infrastructure investment is aligned with Housing New Zealand's plan to increase its housing supply. The infrastructure limitations for the Regional Housing programme will vary dependent on the local council and context.

Sector capacity

We anticipate that the capacity of the construction sector and our private build partners to deliver the Auckland Housing Programme will grow. Our ten year delivery programme will allow us to make long term commitments to the sector, giving them confidence due to the surety of work.

Ensuring our redevelopments deliver fit-for-purpose homes

It is important that all Housing New Zealand redevelopments deliver the right types of properties, in the right places and to a high quality. This means taking the time to work through a range of issues such as demographics, permitted housing densities, the existing concentration of state housing, the likely impact on the community, infrastructure requirements, and other Council requirements such as consents.

Measuring performance

We are focussed on improving construction performance through a range of initiatives. It is also important to understand construction timelines do not match financial years and as such annual target setting and monitoring can be problematic. We are looking at different ways of measuring our construction performance beyond year end targets as these do not measure value for money.

3.2.8 Contributing to housing affordability through our build programmes

Housing New Zealand can contribute to housing affordability in two ways: through a reduction in construction costs and through the provision of a range of home ownership products. We are currently working on an Affordable Housing Strategy.

Reducing construction costs

Leveraging our large scale delivery programmes allows us to achieve economies of scale and reduce costs in our new builds, while retaining quality and improving performance. This also enables us to support the overall reduction of costs across the building and construction sector and to contribute to housing affordability.

Building more homes over a longer timeframe will involve multi-year contracts that reduce the risk involved with investing in cost saving capital and will provide certainty when hiring (including apprenticeships). Suppliers will be able to reduce margins and explore innovation to further reduce costs. This will include infrastructure suppliers. Our supplier strategy is being developed to maximise this advantage.

We are currently investigating a number of cost-saving options including:

- *Increasing the standardisation of design and build components.* A standard set of designs will speed up consenting, allow the procurement of build components at scale, and lower professional and local government fees cost. We are reviewing design issues that impact on cost, such as interior layout and room sizes. This will reduce the overall cost and cost variation between projects.
- *Modular housing and pre-fabrication.* Housing New Zealand has created a modular/pre-fabrication panel to explore these construction methods. Factory building and pre-fabrication minimise weather delays, result in better health and safety conditions, reduce waste materials and provide for more consistent delivery.
- *Supplier Strategy.* The time and volume of our build programme will enable us to negotiate better labour costs and margins from buildings through the surety of work provided. The construction pipeline will allow suppliers more confidence to grow, invest in new capital and labour, and reduce waste materials.

- *Intensification*. Building to higher densities will reduce the cost of land per dwelling, while achieving the quality standards necessary to enable commercially viable market sales.
- *Eliminating margins*. Eliminating valueless margins such as development margins around sales risk will also reduce cost.

Undertaking these initiatives is designed to assist us to achieve the following targets:

- Cost savings of \$180 million on our build programme
- Significantly reduced build time and costs over the next four years
- Reduced compliance time and costs
- Reduced on-going OPEX costs in relation to maintenance
- Improved tenant experience and quality/cost of living
- Increased durability and sustainability of our homes
- Increased time and cost certainty.

Enabling home ownership

3.2.9 Delivering Emergency, Transitional and Community Group Housing

The Emergency Housing Response Team

In late August 2016, the previous Government established a cross-agency Emergency Housing Response Team to ensure sufficient supply of emergency in specific locations. The team is led by the Ministry of Social Development and comprises the Ministry of Business, Innovation and Employment, Treasury, Housing New Zealand, Auckland Council, Ministry of Education, and the Ministry of Defence.

In October, 2016, the previous Cabinet directed the cross-agency Emergency Housing Response Team to secure an additional 1,400 emergency housing places across New Zealand (with 600 of these being in Auckland). This was in addition to the approximately 750 already in place when the

target was announced. Options to achieve this target include the use of surplus Housing New Zealand and Community Group Housing properties, direct contracting with motels, leasing and/or purchasing properties or land for new builds.

Cabinet also approved additional capital funding of a loan to Housing New Zealand of \$100 million to be repaid within 10 years (which is fiscally neutral). Authority was delegated to the Minister of Finance and the Minister of Social Housing to approve proposals to use capital to purchase properties, fund construction or purchase land for this purpose.

Housing New Zealand Support

Our role as a member of the cross-agency team is to secure a portion of the additional emergency housing places across New Zealand. We are not responsible for the tenancy management of these emergency homes.

A dedicated Housing New Zealand team has been tasked with:

- Delivering a portion (approximately 400-500) of the 600 emergency housing places across Auckland during 2017
- Delivering a portion (approximately 50-100) of the 800 emergency housing places in specific locations outside of Auckland during 2017
- Ensuring business readiness by: assessing and defining business requirements; designing, testing and implementing process and system changes; managing the transition of these changes to relevant business units.

Progress to date

As at 30 June 2017, Housing New Zealand had contributed 363 emergency housing places towards the cross agency team's target. Of these:

- 255 new emergency housing places were in Auckland
- 108 new emergency housing places were in other selected areas across New Zealand, as determined by the Ministry.

A number of projects are already in progress for completion in the first half of the 2017/18 financial year. These are:

- A further 222 emergency housing places in Auckland. 113 of these places are estimated to be completed during the first quarter and the remaining 109 by the end of the second quarter.
- A further 40 emergency housing places across New Zealand. 21 of these places are estimated to be delivered during the first quarter and the remaining 19 by the end of the second quarter.

Transitional Housing provision

The transitional housing programme is led by the Ministry of Social Development and Housing New Zealand. The initiative is part of the cross-agency Emergency Housing Response Team's efforts to increase the number of places in Auckland and across the country. It involves local councils and emergency housing providers across New Zealand.

Transitional housing provides short-term housing for families who have an urgent need for a place to stay. As part of the programme, families come in for around 12 weeks. Emergency housing service providers supply wrap-around support services while they are there. Tenants pay up to 25 percent of their income in rent. This is in line with income-related rent subsidies for social housing.

Luke Street, Otahuhu

Housing New Zealand constructed the first Auckland transitional housing development in Luke Street on vacant Ministry of Education land. The development includes 43 homes. These are a mix of two, three and four-bedroom homes. They will house families matched from the Social Housing Register. These homes are able to be moved to other sites as required and the land returned to the Ministry of Education.

Three providers manage the tenancies and provide support to the families living there. Examples of the services and support provided to the families include:

- Ensuring children are in school
- Diabetes bus visits
- Plunket bus visits
- One-on-one financial literacy sessions
- Provision of fresh fruit and vegetables
- Social work, advocacy support, and assistance with translation.

The first three families were housed in late February 2017 and a further nine in mid-March. Construction was completed in June. In July, four families had already moved into more sustainable long-term housing.

Other sites

- A 15 unit transitional housing complex was opened in Glen Eden in December 2016.
- A 72 unit development of eight separate blocks has been built in Papatoetoe. Each block comprises nine studio units, a communal living area, kitchen and laundry.
- Six transitional homes are being built on vacant Housing New Zealand land in Kepa Street, Orakei. The homes are modular in design and readily moved to other locations. They are expected to be on their current site for three to five years.

Community Group Housing provision

We rent our homes to government-funded community groups that provide a variety of services such as long term residential care and transitional and emergency housing. The Community Housing Programme comprises 1,480 homes, providing 4,777 bedrooms across 203 groups. We also currently provide rent support to providers through the Community Housing Rent Support appropriation.

During 2016/17, the programme added 27 properties to the Community Group Housing portfolio through new builds, buy-ins, redevelopments or renewed/re-signed leases. These properties were provided to 13 different community groups across the country.

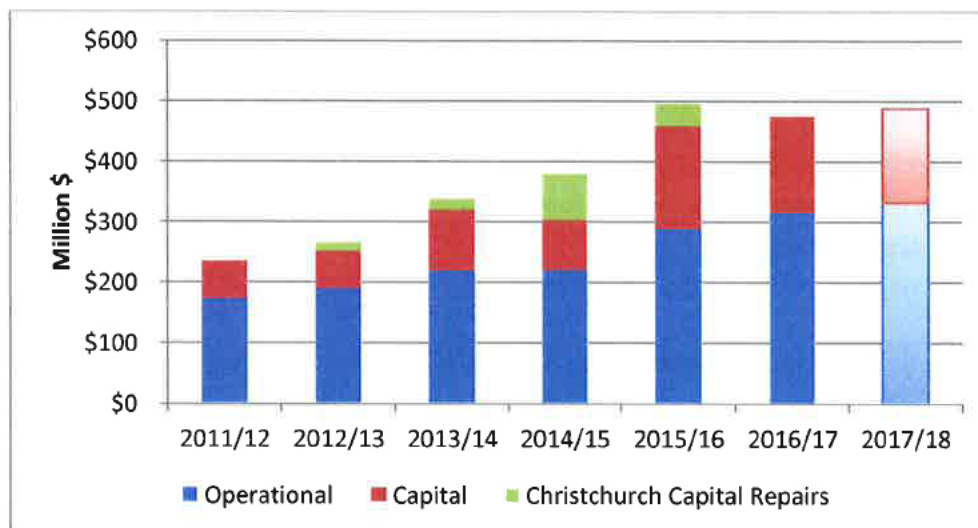
3.2.10 Maintenance and renewal

The Maintenance and Renewal programme is one of the three programmes implemented through our Asset Management Strategy. The others are New Supply and Disposals.

Maintenance focuses on maintaining the condition of housing at agreed service levels, while renewal focuses on improving the performance of housing from either a lifecycle or a tenant outcomes perspective. These are not mutually exclusive groups of activity and some programmes overlap. Activities undertaken include routine and planned maintenance, responsive and vacancy repairs, upgrades, retrofit and complex remediation.

In 2017/18, Housing New Zealand anticipates spending \$488 million of operating and capital funding on maintaining, upgrading, and retrofitting the portfolio. Similar amounts were spent in the preceding two financial years. As demonstrated in Figure 3 this is a marked increase over previous years and reflects the growing effect of our ageing portfolio. The capital repairs for Christchurch were funded separately.

Figure 3: Expenditure in millions of dollars for each financial year.



Housing New Zealand contracts maintenance services through the Performance Based Maintenance Contract. This is a regional contracting model which was revised in 2014. The current model took effect on 1 July 2014 with a five + one year term. The contract can end at 30 June 2019 or, at Housing New Zealand's sole discretion, on 30 June 2020.

Assessing and monitoring housing condition

In order to successfully maintain and improve the quality of our homes it is essential that we have a robust understanding of their current condition. This is assessed and monitored through:

- An annual health and safety inspection
- An annual visit by the tenancy manager

- Inspections when a tenant vacates a property
- Desktop and physical condition survey (discussed below).

Our contractors also provide useful information based on the maintenance work they undertake.

Desktop and physical condition survey

During 2015/16, we developed a new Property Condition Assessment Framework to assess and measure the property condition of our homes. The framework is a composite of a desktop model assessment of each property along with a physical survey on a random representative sample of properties. The desktop model assessment uses records of maintenance and upgrades building activity to identify the age of a property's critical components and their remaining life. It should be considered a conservative view of overall condition.

The framework uses the New Zealand Asset Management Support (NAMS) Asset Condition Scale to assess condition. The five point scale ranges from 1= Excellent (sound physical condition; no work required) to 5 = Very Poor (failed or imminent failure; major work or replacement required urgently).

The desktop model assessment for 2016/17 covered 57,983 properties and recorded an average score of 2.70 compared with 2.68 (Average¹⁰) for the previous year; 82 percent of the portfolio met the baseline standard compared with 85 percent in 2015/16. The slight deterioration in condition grade is a result of the combined effect of the continual ageing of the existing portfolio and reduced divestment of ageing properties, balanced with the delivery of new builds and increased levels of investment to upgrade our homes.

The annual physical survey was carried out by qualified contractors and covered 1,600 properties randomly chosen across Whangarei, Auckland, Hamilton, Wellington and Dunedin. The average condition grade for these properties was 1.68 (Good¹¹) and showed that 100 percent of our surveyed lettable properties met or exceeded the baseline standard. The difference between this result and that of the desktop model is primarily the difference between the two approaches and the level of accuracy possible through a visual assessment. We will continue to reconcile the two results by mapping historical component failure points to test life-cycle norms.

Retrofit

A significant number of our properties, while of a suitable type and location to meet current demand, are in need of renewal if they are to meet the standards expected for modern state housing and to be financially sustainable, long-term rental properties. Many have limited redevelopment potential under current planning rules. This means the renewal options available are to sell and replace them with newly built housing elsewhere, or to retrofit them as close to modern standards as practical.

Retrofit can be a more cost effective option than replacement. A key driver for retrofit is improving the performance of our homes and achieving associated health, social and financial benefits for our tenants. It includes activities such as adding double glazing and wall insulation.

¹⁰ Some deterioration evident; Failure unlikely in the near future.

¹¹ Acceptable physical condition: Minimal short-term failure risk: only minor work required (if any)

Housing New Zealand has an already established programme for retrofitting large buildings (complexes) to bring them as near as possible to modern building standards (the complex remediation programme). We have plans to trial small building retrofit options in 2018, starting with at least 60 homes of different types in the Hutt Valley. Following this pilot project, Housing New Zealand will prepare a programme case.

Responsive repairs

Responsive repairs are those needed as a result of component failure, damage, natural causes, or wear and tear. These repairs are commonly phoned through to the Customer Services Centre by tenants, identified by tenancy managers and logged via our new mobility application, or identified by our contractors.

Responsive repairs are prioritised according to the urgency of the work required. The number of work orders completed for responsive repairs over 2016/17 was 449,305. We completed 6,890 work orders for vacancy repairs in the same time period. These are increases on 2015/16 when we completed 405,509 responsive work orders and 6,369 vacant repairs.

Planned maintenance

During 2016/17 we completed a comprehensive planned programme of maintenance work, including continuing to install and upgrade chattels, remediating significant buildings and replacing critical components in properties that will be held long term.

Table 4 summarises the breakdown of our expenditure across a number of our planned programmes for the 2016/17 financial year. Further information on the key programmes is included below.

Table 4: Expenditure during 2016/17 financial year for planned programmes of work

	2016/17 Actual spend (\$m)		
	Operating	Capital	Total
Warm and Dry	5.4	19.6	24.9
Complexes Remediation Programme	4.4	2.7	7.1
Exterior Painting	39.8	-	39.8
Roofing replacements	0.7	13	13.7
Boundary Fencing	4.8	0.4	5.2
Driveway Safety	0.7	3.3	4.0
Total	55.8	39.0	94.7

Ensuring our homes are warm and dry

The targeted Warm and Dry programme began in June 2015 and was transferred to a business as usual activity in July 2016. Through this programme we have upgraded over 25,000 properties. These were predominantly older properties not addressed through other programmes and larger homes where children are most likely to live.

The amenities provided, through the Warm and Dry programme and other similar work programmes, are summarised in Table 5. From June 2015 to June 2016 approximately \$79 million was spent installing these amenities in our properties, including targeted expenditure on the Warm and Dry programme.

Table 5: Amenities provided at June 30 2017

	Number of Homes with amenity	Percentage of total portfolio
Carpet	56,446	92%
Curtains	44,590	73%
Heaters	61,354	100%
Kitchen Rangehoods	36,609	60%
Bathroom Extractor Fan	33,083	54%

All Housing New Zealand homes built before 2000 (when mandatory insulation requirements were introduced) have been retrofitted with underfloor and ceiling insulation except when this is not possible due to the design of the building.

Our intention is to upgrade all properties to the following standards:

- Triple weave curtains in living areas, dining rooms and bedrooms
- A fixed form of heating in the living area where an acceptable heating source is not present
- An extraction fan in the bathroom and a range hood in the kitchen (for properties with 3 or more bedrooms)
- Carpet or vinyl installed over bare floors.

The Complexes Remediation Programme

Our large buildings (two or more storeys with ten or more adjoining units) require a different maintenance approach to our standalone properties. During 2016/17, we targeted maintenance work on several of these buildings. This included the completion of work on six multi-unit complexes in Auckland. We have a further 21 complexes across the country that are currently undergoing remediation work. This programme is scheduled to continue over the next four years with the focus for 2017/18 being on commencing remediation work on buildings in the Wellington/Hutt Valley region.

Improving Driveway Safety

Our driveway safety programme ensures our properties are safe for young children. The programme includes the installation of gates and fences at Housing New Zealand properties. The programme initially aimed at completing upgrades on 13,000 properties nationwide over the four years to 2016/17. We have now completed upgrades on 16,168 properties since the programme commenced. We will continue to carry out this type of work for the 2017/18 year as part of our planned programmes.

Earthquake Prone Building Programme (complete)

An earthquake prone building is one that has two or more storeys and three or more dwellings that meets less than 33 percent of New Build Standards under the Building Act 2004. A comprehensive programme was implemented to strengthen or demolish buildings depending on economic feasibility. Funding for this programme came from the planned maintenance budget.

Housing New Zealand, as a responsible landlord, made the decision to demolish 101 earthquake prone buildings (427 dwellings) across the country. Lower Hutt was particularly affected due to

the high number of potentially earthquake prone buildings and the high local earthquake risk. We strengthened and modernised a further 159 buildings (640 dwellings) across the country at a cost of \$47 million.

Methamphetamine management

Housing New Zealand has a leadership role to play in assessing how to tackle the issues around chemical contamination caused by methamphetamine use and manufacture.

Our methamphetamine programme has been set up to develop practical, effective solutions to deal with the increasing impact on our properties. The programme focuses on developing a risk profile for methamphetamine, ensuring staff have the right information and tools and contributing to Government and industry standards.

We have developed partnerships with the New Zealand Police through the Gang Intelligence Centre. We also engage with other organisations looking to develop strategies to tackle the effect of contamination on our homes, as well as the general health and social impacts of methamphetamine use.

We have recently reached an agreement with the Institute of Environmental Science and Research to provide them with access to contaminated Housing New Zealand properties. This will help develop better techniques for understanding the dispersal of methamphetamine, and improved testing processes.

Guidelines for methamphetamine in homes

Housing New Zealand has adopted *New Zealand Standard 8510: Testing and Decontamination of Methamphetamine Contaminated Properties*. The standard was developed by a committee of 21 experts across relevant industries in the public and private sector and announced in June 2017. The standard sets the maximum acceptable level of methamphetamine in an affected property at 1.5µg/ 100cm² after decontamination.

The new standard has set a maximum level of methamphetamine contamination three times higher than the maximum within the previous Ministry of Health Guidelines. Housing New Zealand estimated in June 2017 that 40 to 60 percent of properties that exceeded the previous guideline would fall below the new standard threshold.

The 2016/17 year

During the 2016/17 year, we spent \$52 million on chemical testing, decontamination, and reinstatement/demolition costs. In the process we tested over 2,000 of our properties. We improved the time taken to test these from an average of 28 days in 2016 to 14 days at 30 June 2017.

This reduction in time has enabled us to reduce the number of homes unavailable for letting, due to contamination, from 525 in June 2016 to 265 as at 30 June 2017. A total of 19 homes had to be demolished due to high levels of contamination in the 2016/17 financial year.

3.2.11 Managing vacant properties

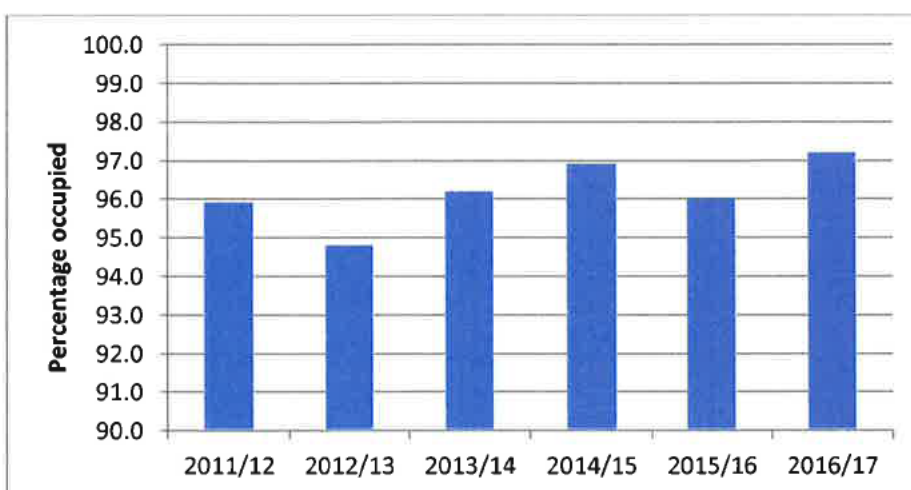
We are working to reduce both the number of vacant properties and the length of time they are vacant. A certain level of vacant properties is normal and to be expected through tenant turnover.

In the medium term, both vacant properties and vacant land may increase as we progress the large scale development of occupied sites.

Vacant properties are classified as either long-term, short-term or SLEDs (Sale, Lease Expiries, Demolitions). Improving the turnaround time between tenancies is a key focus for Housing New Zealand. In 2016/17, the average year-to-date turnaround time nationally was 34 days against our performance target of 35 days. This figure continues to decrease.

There has been a downward trend in overall vacancies since September 2016, when the total number of vacancies was 2,490. This compares with 1,592 at June 30 2017, of which 1,562 were social housing and 30 were community group housing. The downward trend is for both short-term (774 c.f. 528) and long-term¹² (1628 c.f. 1064) vacancies. The result is the highest ever annual recorded occupancy rate in 2016/17 at 97.2 percent.

Figure 4: Average occupancy rate by financial year



Long-term vacancies

Properties are categorised as long-term vacancies when we anticipate their eventual return to the letting pool. Long-term vacancies can occur pending redevelopment, during renewal and maintenance activities, and pending provider handover.

As at 30 June 2017, there were 886 long-term vacancies. The majority of these (703) were undergoing some form of renewal and maintenance, including 265 methamphetamine contaminated homes and 73 suspected of contamination and due for testing.

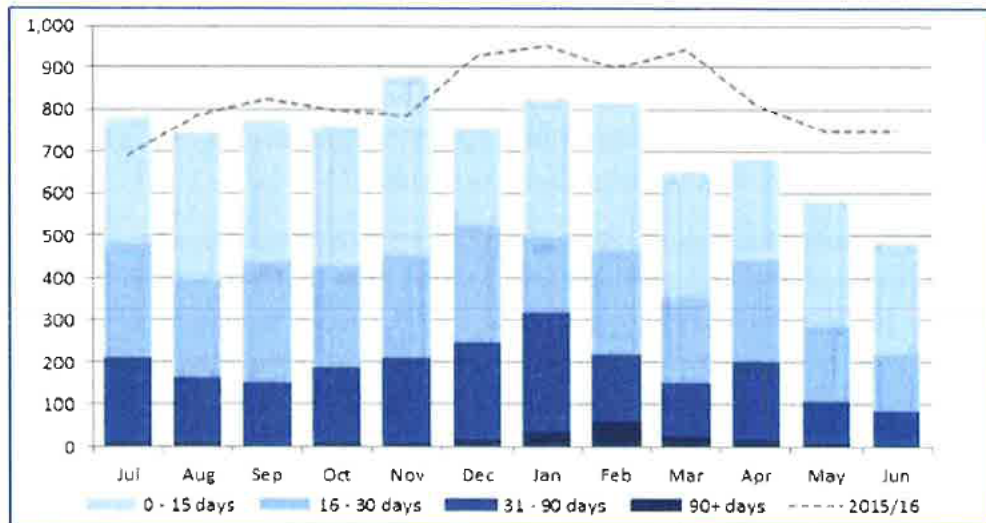
Short-term vacancies

Short-term vacancies are those available to be re-let; they are either 'ready to let' or 'under repair'. As of 30 June 2017, there were 41 homes 'ready to let' and 487 'undergoing repair'.

Figure 5 summarises short-term vacancies by length of time vacant for the 2016/17 financial year. It demonstrates the extent to which the overall trend has improved from 2015/16.

¹² This number includes both long-term vacancies and SLEDs. The latter classification was not used in 2016.

Figure 5: Short-term vacancy numbers (under repair)



SLEDs

SLEDs (Sales, Lease Expiries, Demolitions) are properties that are vacant and will not be returned to the letting pool. As at June 30 2017, a total of 178 state homes were categorised as SLED. Of these:

- 133 were pending demolition for redevelopment, earthquake prone or fire damaged
- 35 were lease expiries (the majority due to the owner not wanting to renew the lease)
- 10 were pending sale.

Improving turnaround time in Auckland

In January 2017, Housing New Zealand and the Ministry of Social Development signed the first variation to the Income-Related Rent Subsidy Agreement. This contract variation was designed to improve the turnaround time for short-term vacancies in Auckland. It allows for the Ministry to pay Housing New Zealand the market rent for properties vacant up to 15 calendar days. After 15 days, Housing New Zealand has to pay compensation to the Ministry of \$100 per day for every vacancy unfilled. This was effective from 1 April 2017.

The Auckland Void Programme was designed to meet this requirement and was fully implemented in May 2017. This programme redistributes the relevant work across three different work orders: before the home becomes vacant, while it is vacant and post re-tenanting.

Specialists in each of the area offices undertake joint scoping with contractors and provide oversight to ensure properties are returned to the lettable standard and re-let in significantly shorter timeframes than previously. Over the three month period, from the programme being introduced in April to 30 June, we achieved an average turnaround time in Auckland of 23 days.

For the year to 30 June 2017, 28 percent of properties met the 15 day target for turnaround times. However, for the month of June the figure was 36 percent reflecting the overall improvement made since the programme was introduced. Figures have continued to improve with 75 percent in July and 66 percent in August. The year to June figures equate to a net receivable balance from the Ministry to Housing New Zealand of \$25,646.

3.2.12 Vacant Land

Housing New Zealand vacant land

Due to the focus on efficient use of Housing New Zealand assets, it is important to understand the nature and extent of the vacant land we hold. Vacant land is defined as land that housing can be built on, that does not have a completed dwelling on it. It excludes land for access strips, car parks and garaging, or underutilised land. A methodology has been developed to record and report vacant land across three categories: redevelopment, pending decision, and strategic hold. This is currently being implemented and will enable ongoing reporting of the status of Housing New Zealand vacant land.

About 64 hectares of Housing New Zealand land was vacant at April 2017. This is approximately 2 percent of the 3,500 hectares of Housing New Zealand land across the country. Over half of our vacant land (36 hectares) is under redevelopment, including having homes under construction. The largest area under redevelopment (27 hectares) is in Auckland.

The remaining vacant land is under consideration for redevelopment, based on the Ministry of Social Development's demand forecasts and purchasing intentions, or is subject to negotiations with development partners including Iwi that, in many cases, have a Right of First Refusal over the land. A small amount of vacant land is potentially surplus to requirements, is being sold, has impediments to construction such as unstable land, or has yet to have its future use determined. Less than 1 percent of our vacant land (approximately 28h) is currently vacant without a development planned or underway.

3.2.13 Divestments

Divestments are an important function of good portfolio management. They support both the renewal of the portfolio and its realignment with demand. Divestments can occur through sales, lease expiries, or demolitions. Any decision to divest a property takes into account the Ministry of Social Development's purchasing intentions and the level of demand in the area. Also considered is the extent to which the property may be appropriate for emergency housing.

Housing New Zealand will only sell state homes when it is clear there is no current demand, the property is not needed for emergency housing, or is not fit-for-purpose to be tenanted. In previous years, we have had the opportunity to divest older homes in low-demand areas and contribute the capital from those sales to the building of new, fit-for-purpose homes in areas of high demand. However, in line with increasing demand for state housing across several parts of the country, sales completed this year were fewer than in the past.

Demolition will occur when a redevelopment is planned, or when a property is damaged beyond repair, usually due to fire or methamphetamine damage. We will also hand back leased properties at the end of their contractual term if they are not fit for purpose or if the owner is not willing to renew the lease.

Over the 2016/17 year the following divestments occurred:

- 308 properties were sold, including 163 through our FirstHome and Tenant home ownership products

- 136 leases were not renewed (primarily because the leaseholder did not wish to)
- 480 properties were demolished.

Treaty of Waitangi settlement legislation has resulted in right of first refusal (RFR) over around 11,000 Housing New Zealand properties. The RFR ensures that when disposing of surplus property, the property is first offered to Iwi. If Iwi refuse to purchase any RFR properties they can be sold on the open market. (See Section 4.3.3 for more information)

3.3 The Social Housing Reform Programme (SHRP)

3.3.1 Background

The Social Housing Reform Programme (SHRP) arose from the recommendations of the Housing Shareholders Advisory Group in 2010, and has been a significant cross-agency programme since that time. In line with the expectations of the previous Government, Housing New Zealand has been a key enabler of the SHRP objectives and is a member of the inter-agency SHRP governance structure.

The objectives of SHRP, as codified in the Housing Corporation Act 1974 as amended in 2016, are that:

- People who need housing support can access it and receive social services that meet their needs
- Social housing is of the right size and configuration, and in the right areas, for households that need it
- Social housing tenants are helped to independence, as appropriate
- There is more diverse ownership or provision of social housing
- There is more innovation and more responsiveness to social housing tenants and communities
- The supply of affordable housing is increased, especially in Auckland.

The main strands of SHRP have included:

- Transferring responsibility for assessment, register management and payment of income-related-rent subsidies (IRRS) from Housing New Zealand to the Ministry of Social Development
- Setting up the Ministry of Social Development as an independent purchaser of social housing places from Housing New Zealand and registered Community Housing Providers
- New contractual and funding settings to generate new supply, particularly in Auckland
- New products and initiatives to facilitate applicants and tenants moving towards independence or sustaining their tenancy as appropriate
- Property transfers from Housing New Zealand to Community Housing Providers
- Emergency and transitional housing response

- Better information to drive decision-making.

3.3.2 Treasury-led housing transfers

Treasury has managed the transactions that are executed under the transactions mandate provisions of the Housing Corporation Act 1974, as amended in 2016. The Ministers 'step into the shoes' of Housing New Zealand to make the relevant decisions.

Housing New Zealand provided support by making information available to bidders and communicating with its tenants and staff (including those potentially affected by the transfers). We developed strategic dossiers outlining the background information on portfolios and their tenants and our views on what a successful transaction should look like.

Completed transfers

There have been two transfers (of tenanted properties) to date:

- On 1 April 2016, 2,800 properties in Tāmaki were transferred from Housing New Zealand to the Tāmaki Redevelopment Company
- On 31 March 2017, 1,138 properties in Tauranga were transferred from Housing New Zealand to Accessible Properties Ltd. This transaction left Housing New Zealand with 230 homes in Tauranga and Katikati that are uneconomic on their own to service. These homes were not transferred because they were subject to Right of First Refusal or because they were leased from private owners.

Proposed transfers

Christchurch

At present the social housing market in Christchurch is serviced by Ōtautahi Community Housing, owned by the Christchurch City Council, (2,300 units) and Housing New Zealand (5,900 units). Treasury has been leading the proposed transfer of up to 2,500 of the Housing New Zealand properties. The transaction process has reached the Request for Proposal stage.

Challenges faced by Housing New Zealand

While largely supportive of its objectives, there were challenges for Housing New Zealand in the implementation of SHRP.

- An important goal was to establish the pre-conditions for a more market driven approach to social housing. This required Housing New Zealand, other agencies, and Ministers to consider Housing New Zealand's role vis-a-vis other providers. While there is a short-term 'pipeline' of transactions, the previous Government had made no decisions about the 'end state' it was seeking in terms of the size and role of Housing New Zealand.
- Housing New Zealand needs to consider the consequential impacts of transactions, e.g. managing 'isolated tenancies' at the periphery of the transferred areas, which still need to be served by Housing New Zealand. As noted above, this has occurred in Tauranga.

3.3.3 Working with Community Housing Providers to build sector capacity

Under the 2017 Letter of Expectations, and in line with our role as a social housing market leader, Housing New Zealand was invited to take a lead in developing smaller-scale transactions. This was to support the capacity and capability of Community Housing Providers.

Housing New Zealand has received a number of expressions of interest from Community Housing Providers and Iwi. We have been working through what the principles and parameters for negotiating such transactions might be, including a procurement disposal model. Any transactions would involve us working with the Ministry of Social Development to ensure that tenant interests are protected through a capacity contract.

There is likely to be a spectrum of arrangements, whereby Housing New Zealand can act in a business-like way (under the Board's statutory mandate), while building sector capacity and capability. These include full title and tenant transfers, various leasing models, and Housing New Zealand contracting directly with other providers to provide tenancy management and/or other services. Housing New Zealand would like to discuss this programme with the appropriate Ministers.

3.3.4 Ministry of Social Development purchasing and contracting arrangements

Purchasing intentions

Under the current Crown Social Objectives, Housing New Zealand is required to align its asset and tenancy management decisions with the Ministry of Social Development's contracting framework and purchasing intentions. Housing New Zealand supplied data to the Ministry during the development of their 2015 and 2016 purchasing intentions.

The two agencies have liaised closely with respect to how the purchasing intentions are used to guide Housing New Zealand's investment and divestment decisions. We are formalising a consultation process with regard to divestments, to enable joint solutions to meeting purchase intentions.

One area that has been identified for future refinement is the development of a more sophisticated demand forecasting tool. Housing New Zealand can contribute expertise in this area through the utilisation of our ten year demand forecasting model and through our understanding of our tenants and their needs.

The Income-Related Rent Subsidy (IRRS) Agreement

Social housing tenants pay rent capped at a percentage of their assessable income up to a certain threshold. Where a tenant's assessable income is above the threshold, they pay progressively more rent until the market rent is reached. In April 2014, responsibility for assessing income-related rent was transferred to the Ministry of Social Development.

The Ministry reimburses Housing New Zealand for the difference between the income-related rent and the market rent. From 2014/15 there is one appropriation to fund the IRRS for Housing New Zealand and Community Housing providers. As of June 2017, the Ministry reported a total of 62,926 IRRS places, of which 93 percent were Housing New Zealand placements.

As part of its purchasing role, the Ministry is in on-going discussions with Housing New Zealand about how the more flexible arrangements now available could be used to meet SHRP objectives. This would involve variations to the current 'IRRS Agreement' under which the Ministry pays the IRRS to Housing New Zealand. Any contracts would need to be agreed to by both parties, and the back-stop is the status quo.

The first variation to the IRRS Agreement, signed in January 2017, was designed to improve the turn-around time for short-term vacancies in Auckland. As discussed in Section 3.2.10, this has been successful in reducing the average number of days a house is vacant.

Broader contractual settings



3.4 Operating as a High Performing Organisation

To be successful across each of our four roles (social housing landlord, contributing to the affordability and accessibility of housing, providing transitional housing, being a market leader in social housing) we also need to ensure our organisation is functioning well. Our Strategic Plan sets out how we will change our organisation to ensure that it is positioned to deliver on our priorities.

The way in which we have thought about our response to our direction is through the framework of becoming a high-performing organisation (HPO). The HPO framework outlines four key qualities and characteristics of high performance for an organisation:

- Being strategy driven
- Brilliant and engaged people
- Being operationally excellent
- Being efficient.

These characteristics sit alongside three underlying attributes: reputation; health safety and security; behaviours and attitudes.

3.4.1 Developing a new Customer Strategy

Housing New Zealand is currently developing a Customer Strategy that is focussed on identifying better and more effective ways of meeting our tenants' needs. Key deliverables for this initiative include:

- A stratified (cohort) assessment of our tenants that may reflect, for example, different demographic factors, cultural perspectives, behavioural characteristics and/or health needs
- Understanding the prevalence of these cohorts across different regions and developing estimates of the potential changes over time
- Investigating potential interventions for different cohorts and the efficacy of those interventions
- Investigating potential service delivery models including identifying key partners to support service delivery models and potential funding to support additional or alternative services
- Investigating and delivering investments in assets that are tailored to specific cohorts.

3.4.2 Service delivery model review and implementation

We will review our current service delivery once we have a clearer understanding of our tenants' needs and our new Customer Strategy is finalised. We need to understand, based on evidence, if a broader set of services are required and review options for ensuring access to these services.

Immediate work is needed on our delivery model to inform design decisions around our asset development programme, particularly to ensure that large scale developments are designed to operate well for the people living in them. We will also continue trialling delivery models for existing buildings with known tenancy issues.

3.4.3 A Long-Term Financial Strategy

Overview

Housing New Zealand operates in a residential housing market characterised by high construction costs, variable land costs (ranging from very high in urban centres, to very low in provincial areas), and high levels of speculative investment predominantly driven by real or perceived capital gains (which are typically not accessible to Housing New Zealand as a long-term landlord).

In this context as a long-term landlord, it is important to note that rents are not sufficient to meet the total costs of supply, which includes the costs of land, buildings, rates, insurance, tenancy services, repairs and maintenance. In some markets, rents are not even sufficient to cover operating costs, let alone costs of land and buildings.

Housing New Zealand is generally able to manage these gaps by leveraging its balance sheet, including through: targeted sales in poorer performing areas; the sale of high value land; the intensification of land use (particularly in Auckland); free rental cash flows stemming from having limited debt; a shareholder willing to forego surplus payments.

However, as our business changes and in particular as we look to increase the supply of state housing across the country, and renew our ageing portfolio, it is crucial that we understand the implications for long-term financial sustainability, through the development of a long-term (30 year) financial strategy.

The strategy will take into account:

- Future expectations for the quantity and location of state housing
- The age, condition and renewal requirements of the portfolio
- Our ability to intensify land use and release land to support the supply of market and affordable homes.

The challenge for the strategy is to balance trade-offs between generating internal funds, servicing external finance, and the scale and pace of portfolio reconfiguration, growth and renewal.

Key considerations

The Long-Term Financial Strategy will enable Housing New Zealand to assess the financial and functional needs required to meet our long-term investment objectives and ensure the long-term sustainability of the organisation. We need to have a clear understanding of how each significant output/investment will be funded. Our key challenges from a financial perspective include:

- The age of our portfolio and the need to renew 75 percent of our portfolio over the next 20 years
- Meeting commitments under the Auckland Housing Programme
- The recently emerging, but significant growth in housing requirements right across the country, including in many areas with very low historical demand

- The cash challenges of operating in a number of regions with low market rents, requiring cross-subsidies from better performing markets (a heightened issue when there are constraints on sales in these areas)
- The increasing proportion of our tenants with complex needs which is adding to the financial pressures placed on Housing New Zealand.

These programmes rely upon the following sources of funding:

- Net rental revenue from new or renewed state homes and from the broader Housing New Zealand portfolio
- Revenue from the sale of land for the development of affordable and market housing alongside new state housing on Housing New Zealand land (particularly in Auckland)
- Revenue from divestment of surplus assets that are functionally obsolete, or which are no longer aligned with state housing demands
- Sales of assets in high value areas and replacing them with assets in lower cost areas, and/or replacing lower yielding assets with higher yielding assets in higher demand areas.

In addition, there are a number of operational improvements which will help manage funding demands. In this regard, we are particularly focussed on reducing the costs of construction. The scale of our programme of work means this is a significant lever for addressing funding challenges.

Regional housing programme

The increased demand for state housing in the regions has emerged since we released our 2016 Asset Management Strategy, and has had a significant impact on the assumptions underlying this strategy.

We are currently realigning our Asset Management Strategy with the Ministry of Social Development's purchasing intentions and the need to significantly limit our divestments.

3.4.4 Organisational capability assessments

Treasury's Investor Confidence Rating Review

This was the most significant assessment undertaken. It is completed every two years and assesses how investment-intensive government agencies, such as Housing New Zealand, manage their investments and assets. We achieved one of only four 'A' ratings given to assessed agencies. This 'A' rating is a result of a well performing portfolio and reflects our improved capability and performance in recent years. An outstanding action from the review is renegotiation of consultation thresholds with Treasury and the Minister.

Gallup's engagement survey

It is important that we have a clear picture from our staff about what it is we do well and where we can improve. This year we achieved an employee engagement score of 4.09 (compared to 4.06 achieved in 2015/16) using Gallup's engagement survey. The latest result, while behind our aspirational target of 4.30, shows we have sustained the gains made over the last three years and places us at the 65th percentile for all New Zealand workplaces participating in the Gallup survey. We had an excellent participation rate with 92 percent of all employees participating.

Organisational health survey

In late 2016, we also undertook a broader organisational health survey involving a more in-depth assessment of our current state in terms of our culture and the way we work from the perspective of our staff. We have used the survey results, along with our Gallup results, to help us understand the strengths that we can continue to encourage and build upon, as well as our key challenges and how we can overcome these. This has informed the development of the framework we will be using for our four-year strategic change programme.

3.4.5 Our workforce

We have been working to improve the tools, training and coaching available for our managers to help them develop high-performing teams. We have developed a professional qualifications framework for our Tenancy Managers and Customer Support Advisors. Participating Tenancy Managers are expected to graduate with the New Zealand Certificate in Residential Property Management by February 2018. During the past year, a comprehensive new blended learning programme, to support managers and leaders in their development, was also designed. This is currently being piloted.

A new Learning Management System (LMS) was rolled out across the business in 2016/17. Core modules include a strong health, safety and security focus. We will continue to add development tools and programmes that will assist staff to develop both in their current role and for future opportunities within housing or the wider public sector. At the same time, we will continue to build capability across all functions to ensure we have a depth of talent for critical roles.

During 2016/17, our careers website was substantially revamped to clearly articulate the benefits of a career with Housing New Zealand. In the coming year, we will be developing a social media strategy, as well as seeking to proactively influence how we are portrayed in the media, so that we are able to attract the best candidates for employment opportunities.

Succession plans for Tier 2 and Tier 3 roles are in place. These ensure that we not only identify and support staff to grow and reach their full performance potential, but that we also promote internal succession for senior leadership roles within the organisation. We are currently working to create clear career pathways, particularly technical pathways to complement the more obvious managerial progression path.

The growing complexity of our tenant base, and the demand for skilled and resilient frontline tenancy management staff, led to the approval of an additional 60 full-time equivalent Tenancy Managers during 2016/17. Candidates were selected based on meeting shortlist criteria, their psychometric test results and performance during their time at our assessment centres. An induction programme was developed to support and improve the performance and productivity of the new Tenancy Managers once on-board.

Workforce plans developed to support our ambitious building programme indicate a growing requirement for specialised property development staff. We are the largest residential builder in a New Zealand market where these skills are in short supply. To address this challenge, we have implemented a multi-channel recruitment strategy. This includes recruitment overseas for senior specialists, and developing partnerships with educational institutions within New Zealand to support the development of entry level skills.

3.4.6 Health and Safety

The health, safety and security of our employees, contractors and tenants remain our first priority. Not only is a safe and healthy workplace a key priority for Housing New Zealand, but as a Government Agency we have also signed up to the WorkSafe commitment to reduce harm to all New Zealanders. We do this through successful and inclusive partnerships, education, having shared targets and a range of thorough assurance activities. We can and should provide industry leadership in health and safety. A focus on construction safety and partnerships is central to our work plan.

We have already examined occupational health issues associated with asbestos, methamphetamine, paint containing lead and silica, and the mitigations that should be taken to protect our workers and tenants. We have also shared our toolkits and policies with the wider industry. This enables us to contribute to better performance right across the industry, from sole traders to large enterprises and other Government Departments.

An example of this in practice is the prequalification of our contractors. Housing New Zealand has engaged Impac PREQUAL as the sole third party provider of prequalification assessment. Prequalification means we can ensure we are working with the right partners from the front end of the contractor management process. Strong professional relationships with trusted partners will lead to better work flows and other efficiencies as well as better health and safety performance. We also aim to use the system to identify trends amongst contractors so resources can be targeted to address shared gaps.

Further information is available in Section 4.3.2.

3.4.7 Technology

Over the last 2 years, the Housing New Zealand technology team have migrated existing and new ICT systems to consume All of Government (AoG) services and contracts in accordance with the Government Chief Information Officers (GCIO) strategy and timeframes. These include full adoption of AoG Infrastructure as a Service (IaaS), Desktop as a Service (DaaS) and both Network and Contact Centre technologies to Telecommunications as a Service (TaaS). Of significant note, and associated with the move to IaaS and DaaS, full ICT Disaster Recovery capability has been built and is now tested annually. ICT Strategy continues to be developed within the technology team and in conjunction with Housing New Zealand business groups. This work is consolidated into a living Technology Roadmap that supports our Long Term Investment Plan, submitted to Treasury in December 2016, and will inform future technology investment and direction.

Features of the Technology Roadmap include:

- Asset Development Management Information System (ADG MIS) and adoption of tools to enable the expanded home build programme
- Development of digital customer channels (i.e. Mobile application, Web portal) to enable tenant self service and to complement existing channels (Call Centre, Tenancy Manager visits etc.)
- Evaluation of smart home technologies and use of internet connected sensors (Internet of Things) that could collect empirical information about the home environment (i.e. temperature, humidity, chemical levels)
- Strategic review of current core platforms to ensure alignment with future requirements (i.e. growth of digital channels)
- Development of cross agency data sharing capability and predictive analytics and forecasting.

Part D: Appendices

4.1 Governance and Structure

The governance framework for Housing New Zealand involves three key parties: Parliament, Ministers, and Housing New Zealand's Board.

4.1.1 Parliament and legislation

The **Housing Corporation Act 1974** established Housing New Zealand as a statutory corporation with its own governing Board. Together with the Crown Entities Act 2004, it governs how Housing New Zealand relates to the Crown and its Ministers. The Housing Corporation Act was significantly amended in 2016 by the Housing Corporation (Social Housing Reform) Amendment Act 2016, which gave Ministers enabling powers to enter into and implement state housing transactions in respect of our housing portfolio and services.

The **Crown Entities Act 2004** is the principal Act governing the relationship between Housing New Zealand and the Crown. Housing New Zealand is described in Schedule 1 of the Act as a 'Crown Agent'. Crown Agents are the least autonomous category of Crown entities in that they must give effect to Government policies. The Crown Entities Act provides for Housing New Zealand to produce a Statement of Intent, permits the Minister to give directions to Housing New Zealand, and restricts how it may borrow, invest, and establish subsidiaries. The Act also regulates how our Board functions, including the appointment and termination of members, conflicts of interest, quorums for meetings, and Board committees.

The **Housing Restructuring and Tenancy Matters Act 1992**. This Act introduced income-related rents for state house tenants and the Social Allocation System. It has been amended several times, including:

- By the **Housing Restructuring (Income-Related Rents) Amendment Act 2000**.
- By the **Social Housing Reform (Housing Restructuring and Tenancy Matters Amendment) Act 2013**, which provided a statutory basis for community housing providers to apply for government funding for income-related rents for eligible new tenants, alongside Housing New Zealand; for needs assessment and associated functions to be transferred from Housing New Zealand to the Ministry of Social Development; for a regulatory framework to govern community housing providers. While Housing New Zealand is not subject to the regulatory framework governing registered community housing providers, we are expected to meet equivalent standards relating to tenancy and property management, governance, and financial management.
- By the **Housing Restructuring and Tenancy Matters (Social Housing Reform) Amendment Act 2016** (with respect to future social housing transactions). This amendment notes that sections 40 to 42 of the Public Works Act do not apply to the vesting of land to Housing New Zealand.

The **Housing Act 1955** provides Housing New Zealand with specific powers in relation to land. It allows the Governor General to take land for housing purposes under the Public Works Act 1981, for the Minister of Lands to set apart any Crown land as state housing land, and for Housing New Zealand to purchase land, dwellings or buildings for state housing purposes. The **Housing Agency**

Account was established to monitor Crown-owned land managed by Housing New Zealand on behalf of the Crown. The Housing Act was amended in 2016 to give Ministers greater powers in respect of the management and disposal of Crown land held for state housing purposes.

The **Residential Tenancies Act 1986** governs all residential tenancies in New Zealand, including all state house tenancies. It defines the rights and obligations of landlords (including Housing New Zealand) and tenants, established the **Tenancy Tribunal** to hear disputes between landlords and tenants, and established a fund to hold all tenants' bonds. The Ministry of Business, Innovation and Employment administers the Act.

It was recently amended by the **Residential Tenancies (Smoke Alarms and Insulation) Regulations 2016**. These regulations clarified landlords' and tenants' responsibilities in the provision and maintenance of smoke alarms. Minimum standards for ceiling insulation, and where practicable, underfloor insulation are also set out.

Housing New Zealand is also subject to **other relevant New Zealand legislation**, including the State Sector Act 1988, Public Finance Act 1989 (applies in part only), Official Information Act 1982, Privacy Act 1993, Bill of Rights Act 1990, Resource Management Act 1991, Building Act 2004, Property Law Act 1952, Public Works Act 1981, and Employment Relations Act 2000.

Several Treaty Settlement Acts place particular obligations on Housing New Zealand when it is seeking to divest surplus state housing. For example, the Waikato Raupatu Claims Settlement Act 1995; Port Nicholson Block (Taranaki Whānui ki Te Upoko o Te Ika) Claims Settlement Act 2009; Ngati Porou Claims Settlement Act 2012 and more recently the Ngā Manu Whenua o Tāmaki Makaurau Collective Redress Act 2014, are significant examples of Treaty settlement legislation that Housing New Zealand must consider before it may dispose of surplus housing assets. (See Section 4.3.3)

4.1.2 Role of the Minister

The primary relationship between the Government and Housing New Zealand is between Ministers and Housing New Zealand's Board.

Responsible Ministers are jointly responsible for:

- Conveying the Government's expectations to Housing New Zealand
- Overseeing the Statement of Intent and agreeing the use of any operating surplus
- Appointing and dismissing members of Housing New Zealand's Board and monitoring its performance
- Monitoring Housing New Zealand's financial performance.

4.1.3 Other agencies

The Treasury's Commercial Operations Group has the lead role as the responsible Minister's agent in monitoring the Crown's ownership and service delivery interests in Housing New Zealand, including all matters related to its financial, service delivery, and operational performance. This monitoring includes: ensuring Housing New Zealand's strategic direction is aligned with the interests of government and fits within the statutory framework; monitoring against the

accountability and performance reporting framework; managing the performance cycle; providing assurance on the capability of Housing New Zealand, and advice on the quality of the Board's systems for managing risk.

The Ministry for Social Development has the lead role for social housing policy, for purchasing places via the Income-Related Rent Subsidy appropriation, and for the Social Housing Reform Programme. They also have responsibility for managing demand for social housing. This includes forecasting demand for social housing through the development and publication of purchasing intentions.

The Ministry for Business, Innovation and Employment has the lead role for providing housing policy advice in relation to housing affordability and quality. This includes providing policy advice on Crown home ownership assistance and monitoring Housing New Zealand's administration of these Crown products.

4.1.4 Role of Housing New Zealand's Board

Housing New Zealand's Board is responsible for the overall governance of Housing New Zealand and for managing it according to its legal mandate. The Board provides leadership and sets Housing New Zealand's strategic direction. It also selects, appoints, and monitors the performance of the Chief Executive.

The Board comprises eight non-executive members. Each appointment is for a fixed term with the possibility of further reappointment. The Board Chair and Chief Executive meet with the Minister monthly or as required.



Adrienne Young-Cooper (Chairperson)

Mrs Young-Cooper is a professional director with substantial experience on Crown, business and not for profit boards. She was previously the Foundation Director of Hill Young Cooper Limited, a specialist resource management consultancy based in Wellington and Auckland.

Mrs Young-Cooper is a Director of both HLC and the Wairaka Land Company Limited. She is a member of the New Zealand Transport Agency Board and a Trustee of Cornwall Park. She is a former deputy chair of the Auckland Waterfront Development Agency Limited and the Auckland Regional Transport Authority.

She holds a MSc from the University of Canterbury, is a qualified planner and is a Chartered Fellow of the Institute of Directors.



John Duncan (Deputy Chair)

Mr Duncan has extensive experience in global financial markets encompassing Treasury, Corporate Finance, Debt and Equity Capital Markets and Risk Management. Over a 35 year career he has worked both domestically and internationally taking senior leadership roles with a number of global investment banks including Goldman Sachs.

He is currently the Executive Director of the Auckland Investment Office and continues to provide corporate finance and funding advice to a range public and private sector companies and entities. He brings extensive experience both locally and internationally as New Zealand's leading expert witness in litigation involving financial markets transactions.

Mr Duncan is currently a Director on the Public Trust Board as well as the Chairperson for the Convention Association of New Zealand.



Michael Schur

Mr Schur is currently the Managing Director of Castalia and is based in Sydney. He is a public finance, infrastructure finance and procurement specialist with over 20 years of international experience. His experience spans the private and public sectors, and incorporates economics, public policy, public sector governance, infrastructure, finance, PPPs and microeconomic reform.

Mr Schur has comprehensive board experience, as a chairperson, non-executive director and as a chief executive. Prior to working at Castalia, Mr Schur was Secretary to the NSW Treasury. In this role, he was the State Government's Chief Economic Advisor and responsible for delivering the State's annual \$55 billion budget. In this role he advised on a broad range of policy issues, including state housing. He was influential in introducing several reforms to the sector, including a broader role for community housing providers, the introduction of output-based contracting for housing tenancy services and the development of a privately financed social housing PPP project.

Mr Schur holds a Masters in Economics degrees from the University of London and the University of Witwatersrand in South Africa. He also holds a Bachelor in Economics, with 1st Class Honours, from the University of Witwatersrand



Tau Henare

For over 21 years Mr Henare was involved in the New Zealand political scene as a Member of Parliament and Cabinet Minister. His time in parliament saw him work with and on behalf of indigenous communities as Chair of the Maori Affairs Select Committee and across pieces of Treaty Settlement Legislation, ranging from the Waikato River to the Ngati Whatua Settlements.

He was involved with the Inter Parliamentary Union and Commonwealth Parliamentary Association.

In addition to his comprehensive political experience, Mr Henare has a strong background in community development and brings a community-based perspective to the Housing New Zealand Board.

As well as being a Director of the Housing New Zealand Board, he also represents Urban Maori on the Independent Statutory Board for Auckland Council.



Peter Dow

Mr. Dow is a Wellington-based consultant with a 45-year career in the property sector. He serves as a Partner in iD Property, a boutique property consultancy that provides advice to property investment funds and developers. He founded and served as director of Dow Group Ltd from 1990 to 2010, a property consultancy specialising in strategic asset management and property optimisation for commercial and public sector clients. His work involved a range of property transactions including acquisition, capital works planning and procurement, disposal of surplus properties and project directorship of major initiatives.

Mr. Dow has housing experience through his work with agencies that have housing portfolios, including the New Zealand Defence Force, Police and Telecom, as well as past work he has carried out for Tamaki Redevelopment Company Ltd. He also has a strong interest in tenants perspectives and social assistance through his work as a volunteer in addiction counselling.

Mr. Dow was a founding member of the Property Management Institute and served on its board, as well as others in the not for profit sector. He is a qualified property valuer.



Alick Shaw

Mr Shaw is a former Councillor and Deputy Mayor of Wellington City Council (1998-2007).

Mr Shaw has served on the Board of the New Zealand Transport Agency, the Wellington District Licensing Trust and the Alcohol Advisory Council of New Zealand, and is the Deputy Chair of Creative New Zealand. He is a former Chair of NOSH Management Ltd and the NZ School of Music and Orchestra Wellington, and is a Trustee of Wellington Museums Trust and Director of Wellington Water Management Ltd.

Mr Shaw has experience in the governance of public asset management and sector reform through his experience in local government and as a Board member of the NZ Transport Agency.

He is a member of the New Zealand Parole Board and a certified commissioner and chair for hearings convened under the RMA and the legislation covering activity in NZ's Exclusive Economic Zone.



Sandra Aloffivae

Mrs Aloffivae has extensive experience in the legal and social sectors and is currently appointed to represent children and young people in both the Youth Court and Family Court. She is also acting as Counsel in the pilot Alcohol and Other Drug Treatment Court.

Mrs Aloffivae has strong ties to the local community through the Presbyterian Church and her work in the voluntary sector. Mrs Aloffivae was appointed to the Counties Manukau District Health Board in December 2010 following a six year term as a Commissioner with the Families Commission based in Wellington.

Mrs Aloffivae graduated with a law degree from Auckland University in 1989. She has practiced as a lawyer in the Auckland region with a particular emphasis on South Auckland for the last 20 years representing children, young persons and their families.

She was recently appointed a Member of the New Zealand Order of Merit for her services to the Pacific community and to youth.



Mark Ratcliffe

Until earlier this year, Mr Ratcliffe was the Chief Executive and Managing Director of Chorus. He spent ten years in leadership roles with Chorus. Prior to that he held a number of senior operational and service delivery executive roles with Telecom.

His experience in the telecommunication industry is seen as an advantage for the good governance of highly-distributed assets. He has extensive senior management experience in large-scale operational and service delivery businesses.

Mr Ratcliffe was recently appointed to the Board of 2 Degrees and sits on the Board of First Gas. He has previously held governance roles with the New Zealand Initiative and the Telecommunications Carriers Forum.

Mr Ratcliffe holds a BA in Accountancy from the University of Birmingham.

4.1.5 Role of Housing New Zealand's Chief Executive

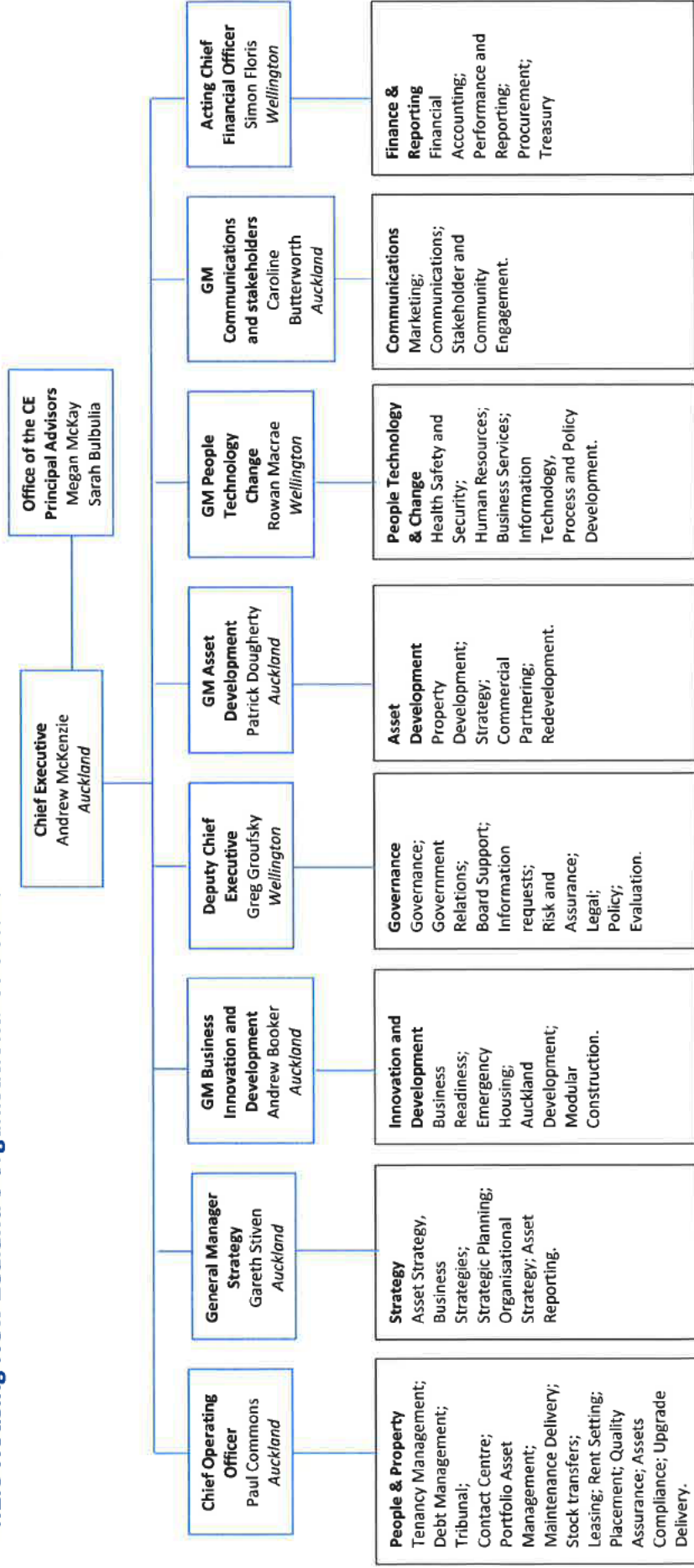
Housing New Zealand's Chief Executive is Andrew McKenzie. The Chief Executive reports to the Board and is responsible for:

- The efficient and effective day-to-day running of Housing New Zealand
- Ensuring the implementation of Housing New Zealand's strategic direction
- Developing and maintaining strategic relationships with Chief Executives from other government agencies and other key stakeholders.

The Chief Executive leads an Executive Team of 8 senior managers:

- Greg Groufsky, Deputy Chief Executive
- Paul Commons, Chief Operating Officer
- Simon Floris, Acting Chief Financial Officer
- Patrick Dougherty, General Manager Asset Development
- Caroline Butterworth, General Manager Communications and Stakeholders
- Rowan Macrae, General Manager People, Technology and Change
- Andrew Booker, General Manager Business, Innovation and Development
- Gareth Stiven, General Manager Strategy.

4.1.6 Housing New Zealand's organisational structure



4.1.7 Housing Agency Account

The Housing Agency Account (HAA) is used by the Crown to account for land that has been declared surplus by other agencies and re-designated for social housing purposes, or was formerly held by State Advances (now Housing New Zealand) for state housing. This land remains in Crown ownership but is managed either by Housing New Zealand or, under recent amendments to the Housing Act, by another agency on behalf of the Minister.

Currently the HAA contains 40 residential properties and a number of development sites, the largest of which is Hobsonville. Hobsonville Point consists of approximately 167 hectares that includes HAA land, Panuku Development Auckland land, and Ministry of Education land.

Activities that can be undertaken on behalf of the Crown are specified by the Housing Act 1955 and the Housing Agency Account Accountability Agreement between Housing New Zealand and the Minister of Housing.

Housing New Zealand is unable to fund these activities so all funding must be either appropriated or generated from revenues within the account. The previous Minister directed MBIE to review the Housing Agency Account Accountability Agreement.

In Auckland, the Treaty settlement with Ngā Mana Whenua o Tāmaki Makaurau means that certain prerequisites apply before Housing New Zealand or HLC can develop most Crown-owned land. This includes, among other things, an obligation on the Crown to provide Ngā Mana Whenua o Tāmaki Makaurau's post settlement governance entity with the first opportunity to be the developer (subject to some exceptions).

4.2 Financial Information

The Housing New Zealand (HNZ) Group is often referred to as Housing New Zealand. However, it comprises three separate entities:

- 1.** Housing New Zealand Corporation (HNZC) is a Crown Entity pursuant to the Crown Entities Act 2004 and is the parent entity. HNZC receives appropriations, owns the Community Group Housing properties (CGH) (funded through appropriations) and employs all staff. It on-charges most of the staff cost to Housing New Zealand Ltd.
- 2.** Housing New Zealand Ltd (HNZL) is a company pursuant to the Companies Act 1993 and a wholly owned subsidiary of HNZC. HNZL is the main operating company and owns all the land except for the CGH properties.
- 3.** Hobsonville Land Company (HLC) is a company pursuant to the Companies Act 1993 and a wholly owned subsidiary of HNZC. HLC undertakes operations on behalf of the Housing Agency Account (which is a Crown account), as well as development management services for HNZ and other property consulting work.

4.2.1 Overview

In 2016/17, the Housing New Zealand Group:

- received **\$1,161 million** in income from rent, comprising:
 - \$389 million from tenants
 - \$758 million via income related rent subsidy for state housing
 - \$14 million Crown appropriation for Community Group Housing

Note: 2017/18 budget is \$1,206 million, the lower amount reflecting the full year impact of the transfer of approximately 1,140 properties in Tauranga in March 2017.

- received further Crown appropriation of **\$85 million**, comprising:
 - \$75 million for KiwiSaver Homestart grants
 - \$6 million as Welcome Home Loan (mortgage insurance scheme) premium contribution
 - \$1 million interest subsidy on non market legacy loans
 - \$3 million to administer KiwiSaver

Note: 2017/18 budget is \$114 million.

- Spent **\$474 million** maintaining and upgrading the portfolio of which \$315 million was expensed and \$159 million capitalised.
(2017/18 Budget is \$488 million - \$332 million expensed; \$156 million capitalised)
- Spent **\$113 million** on general rates and **\$33 million** on water rates
(2017/18 budget is \$116 million general rates and \$32 million water rates)
- Spent **\$1,237 million** in total expenses in 2016/17
(2017/18 Budget is \$1,328 million)
- Has an operating surplus before tax of **\$81 million**
(2017/18 Budget is \$19 million)
- Spent **\$382 million** on acquisitions and land development (excluding emergency housing of \$63 million).
(2017/18 Budget is \$774 million)
- The total value of the assets transferred was \$146 million, and was treated as a cash sale with the proceeds retained by HNZN Group with a gain on sale of \$1 million upon disposal. Housing New Zealand now owns a housing portfolio with a book value of **\$25,224 million** (this amount includes properties held for sale (\$302 million (2015/16 \$150 million)) and properties under development \$11 million (2015/16 \$24 million), and includes the June 2017 net annual revaluation increase of **\$2,400 million**.

The following diagrams set out the Housing New Zealand Group revenue and expenditure for 2016/17.

Figure 6: Where 2016/17 HNZ Group revenue went

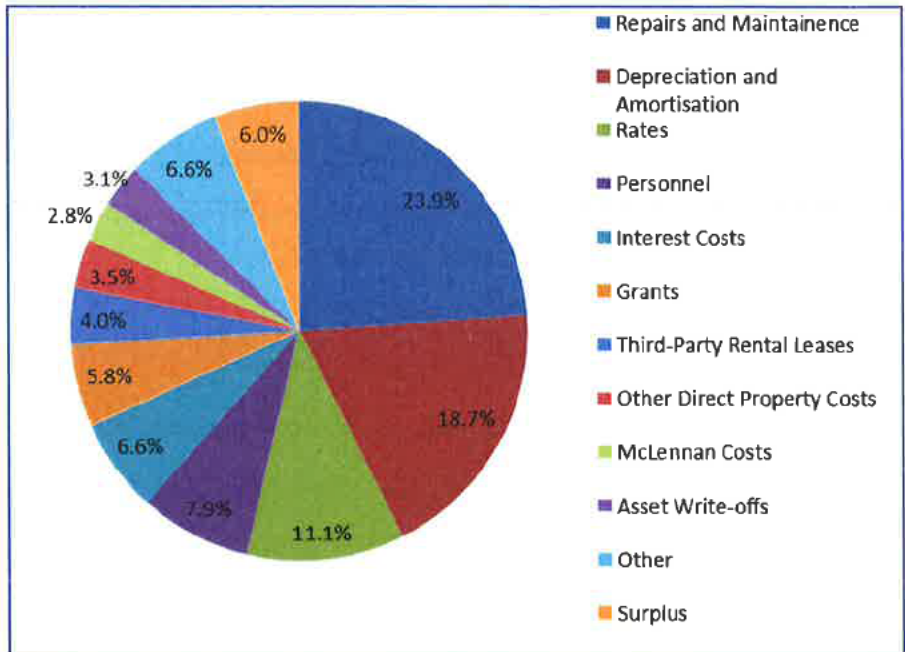
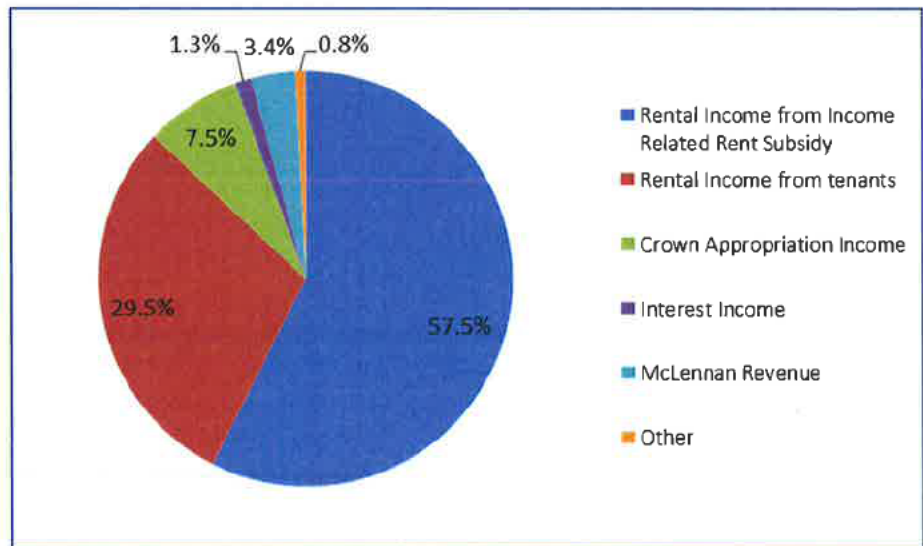


Figure 7: Where 2016/17 HNZ Group revenue came from



The Housing New Zealand Group balance sheet at year end is summarised in Table 6.

Table 6: Summary of Balance Sheet (\$ Million)

	2015/16	2016/17
Property, Plant and Equipment (including properties held for and sale and properties under development)	22,731	25,224
Other Assets	669	683
Total Assets	23,400	25,907
<i>Financed by the following liabilities, equity from the Crown:</i>		
Debt (from the Debt Management Office)	1,859	1,953
Deferred Tax Liability	2,013	2,044
Other Liabilities	361	312
Total Liabilities	4,233	4,309
Equity from property revaluations	15,435	17,577
Other Equity	3,732	4,021
Total Equity	19,167	21,598

4.2.2 Returns to the Crown

Annual distribution to the Crown

Section 40(1) of the Housing Corporation Act requires HNZC to pay its annual surplus (capital and operating) for each financial year to the Crown, unless the responsible Ministers authorise HNZC to keep all or any part of it. The amount paid is the net operating surplus before tax less actual tax payable. The Minister has agreed that Housing New Zealand will not make a surplus distribution over the next 3 years as per the Statement of Intent.

Crown revenue and payments

Table 7 sets out receipts from the Crown and payments made to the Crown since 2007/08.

Table 7: Crown revenue and payments (\$ Million)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capital Appropriation (Contributed equity)	99	69	105	20	4	3	0	4	4	2
Interest paid to the Crown/ Interest on Crown Loan	(131)	(124)	(51)	(56)	(51)	(49)	(52)	(68)	(52)	(39)
Interest on Swaps (primarily to the Crown)			(62)	(56)	(58)	(54)	(44)	(28)	(41)	(48)
Tax expense	(64)	(36)	(63)	(55)	(111)	(89)	(92)	(118)	(145)	(82)
Surplus distribution to the Crown	(2)	(132)	(71)	(68)	(77)	(90)	(108)	(30)	0	0

Notes:

1. Cash inflow to HNZC is positive, outflow is negative
2. Figures provided in the table above are from the HNZC Group Annual Statements and are shown for the year they pertain to. Note the surplus distribution is paid in the financial year following: Income tax is paid via provisional payments. The zero surplus distribution in 2016 reflects the agreement for HNZ to retain its surplus.
3. There are two components to interest expense: interest on loans and interest on fixed rate hedging. Over the time period shown in the table, HNZC has been party to loan and swap agreements with both the Crown and third parties. Due to differing accounting treatments over the years we have not differentiated interest payments made to the Crown versus those made to third parties.

4. From December 2001, HNZN commenced entering into interest rate swap agreements with the New Zealand Debt Management Office. The last third party swap agreement closed April 2012. Since then all HNZN swap agreements are with the Debt Management Office.
5. The 2008 to 2010 financial statements net loan and swap interest and do not specify payment to the Crown
6. From the 2011 financial year, the notes to the financial statements distinguish only loan interest and swap interest. Interest on swaps will be primarily paid to the Debt Management Office up to and including 2013 and all paid to the Debt Management Office 2013 to 2017.

4.2.3 Appropriations

Housing New Zealand receives appropriated funding from Vote Housing and Vote Social Development. The appropriation from Vote Social Development is for the Income-Related Rent Subsidy, and is administered by the Ministry of Social Development. All other appropriations are for Vote Housing, and are administered by the Ministry of Business, Innovation and Employment (MBIE). The Crown uses these appropriations to fund MBIE's activities, and contract with other providers.

The following tables detail the funding available to Housing New Zealand to deliver Crown programmes in 2017/18. They:

- Include a number of non-core programmes, such as Welcome Home Loans, KiwiSaver HomeStart, Community Group Housing, and legacy loan portfolios that require on-going administration.
- Exclude funding for the Housing Agency Account (HAA), which is accounted for separately from Housing New Zealand Group activities in a formalised agency arrangement with the Crown.

Table 8: Operating funding to deliver Crown programmes 2017/18

Crown programme 2017/2018	Budget (\$m)
Purchase of Housing and related Services for Tenants paying income-related rent	789.5
Community Group Housing – Rent Relief	4.1
Community Group Housing - Top-up Market Rents	10.1
Interest Subsidies and Administration for Legacy Mortgages	1.5
KiwiSaver Housing Deposit Subsidy	102.5
KiwiSaver Housing Deposit Subsidy – Administration Costs	3.0
Welcome Home Loans (Mortgage Insurance Scheme) including Administration costs	8.7
TOTAL OPERATING FUNDING	919.4

Table 9: Capital funding to deliver Crown programmes 2017/18

Crown programme 2017/2018	Budget (\$m)
Acquisition and Improvement of Community Houses ¹	5.8
Refinancing of HNZN and HNZN debt ²	335.9
Total operating funding	341.7

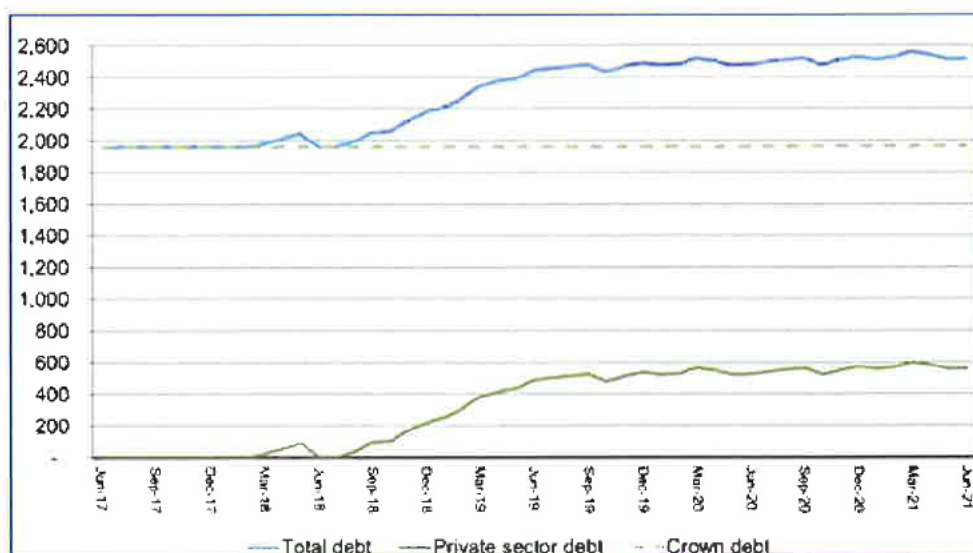
Notes:

1. The Community Houses capital appropriation is split into equity (payment) and a debt (new DMO funds) portion
2. The \$335.9 million in the table above relates to existing loans issued by the Crown (through the Debt Management Office) to Housing New Zealand and will be rolled over at maturity. This does not reflect additional capital available for Vote Housing.

4.2.4 Borrowings

Figure 8 displays the Housing New Zealand Group projected borrowing position for the period to June 2021, and represents the budget approved by the Board in April 2017, updated for revised business projections.

Figure 8: Housing New Zealand borrowings (\$Million)



As at 30 June 2017, Housing New Zealand had total borrowings of \$1,953 million, all sourced from the Crown. Private sector debt is required to finance the increasing supply of housing through the Auckland Housing Programme. The projections show private sector debt is required from the month of March 2018 of \$19 million, and increasing to \$556 million by June 2021.

Borrowing Protocol

The Minister of Finance and the Minister Responsible for Housing New Zealand Corporation (HNZN) have agreed to authorise HNZN to meet its funding requirements for the Auckland Housing Programme through the private market. A revised borrowing protocol with the Crown has been received to reflect the authority for HNZN to borrow from the private markets.

4.3 Policies and Procedures

4.3.1 Monitoring and accountability

Table 10 summarises Housing New Zealand's key accountability documents and reports you will receive regularly.

Table 10: Key accountability documents

Title	Brief description of content
Statement of Intent	The Statement of Intent sets the Housing New Zealand's strategic direction for the next four years and identifies how outcomes will be achieved and measured. It also outlines Housing New Zealand's contribution to the Crown's objectives.
Statement of Performance Expectations	Housing New Zealand's Statement of Performance Expectations sets out the organisation's annual performance measures, targets, and annual forecast financial statements.
Annual Report	The Annual Report provides is an account of Housing New Zealand's outcomes and output delivery, and financial and non-financial performance.
Quarterly reporting	Housing New Zealand's quarterly reporting provides you with a snapshot of performance to date against the work programme outlined in the current Statement of Intent and Statement of Performance Expectations.

4.3.2 Health, Safety and Security

The health, safety and security of our employees, contractors and tenants remain our first priority. We have increased the capacity and capability of the Health, Safety and Security team to provide specialist support and advice across all three disciplines of Health, Safety and Security. This has also ensured we can support the requirements of the Health and Safety at Work Act and be a reliably high safety performing organisation.

A focus for 2016/17 has been the provision of a national Incident Reporting System (Noggin). This has enabled improvements to be made to the way we capture and report on health, safety and security data. We have also introduced improved Board reporting and will be looking to make further enhancements to our reporting through the inclusion of improved information regarding health and safety trends and risk profiles.

Work in the area of health and wellbeing has also been a priority. During 2016/17 we focussed on mental wellbeing with the introduction of a three stage employee training programme to identify, manage their safety, and support signs of mental ill-health. We also looked at the occupational health issues associated with asbestos, methamphetamine, lead based paint and silica, and what mitigations should be taken to protect our workers.

We increased the site and personal security for our front line staff. This included updating the process requirements for site safety visits and improving our understanding of the physical security and operating interventions required of our neighbourhood units. We also undertook a Protective Security Requirements self assessment to establish our current and desired level of physical, information and personnel security.

As well as staff health, safety and security, we have worked on initiatives that support both our tenants and our contractors to ensure our programmes consider their health, safety and

wellbeing at all times. This included the development of a programme of work for best practice contractor management and assurance using MBIE's Contractor Management guide.

4.3.3 Right of First Refusal (RFR)

The Housing New Zealand Board makes decisions on a case by case basis whether to make land available for different settlements. In 2010, the Board considered how it could work with the Office of Treaty Settlements (OTS) to identify suitable arrangements so that RFR over surplus Housing New Zealand land could be included in treaty settlement packages negotiated with iwi/hapū. OTS acknowledged the governance role the Board has over Housing New Zealand land and recognised that this land is used to give effect to the Crown's social objectives in relation to housing. As a result of these discussions, the Social Housing Exemption was agreed. Now when Housing New Zealand land is included in a settlement, it is done subject to the land being able to be used for any social housing requirements.

Current RFR

The following iwi have RFR over Housing New Zealand properties:

- Waikato-Tainui (Hamilton to South Auckland) 1995
- Taranaki Whānui Ki Te Upoko P Te Ika A Māui (Wellington, Hutt Valley) 2008
- Ngāti Porou (Gisborne, East Cape) 2012
- Ngāti Raukawa(Waikato-South Waikato) 2012
- Ngāti Toa Rangatira (Porirua, Hutt Valley) 2014
- Te Tau Ihu (Top of the South island i.e. Ngāti Kōata, Ngāti Rārua, Ngāti Tama Ki Te Tau Ihu, Te Atiawa o Te Waka-a-Māui, Ngāti Apa Ki Te Rā Tō, Ngāti Kuia, Rangitāne o Wairau, Ngāti Toa) 2014
- Te Hiku (Far North i.e Ngāti Kuri, Ngāti Takoto, Te Rarawa, Te Aupōuri) 2014

RFR under negotiation

The Board has agreed that Housing New Zealand works with the Office of Treaty Settlements to grant RFR over Housing New Zealand properties to the following iwi. These iwi, excluding Ngāti Hinerangi, have signed deeds of settlement with the Crown. Ngāti Hinerangi has reached Agreement in Principle.

- Ngāti Ranginui (Tauranga)
- Te Tira Whakaemi (Wairoa)
- Ngāti Rangi (Ohakune)
- Ngāti Hinerangi (Matamata)

Special cases

The Crown signed a Deed of Settlement with Ngāti Turangitukua in 1999. However, a formal deed defining the terms and conditions of RFR over Housing New Zealand properties was never completed. Discussions to complete these terms resumed this year (2017).

The Board agreed in 2010 that Housing New Zealand's position be to exclude Housing New Zealand land from RFR in Auckland due to the high demand for state housing, the large scale of the potential RFR and the higher value of the Auckland portfolio.

The Waikato-Tainui Raupatu settlement (1995) preceded this decision and includes RFR over Housing New Zealand properties in South Auckland. This settlement does not include the state housing exemption but does include an exemption for sales to tenants.

4.4 Non-appropriated programmes and initiatives

4.4.1 Home Lease Programme

Under the Home Lease Programme Housing New Zealand leases privately-owned homes in areas where there is priority demand and it may not be viable to buy or build additional properties. This allows Housing New Zealand to respond to increased demand for housing in those specific areas.

We are responsible for managing the tenancy at the property. Depending on the version of the lease agreement, the owner may be responsible for some general maintenance.

For 2017/18 Housing New Zealand has budgeted approximately \$49.3 million in lease payments to private property owners. We anticipate receiving approximately \$58 million in rental income from leased properties (approximately 2,572 / 4% of total portfolio).

Mechanism

Housing New Zealand prioritises lease properties that offer the best match to tenants' needs. Leased properties must also meet Housing New Zealand Property Quality Standards. Historically, leases were usually for a period of between five and 15 years but increasingly are now for shorter periods, as a tactical response to supply challenges.

Housing New Zealand deducts a lease margin from its regular lease payments to cover the average cost of tenancy management, bad debt, and vacancies. This margin is usually 10 percent of the lease payment. Increasingly, in the Auckland market, we have had to remove the margin in order to encourage landlords to renew lease agreements.

Future trend

Housing New Zealand's Asset Management Strategy forecasts a decrease in lease numbers over time as new supply is delivered in areas where demand exists and leases are exited in low or no demand areas. However, in the short-term, Housing New Zealand has been focussed on renewing as many leases as possible, to meet its new supply objectives.

4.4.2 FirstHome Ownership Scheme

FirstHome is a home ownership initiative assisting eligible buyers to purchase selected state homes. The scheme began in October 2013. Housing New Zealand meets the cost of administering the programme.

This scheme enables Housing New Zealand to divest of properties in areas where there is less demand. It incentivises people, in mainly provincial areas of New Zealand, to achieve home ownership. In December 2015, the scheme was extended to include Housing New Zealand tenants

wishing to purchase the house they are living in through the Tenant Home Ownership scheme (see Section 4.3.3). It is not available to tenants in Auckland, Hamilton, Tauranga, Wellington and Christchurch.

Due to increased demand for state housing across some of our regions and lower than anticipated divestments, we have had limited opportunities to offer this product during 2016/17. As a result 79 homes were sold in 2016/17. This compares with 134 during 2015/16.

While demand for state housing remains high across provincial and rural areas, our ability to offer our homes to first home buyers will remain limited. We are currently reviewing this product as part of our focus on housing affordability and accessibility.

Mechanism

The initiative is designed to support first home buyers to achieve home ownership by assisting with the deposit. The scheme provides eligible buyers with a grant of 10 percent of the purchase price of the property, capped at \$20,000, payable on settlement.

Buyers may also be eligible for other first home ownership assistance, such as the Welcome Home Loan, and the KiwiSaver HomeStart grant and/or savings withdrawal.

From 1 August 2016 to be eligible for the FirstHome initiative applicants, including Housing New Zealand tenants, must be:

- A first time home buyer and not currently own property or land (previous home owners may be eligible in some circumstances)
- Have a gross annual income of \$85,000 or less (before tax) for one buyer, or a combined gross annual income of \$130,000 or less (before tax) for two or more buyers.

Previous home owners may be eligible if their income, assets and liabilities represent a financial position that would be expected of a person who has never owned a property. They are permitted to have realisable assets of up to \$80,000 in total.

Each property Housing New Zealand is considering for divestment is matched to the programme criteria. All normal divestment approvals are progressed before the property is placed on the market or offered to a tenant. Vacant property sales are available exclusively for first home buyers for a minimum three months. If the house is not sold through FirstHome during the exclusive offer period, it will ultimately be placed on the open market.

4.4.3 Tenant Home Ownership Programme

The Tenant Home Ownership programme offers state house tenants the opportunity to buy the home they live in. The programme is a Government initiative launched in September 2009. It encourages tenants into home ownership and promotes sales in remote locations. As such it helps fund Housing New Zealand to buy or lease more properties in high-demand areas.

On 1 December 2015, the FirstHome Grant was made available to tenant purchasers meeting the FirstHome eligibility criteria. This has had a positive impact on affordability for tenants. As at 30 June 2017, 335 state homes had been sold to tenants since the programme restarted. Of these, 84 were sold in 2016/17. These sales raised just over \$80.5 million for Housing New Zealand to reinvest in areas of high demand.

The number of homes available for the programme is being restricted by the transaction process and the new micro portfolio transfers. In addition, there are fewer homes available in high demand places as most are held for development purposes. While this does restrict the pool, it is very hard for tenants to buy homes in these areas and as such the impact on the programme is minimal.

With the tightening of bank lending criteria in recent months, some eligible tenants have struggled to get a home loan approved by the bank. If these lending restrictions remain, we anticipate this could limit the number of tenants able to successfully buy their Housing New Zealand home in the future.

Mechanism

State housing tenants who wish to purchase their home can apply to Housing New Zealand. We also advise the tenant of other Housing New Zealand-administered assistance programmes that may assist them into home ownership.

The purchase price is set according to an independent valuation. If the tenant is eligible, they may access a Welcome Home Loan and/or KiwiSaver home ownership assistance to help them purchase their home.

Around 40,000 state homes are potentially for sale to tenants. However, not many tenants are in a position to buy and the programme was always expected to be small. It is currently under review.

4.5 Appropriated Programmes and Initiatives

4.5.1 Hobsonville Point Development

The Hobsonville Point development contributes to the accelerated supply of urban land and housing (including affordable housing) for a growing Auckland. The development includes an area of approximately 167 hectares of land adjacent to the Waitemata Harbour in north-west Auckland. This land was formerly an air force base and was declared surplus in 2000/01.

HLC was formed as a wholly-owned subsidiary of Housing New Zealand to manage the Hobsonville development. It has been partnering with the private sector to provide capital essential for infrastructure and the delivery of new housing at the site.

The delivery of the project's objectives agreed by Cabinet (the state housing objectives), including the affordable housing objectives, are secured through contractual mechanisms with development and build partners, and supported by HLC working proactively with these and other parties.

The project became self funding from 1 July 2014 through funds received from land sales which are held in the Housing Agency Account.

Background

In October 2012, Cabinet approved a high-level divestment strategy. This comprised:

- An accelerated phase over three years, with the development of the Buckley A Precinct of land and house packages, to enhance value and increase market interest in the development
- The disposal of larger parcels of land over the following two years to enable the private sector to develop entire precincts.

Cabinet Committee approvals allowed for a review of the five year divestment timeframe, assessing if returns to the Crown could be enhanced by a different timeframe. That review was completed during 2015.

In December 2015, the Minister of Building and Housing and Minister of Finance:

- Noted that Hobsonville Land Company had reviewed the business plan for the divestment of Hobsonville Point
- Agreed to extend the divestment timeline for the sale of land at Hobsonville Point by two years to 2019
- Noted the intention of delivering 3,520 homes and having the overall project completed earlier
- Noted that HLC was exploring options to expand its activities to other Crown development projects subject to appropriate approvals and business planning.

In 2016, Housing New Zealand expanded Hobsonville Land Company's role to support in the delivery of the Auckland Housing Programme.

In July 2017, the Hobsonville Point build programme was reforecast and HLC now anticipates the delivery of in excess of 4,000 homes. The build programme is due to be completed in 2024.

Challenges

The Crown land at Hobsonville is held for 'state housing purposes' under the Housing Act 1955, which is a public work for the purposes of the Public Works Act 1981. Should the land no longer be required for a public work, it must be offered back to the successors of the original owners.

To minimise risk to the development, it is important to establish that the land will continue to fulfil a state housing purpose once it has been divested. Management of this risk is inherent in the structure of the Development Plan.

The Crown has Treaty Settlement obligations at Hobsonville with Ngāti Whātua o Kaipara and Te Kawerau ā Maki. The settlement with Ngāti Whātua o Kaipara gave the iwi a right of first refusal over Crown land within the Hobsonville area. The RFR has been exercised. The agreement with Te Kawerau ā Maki provides cultural redress at Bomb Point/Onekiritea and land for a marae, which is within the Hobsonville development site.

HLC Mandate and Future Activities

HLC has been mandated by Housing New Zealand and the Treasury to expand its activities beyond the Hobsonville Point land site.

- Specifically HLC is now working on Housing New Zealand's North Shore land release strategy centred on the Northcote redevelopment. This will deliver around 400 new state homes and 800 market homes through the reconfiguration of 298 Housing New Zealand properties.
- Other precincts mandated are Mt Roskill, [REDACTED] and Avondale. The Mt Roskill and Avondale precincts include the Treasury signal sites of Mt Roskill South (Akarana) and Racecourse Parade.

HLC has been building its capability and capacity to undertake the master planning of these large scale redevelopment programmes and to deliver civil works, land remediation and commercial land sales to enable the delivery of state, market and affordable homes.

4.5.2 Community Group Housing

The Community Group Housing (CGH) programme provides affordable housing solutions to community groups that offer a variety of services, including long term residential care, to the most vulnerable people in New Zealand. CGH targets groups that provide housing and support services for those with physical, intellectual and psychiatric disabilities, residential alcohol and drug services, women who require refuge, emergency housing, youth at risk, and prisoner reintegration.

The CGH portfolio currently consists of 1,480 properties providing around 4,777 bedrooms across 203 providers. The portfolio is valued at around \$619 million. In 2017/18, \$4.1 million has been appropriated for rent support subsidy to providers, and \$10.1 million for the market rent shortfall. A further \$5.8 million has been appropriated for Housing New Zealand to acquire or to upgrade CGH properties.

As Housing New Zealand develops our understanding of transitional housing and what is required, the funding model for Community Group Housing may need review.

Mechanism

To be eligible for a CGH property, a provider must have a funding contract with the Crown to provide residential services for targeted groups. Once a provider's eligibility is confirmed, CGH will source a suitable, fit for purpose housing solution that meets the needs of the provider, and their service provision.

CGH offers a rent support subsidy to eligible providers to assist them in meeting their rent charge. Most CGH tenancies operate under a residential tenancy agreement and fall under the legislation of the Residential Tenancies Act 1986.

CGH properties tend to have a low turnover as they are generally funded to provide long-term services. We also have a small number of non-residential properties used by groups where day programme and services are run.

4.5.3 Welcome Home Loan

Welcome Home Loans help eligible first home buyers, on modest incomes, to access home loans with a 10 percent deposit. In 2016/17, \$9.0 million was available to be appropriated for the Welcome Home Loan, including administration costs. This would fund up to 2,700 Welcome

Home Loans. Actual results depend on demand, and in 2016/17 a total of 1,381 Welcome Home Loans were settled.

Housing New Zealand provides mortgage insurance to participating lenders so they can make these loans. The income and loan caps are regularly reviewed to ensure they reflect market conditions. They were last revised in August 2016.

Mechanism

To be eligible for a Welcome Home Loan, the combined household income for the last 12 months must have been \$85,000 or less (before tax) for a sole borrower and up to \$130,000 (before tax) for multiple purchasers based on the combined household income.

House price caps vary by region as identified in Table 11.

Table 11: House price caps by region

Region	Existing/Older Properties	New Properties
Auckland	\$600,000	\$650,000
Hamilton City Tauranga City Western Bay of Plenty District Kapiti Coast District Porirua City Upper Hutt City Hutt City	Wellington City Tasman District Nelson City Waimakariri District Christchurch City Selwyn District Queenstown Lakes District	\$500,000 \$550,000
Rest of New Zealand	\$400,000	\$450,000

4.5.4 Kāinga Whenua Loans

Kāinga Whenua is a Government initiative launched in February 2010 as a targeted product within the Welcome Home Loan programme. It is funded through the Welcome Home Loan appropriation.

It was designed to give Māori the opportunity to access finance to build on multiple-owned Māori land. In late 2012 the Government extended the eligibility criteria for Kāinga Whenua, including making loans available to Māori Trusts, increasing income caps for individual borrowers (later removed altogether), and allowing current and previous home-owners to apply. The changes took effect on 1 December 2012 for individuals and on 1 June 2013 for Trusts.

Demand for Kāinga Whenua has been relatively modest. As at 30 June 2017, 17 loans had been settled, nine are in the process of drawing down and 17 have been pre-approved.

Mechanism

With a Kāinga Whenua loan, Kiwibank can lend 100 percent of house building costs or the purchase price of a house on multiple-owned Māori land, up to \$200,000.

Housing New Zealand provides mortgage insurance to Kiwibank so it can make Kāinga Whenua loans. This is set at 2.2 percent of the loan value, of which 1 percent is paid by the borrower and 1.2 percent by Housing New Zealand.

4.5.5 KiwiSaver HomeStart Grant

KiwiSaver is primarily a retirement savings initiative, but also has two features to help its members buy a home or land to build one on:

- The KiwiSaver HomeStart grant, which replaced the first home deposit subsidy from 1 April 2015
- The KiwiSaver first home withdrawal.

Both KiwiSaver features can be used together. Housing New Zealand administers the HomeStart grant, while individual KiwiSaver providers administer the first home withdrawal.

At the end of June 2017, 16,712 first homes buyers were supported through the grant. Total appropriated funding for 2016/17 was over \$88 million.

Mechanism

The HomeStart grant is a tax-free grant available after three years of contributing to KiwiSaver. The grant is \$1,000 for each year of contributions, up to a maximum of \$5,000, when buying an older/existing property.

If the member is buying a new property, property off the plans, or land on which they will build a new home, the grant is calculated at \$2,000 for each year of contributions. This means that for a new property, the member can obtain a grant of \$6,000, \$8,000 or \$10,000.

Two or more KiwiSaver members can combine their grants to put toward buying a house together. A maximum of \$10,000 worth of grants can be awarded for the purchase of an older/existing dwelling or a maximum of \$20,000 for the purchase of a brand new single dwelling, regardless of the number of eligible purchasers buying the property.

The savings withdrawal allows KiwiSaver members, after three years of membership, to withdraw all the contributions including Government contributions (\$1,000 must remain in the savings) to put toward buying a home.

The eligibility criteria for the grant and the savings withdrawal are regularly reviewed to ensure they reflect market conditions. The same income and house price caps that are used for Welcome Home loans are also used for HomeStart eligibility and came into effect on 1 August 2016.

4.6 Statement of performance expectations 2017/18

	Standard 2017/18	Actual 2016/17
OUTPUT CLASS 1: MANAGING OUR HOMES		
Tenant satisfaction with Customer Services Centre	80%	91%
Rental debt older than 7 days as percentage of monthly rental income	5%	2.9%
% of homes that are let	97.2%	97.2%
Average days from a home becoming vacant to being ready to let	24	34 ¹³
% of homes in Auckland let to applicants from social housing register within 15 days of the home becoming available	90%	n/a
% of surveyed lettable properties meeting or exceeding baseline standard	89%	n/a
Percentage of tenants satisfied with repairs and maintenance	75%	70%
Average time to respond to urgent health and safety queries	4 hours	3.5 hours
% of repairs and maintenance spend on planned activity	69%	72%
OUTPUT CLASS 2: STATE HOUSING SUPPLY		
Number of additional newly built or existing homes for state, community groups and traditional housing	1,460	1,421
OUTPUT CLASS 3: SOCIAL HOUSING REFORM PROGRAMME SUPPORT AND PUBLIC ACCOUNTABILITY		
Ministerial correspondence, parliamentary questions and official information act requests delivered meet the agreed deadline	95%	99%
Ministerial services delivered meet the quality criteria	95%	100%
Delivery of social housing reform transfers to other providers within the agreed time frame as set out by Treasury	Milestones achieved	Milestones achieved
OUTPUT CLASS 4: ENABLING HOUSING SUPPLY AND HOME OWNERSHIP		
Number of new homes enabled on land previously owned by Housing New Zealand for affordable and market housing	166	n/a
Proportion of homes delivered by third parties within agreed timeframes	95%	n/a
Average number of working days taken to assess a completed KiwiSaver application	7	3.9
Number of new loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme ¹⁴	<2,500	1,381
OUTPUT CLASS 5: DEVELOPMENT SERVICES PROVIDED TO THE HOUSING AGENCY ACCOUNT		
Revenue generated from land sales	>72 m	n/a
Value of HLC-led capex projects delivered	\$4.15 m	n/a
Units delivered that are long-term rental or affordable housing as a percentage of total units delivered	>20%	n/a
Number of HLC community-led events that occur at Hobsonville Point	>3	n/a
% of residents satisfied with overall living experience at Hobsonville Point	>75%	n/a
A RELIABLY HIGH-PERFORMING ORGANISATION		
Net operating costs of managing our housing portfolio per housing unit (excludes depreciation)	\$11,700	n/a
Earnings before interest, taxes, depreciation and amortisation (EBITDA) as a percentage of total income	33%	n/a
Interest costs to EBITDA	4.12	n/a
Total recordable injury frequency rate	1.38	n/a

¹³ The measure approach for average days from a home becoming vacant to being ready to let has substantially changed from the previous turnaround measure.

¹⁴ This is the maximum number of loans that Housing New Zealand can underwrite in any one year. We are likely to underwrite between 1,250 and 1,300 loans during 2017/18.

