



Briefing for the Minister of Housing  
December 2011

# Contents

<b>Foreword</b> .....	<b>3</b>
<b>Executive summary</b> .....	<b>4</b>
<b>Government decisions and priorities</b> .....	<b>5</b>
Social housing in New Zealand .....	5
Improving the Corporation's performance .....	5
The Housing Shareholders' Advisory Group .....	6
The Social Housing Reform Programme .....	6
Crown social objectives for the housing sector .....	8
Crown objectives for the Corporation .....	8
<b>The Corporation's strategic direction</b> .....	<b>9</b>
<b>Key areas for discussion</b> .....	<b>10</b>
<b>The Corporation's operating model</b> .....	<b>11</b>
<b>Reconfiguring the state housing portfolio</b> .....	<b>13</b>
Asset Management Strategy .....	13
Tactical Plan .....	14
Partnerships to deliver social housing .....	14
Auckland state housing activity .....	15
Tamaki Transformation Programme .....	16
Pomare redevelopment .....	17
<b>Managing demand for state housing</b> .....	<b>17</b>
Social Allocation System .....	18
Options and Advice service .....	18
Reviewable tenancies .....	18
Changes to customer base and waiting list .....	19
<b>Tenancy services</b> .....	<b>21</b>
Social landlord .....	21
<b>Withheld under section 9(2)(f)(iv) of the Official Information Act 1982</b>	
Better understanding tenants' changing needs .....	22
New tenancy services delivery model .....	22
Assistance to Housing Independence .....	22
Responding to abuse of the state housing system .....	22
<b>Operating in a business-like manner</b> .....	<b>23</b>
Returns to the Crown .....	23
Efficiency Plan .....	24
Funding for Crown programmes delivered by the Corporation .....	24
Cost of being a social landlord .....	25
<b>Canterbury earthquakes</b> .....	<b>26</b>

## Foreword

As New Zealand's largest landlord, Housing New Zealand Corporation owns or leases nearly 70,000 properties, housing over 200,000 people. There are also nearly 2,000 families – around 6,000 people – on the Corporation's waiting list with a serious need for a state home. The state housing portfolio is the Government's second largest asset, with a value of \$15 billion, and must be managed efficiently to house these families.

The Corporation's role is to provide safe, warm, and dry homes for people in the greatest need. Over the last 2 years the Government has focused the Corporation's work more tightly on managing state homes and tenancies in a financially constrained environment.

At the same time, responsibility for investing in social housing projects and building the capacity of the social housing sector has moved to a new Social Housing Unit. Its aim is to create a more diverse and responsive social housing sector and increase the pool of affordable homes provided by third sector organisations.<sup>1</sup> As a result, over time the Corporation will move away from being almost the only large provider of social housing to being the largest participant in a more diverse social housing sector. The Corporation is working constructively with the new unit as it fosters the growth of the third sector.

This is freeing up the Corporation to focus on the major changes it is making to asset and tenancy management. The Corporation is reorganising its frontline services to better meet the needs of tenants. Specialist services and better technology and information will help free up tenancy managers to spend more of their time in neighbourhoods. In some areas the Corporation has co-located its services within cross-government Community Link offices. This means that when tenants visit the Corporation they have access to a range of other government and community social services.

Many of the changes the Corporation is making are in response to the changing needs of New Zealanders. There is a need for a mix of smaller and much larger homes, and more homes are needed in high-demand areas such as Auckland. It is estimated that more than a third of state homes are in the wrong place or are the wrong size or condition to meet future needs. Further, as state housing is a limited resource we are moving away from the perception that a state home is for life to one based on housing for the duration of need.

Over the next 5 years, work to address these issues will include buying, leasing, and selling properties in areas of high demand and reducing the concentration of state housing in areas of lower demand. As part of this work, tens of thousands of state homes will also be refurbished.

This provides an opportunity for the Corporation to work collaboratively with private sector developers, local authorities, the third sector, iwi organisations, and other government sector agencies. The Corporation is actively pursuing opportunities to partner with private sector developers and other social housing providers to redevelop Corporation land. The Corporation will also enter into more lease arrangements with the private sector, and will establish standard contracts for maintenance and amenities across the portfolio.

The Corporation is part way through a journey to implement a new approach to achieving its purpose, and many aspects of its work are changing. However, across the organisation the overarching goal remains the same: to provide a system that better and more equitably meets the needs of the most vulnerable New Zealanders, offering housing options in their time of need for the duration of that need.

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<sup>1</sup> The third sector includes voluntary, community, and not-for-profit organisations.

## Executive summary

The Corporation needs to be constantly aware of the tension between housing those most in need, reconfiguring the portfolio, contributing to sector growth, maintaining a viable and sustainable business model, and delivering an appropriate return to the Crown. As a provider of assistance to those in need, the Corporation must operate with fairness and equity. To do this requires both focus on purpose and flexibility of approach.

A number of policy settings constrain the Corporation's ability to manage its business in the fairest and most efficient manner.

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Over the past 3 years the Corporation has worked with the Government and through the Social Housing Reform Programme to remove some of the barriers to driving improvements in state housing, such as stock targets that limit efficient asset management. Reviewable tenancies have been introduced for new state house tenants, which will allow a growing number of people to be assisted out of state homes when they no longer need them, and the Social Allocation System has been improved to ensure that those most in need are at the top of the waiting list.

The Corporation has also improved its ability to maintain the peace and comfort of neighbourhoods by introducing the Encouraging Good Neighbour Behaviour policy, which provides tools to manage more difficult tenants, including the option to issue 90-day notices to tenants who just won't be helped. The recently introduced suspensions policy provides another tool to manage those who abuse state housing or disrupt their community.

The Corporation is reorganising its services to be more efficient and to help provide a higher return to the Crown. Much of this work to improve efficiency requires investment. The Corporation's processes and systems are finally being upgraded after decades of limited investment, and the portfolio is being upgraded to provide modern amenities.

The Corporation continues to reconfigure its portfolio to provide the right homes in the right places, and to reduce the concentration of state housing in high-density areas. To optimise this reconfiguration, the Corporation is pursuing opportunities to partner with the private sector, the third sector, and iwi. This partnership approach aligns with the work of the Social Housing Unit to increase the involvement of the third sector.

The Canterbury earthquakes have created a particular challenge for the Corporation. There are more than 6,000 state homes in Christchurch, and around three-quarters of them have sustained damage, with approximately 550 having structural damage. The Corporation is working with other government agencies to maximise earthquake recovery efforts and ensure that state house tenants are supported.

# Government decisions and priorities

## Social housing in New Zealand

The Government is the main provider of social housing in New Zealand. The state housing portfolio of nearly 70,000 properties is managed by the Corporation and houses more than 200,000 people, with over 90 percent of households supported by the income-related rent subsidy. The Government also provides the Accommodation Supplement, which is administered by the Ministry of Social Development (MSD) and helps around 320,000 people outside the state housing system with the cost of their housing.

The state housing portfolio is currently valued at \$15 billion, making it the Crown's second largest asset. The income-related rent subsidy has a forecast cost of \$587 million in 2011/2012, while the Accommodation Supplement will cost around \$1.3 billion.

Social housing is also provided by local government, with around 14,000 units, and by third sector organisations, with around 5,000 units. The Government has supported this provision with funding to build capacity, carry out upgrades, and deliver new social housing, and by renting an additional 1,500 fit-for-purpose properties to community groups for residential services.

In 2010/2011 the Government provided the third sector with around \$20 million in housing grants and loans, together with \$4 million in rent relief. In addition, Wellington City Council (WCC) received \$37.5 million as part of ongoing funding of \$220 million over 10 years to upgrade its social housing stock, while a further \$5 million was provided for repairs to substandard rural housing. In 2011/2012 the Government has established a Social Housing Fund of \$37.4 million to support the third sector, and has set aside \$4 million for rent relief and a further \$43.5 million for WCC's housing upgrade project.

## Improving the Corporation's performance

In May 2009, as part of its drive towards more effective public services, the Government invited the Corporation to report on how it could better use its assets and resources to ensure the efficient and effective provision of housing to vulnerable New Zealanders. This gave the Corporation the opportunity to discuss the constraints it faces in managing the limited state housing resource.

A review by the Corporation's Board in July 2009 highlighted a number of policy settings that were limiting its ability to house those with the greatest need. For example, the Corporation is unable to move tenants on from state housing when their circumstances have improved to the point where they can sustain a private sector tenancy, or to transfer tenants into smaller state homes if they are living in homes that are larger than they require.

The review also identified that there is an urgent need to reconfigure the state housing portfolio. This is because around a third of state homes are of the wrong size or in the wrong place to meet demand, or are in poor condition. However, the Corporation's ability to reconfigure the portfolio is limited by its inability to move on tenants to more appropriate housing, and because people with a relatively low housing need have been able to join the waiting list and potentially be housed, particularly in low-demand areas.

The Board also launched initiatives to improve the Corporation's performance in managing its tenancies, properties, and balance sheet, but noted that the potential for improvement was capped by the existing policy settings.

## **The Housing Shareholders' Advisory Group**

Recognising the need to transform the social housing sector and the challenges faced by the Corporation, the Government established the Housing Shareholders' Advisory Group in February 2010. The Advisory Group comprised social housing and business experts tasked with providing Ministers with independent advice on:

- the most effective and efficient delivery model for state housing services to those most in need
- more productive and innovative ways to use current social housing assets to better support the objectives of government
- transparent measures of how the above are being achieved.

The Advisory Group reported to Ministers with 19 recommendations that it believed would provide the most effective and efficient delivery model for state housing services. These recommendations were categorised into four themes:

- Empowering the Corporation to focus on the 'high-needs' sector
- Developing third-party participation
- Instigating initiatives across the broader housing spectrum
- Clarifying sector accountabilities and delivery expectations.

## **The Social Housing Reform Programme**

In December 2010, after a period of consultation with the social housing sector, the Government established the Social Housing Reform Programme (SHRP) to:

- increase the involvement of third sector providers, to grow the overall quantum of social housing and achieve better efficiency and value for money (with work led by the Department of Building and Housing (DBH))
- increase the effectiveness of financial assistance, to support the alternative provision of social housing and allow households to achieve better and more consistent outcomes (with work led by MSD)
- focus the Corporation on providing social housing to those with high housing needs for the duration of their need, and on reconfiguring the state housing portfolio to deliver social housing where the need is the greatest (with work led by the Corporation in conjunction with DBH)
- align the organisation and responsibilities of government agencies with respect to housing (with work led by the State Services Commission, the Treasury, and DBH).

As first steps under SHRP, the Government decided to introduce reviewable tenancies for new state house tenants, and to revise the Corporation's Social Allocation System to focus on those most in need of state housing. These changes, which were introduced from 1 July 2011, mark a shift from the perception that a 'state home is for life'.

The Government also decided to consolidate the housing policy advice function at DBH from 1 July 2011, and to establish a semi-autonomous Social Housing Unit (SHU) within DBH to focus on an investment strategy to increase the third sector's involvement in social housing. SHU is also developing replacements for the Housing Innovation Fund, which helped third sector organisations to deliver social housing projects, and the Rural Housing Programme, which carried out essential repairs to substandard rural housing.

These changes to agency responsibilities have freed up the Corporation to concentrate on its core activities of tenancy and asset management, although it continues for the time being to administer a number of non-core housing products such as Welcome Home Loans, the KiwiSaver first-home deposit subsidy, and Community Group Housing.

In addition, the Government transferred responsibility for leading the Tamaki Transformation Programme to DBH from 1 July 2011. The Corporation is now focusing its efforts in Tamaki on redeveloping state housing.

Other SHRP decisions the Government has made to date include:

- agreeing that from 30 November 2011 tenants who lose or vacate their house following anti-social behaviour or a serious breach of their tenancy obligations such as fraud may have their eligibility for state housing suspended for 1 year
- agreeing to amend the Housing Restructuring and Tenancy Matters Act 1992 to allow the Corporation to administer income-related rent more efficiently and to support other SHRP initiatives such as the introduction of reviewable tenancies
- improving the performance measures in the Corporation's Statement of Intent so that portfolio management decisions are increasingly driven by responsiveness to demand and good asset management practice
- establishing a Social Housing Fund of \$37.4 million in 2011/2012, administered by the SHU, to support third sector providers that can generate new supply of social and/or affordable housing and can contribute at least 50 percent of the project costs
- agreeing that a housing assistance subsidy will be made available to third sector providers that are delivering new social housing for high-need applicants and those transferring out of state housing
- agreeing to the launch of the Assistance to Housing Independence programme to help tenants into private sector accommodation if they no longer need a state home or live in a state home that is under-occupied
- establishing a Ministerial Advisory Panel to provide independent advice to Ministers on the progress of SHRP and any major issues that may arise.

Some of the changes underway through SHRP, particularly the shift away from the perception that a state home is for life, have met with negative comment from some tenant groups, third sector organisations, and political parties.

The main themes of comment relate to:

- claims that the Corporation is turning away families in housing need who would previously have been housed
- suggestions that all state house tenancies are at risk of being ended and that the state housing portfolio is being readied for sale
- the effect of the suspensions policy on the children of suspended tenants.

However, it has been made clear that:

- the Corporation is focused on housing those with the greatest need in their time of need
- the potential transfer of state housing stock to the third sector would not reduce the total amount of social housing available
- suspensions will be used as a last resort, and the wellbeing of children will be a key consideration when making decisions under the policy.



## Crown social objectives for the housing sector

The Government has set the following Crown social objectives for the housing sector:

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

While the Corporation will continue to be the largest supplier of social housing for the foreseeable future, it is positioning itself to become part of a community of social housing providers. This will help to increase the supply of housing and provide more certainty for those who need social housing.

## Crown objectives for the Corporation

The Crown objectives for the Corporation are set by the Ministers of Finance and Housing, and are communicated to the Corporation through the Minister of Housing's annual Letter of Expectations (LoE).

In the 2011 LoE to the Corporation, the then Minister of Housing set out that the Corporation's role in achieving the Government's vision for the social housing sector is to continue to reconfigure the state housing portfolio to deliver more homes where the need is the greatest, and to focus on housing people with the highest housing need.

This sharply defined role is reflected by two Crown objectives for the Corporation:

<b>Access to Housing</b>	Assist low-income and/or vulnerable individuals and families, who request state assistance, to make the right housing choices, and work with other agencies to transition existing state house tenants whose circumstances have improved into alternative housing
<b>Delivery of State Housing</b>	Provide cost-effective state housing and associated services (as agreed by Ministers) to those most in need, for the duration of their need

The Minister also advised in the 2011 LoE that he expects the Corporation to:

- maintain its focus on improving value for money, operating efficiency, and cost control, and provide a higher return on the Corporation's \$15 billion asset base
- work constructively with the Government to implement SHRP decisions and foster the growth of the third sector
- pursue appropriate options with private developers and/or community housing providers to develop the Crown's land holdings
- progress property developments in neighbourhoods such as Pomare and Tamaki
- develop, in conjunction with DBH, a set of 'headline indicators' that encompass key aspects of the Corporation's performance.



## The Corporation's strategic direction

The Corporation's overarching outcome is that New Zealanders in need have access to the right house, in the right place and at the right time, for as long as that need exists. The Corporation's Statement of Intent 2011-14 provides in-depth information on how it is contributing to the Government's objectives for the housing sector, and provides an updated set of key performance indicators that drive improvement and measure results.

The Corporation's strategy is to build a sustainable, self-funding, and efficient state housing operating model. This is a long-term challenge which will be delivered over the next 10 or more years. The Corporation is the largest social housing provider in a growing sector, and is the Crown's most powerful and efficient tool for providing social housing while other providers develop. While the Corporation no longer leads policy advice for social housing, it continues to contribute knowledge and expertise during policy development.

The Corporation is pursuing partnership opportunities to help reconfigure the state housing portfolio, and is working constructively with the SHU as it begins to foster the growth of the third sector. The Corporation is also strengthening its partnerships with other agencies such as MSD to improve service delivery and ensure services are joined up.

The Corporation faces a number of challenges in meeting its strategic goals and contributing to the Government's objectives for the sector:

### ***Policy settings***

- The Corporation needs to ensure that state homes are tenanted by those most in need, but does not have the mandate to move on current tenants who are able to sustain a private sector tenancy
- The income-related rent subsidy is more generous than the Accommodation Supplement and acts as a disincentive for tenants to exit state housing
- It is important that SHRP decisions are implemented effectively, and that non-core activities are transferred to other agencies in a coordinated way

### ***Asset development***

- The current distribution, concentration, and standard of the state housing portfolio does not match demand or the changing needs of the Corporation's customers

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- The Corporation needs to invest in demand areas and homes that provide value for money over time, while paying increasing returns to the Crown and potentially having restricted cash flow
- There is a need to increase the overall number of properties in high-demand areas whilst also reducing the concentration of state housing in high-density areas
- Some state homes that are poorly matched to demand are proving difficult to sell and are costing the Corporation in lost revenue while they remain vacant
- The Corporation is required to carry out medium-term asset planning without certainty of the Crown's dividend expectations
- Responding to the need to repair and redevelop state housing in Canterbury
- Regional land use restrictions and transport planning for new developments

### ***Tenancy management***

- The Corporation must continue to meet the housing needs of its tenants as its customer base shifts toward more people with high and complex needs
- It is important to ensure that processes are in place for state house tenants to continue to access social services beyond housing
- There is a need to manage perceptions and provide clarity about the Corporation's changed role

### ***Operating model***

- The Corporation needs to maintain a balance between housing those most in need, reconfiguring the portfolio, and delivering an acceptable return to the Crown
- There is a need to work collaboratively across the wider public sector to drive efficiencies, for example through integrated procurement on construction projects
- The Corporation needs to build capability, upgrade systems, and improve performance to deliver on core business targets and strategic goals.

## Key areas for discussion

### **Social Housing Reform Programme initiatives**

The Corporation is contributing to a number of SHRP report-backs to Ministers or Cabinet from other agencies that are due in March 2012. The Corporation considers that the changes sought by SHRP are essential if it is to achieve the outcomes and savings set by the Government. For example, the Corporation's ability to house for the duration of need and reconfigure the portfolio is limited without:

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These changes complement each other and are interlinked. There is a risk that if SHRP does not deliver on the changes or they are delivered in an ad hoc way, there may be unintended consequences for the Corporation's ability to deliver on its objectives, or for its tenants. It is important that there is the right level of engagement with the Corporation as decisions are made, particularly where functions are being transferred to other agencies.

A further SHRP initiative that would help the Corporation to focus on core activities and operate more efficiently is the transfer of the non-core Crown Products and Programmes Unit to another agency.

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## Asset development

The Corporation urgently needs to reconfigure its stock to increase the number of state homes matched to demand, but faces a number of issues that could significantly impact on the pace and cost of this work.

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If the Corporation is to take advantage of property market cycles and conditions, it needs to be able to formulate its asset plan over the medium term. Medium-term stability of the Crown's dividend expectations would provide more certainty to the Corporation and allow it to manage cash flow more effectively. For example, surplus cash not spent in the year it is released could be used in developments that span several financial years.

The Corporation also notes that increased central government input into regional land use and transport planning, together with ongoing refinements to the Resource Management Act 1991, would help it to increase the rate of progress on new developments.

## The Corporation's operating model

The Corporation is transforming the way it works to support its new focus on its core business of tenancy and asset management. In July 2011 the Corporation established the Transformation One programme to ensure a consistent approach to the business change initiatives supporting its transformation, which include a new operating model enabled through investment in new technology and the development of new systems.

The Corporation's transformation is on track to begin implementation in April 2012. The Corporation will continue to make improvements to its operating model on an ongoing basis.

The Corporation's new operating model will allow it to make more efficient use of Crown resources, and supports the development of a more tightly focused state housing system. As part of the new approach, the Corporation is re-organising and streamlining its frontline services to provide a better, fairer, and more responsive service to customers. Customers will have their routine enquiries dealt with quickly through a larger customer service centre, which will free up tenancy managers to spend more time in their communities managing tenancies.

Over time the Corporation aims to relocate more of its service delivery points within cross-government Community Link offices. This will allow customers to get a linked-up service from multiple agencies including MSD. Many state house tenants are already MSD customers.

The Corporation has also stopped or reduced a number of non-core activities, some of which have been transferred to other agencies. For example, the Corporation has ceased community renewal activity in areas with high concentrations of state housing, as this involved activities beyond its core responsibilities and is better led by other agencies. While the Corporation will not take the lead, it will continue to remain involved in community development projects.

The Corporation has established the Crown Products and Programmes Unit to temporarily manage non-core programmes such as Welcome Home Loans, and the KiwiSaver first-home deposit subsidy, together with a number of legacy loan portfolios that require ongoing administration

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The new technology and systems to support the new operating model are being delivered through the Enterprise Transformation Programme (ETP), which the Corporation established in 2008/2009 to align its business processes and replace its aging core software applications. The Corporation's existing tenant record and asset management systems, for example, are 20 years old.

ETP is forecast to deliver \$240 million of efficiencies (net present value) over the next 10 years. The new technology and systems being delivered by ETP will enable staff to work more efficiently and help the Corporation to improve its asset utilisation and service delivery by:

- improving the quality of information about the \$15 billion state housing portfolio, helping the Corporation to better match houses to priority demand and more effectively plan its asset programmes
- automating, eliminating, or centralising cumbersome manual processes, which will improve efficiency and consistency and free up staff time
- giving frontline staff the opportunity and technology they need to become more mobile, allowing them to spend more time with tenants in their community.

The Corporation's investment in ETP has received some negative comment in the media and from political parties in relation to whether the new technology is needed, the level of investment required, and the processes that have been followed. However, the methodology used to establish the benefits and costs was independently reviewed, and there is a robust governance and external monitoring structure in place.

The State Services Commission (SSC) is monitoring the implementation of ETP as a Monitored Major Project. SSC has reported to ICT Ministers that the Corporation has demonstrated agility in managing an aggressive implementation schedule, and that its engagement and reporting should be considered as exemplary.

## Reconfiguring the state housing portfolio

The Corporation is continuing to reconfigure the state housing portfolio to deliver more homes where the need is the greatest. Around 42,000 of the Corporation's nearly 70,000 houses are matched to demand, and are in the right condition. However, around 27,000 houses are mismatched to demand, are in poor condition, or provide a less than optimal economic return.

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As discussed later in this briefing, the Corporation has established a Demand and Supply Forecasting project to improve its forecasting capability, and is using a customer segmentation framework to understand its customers better. High-quality information is an essential foundation for the Corporation to effectively plan the reconfiguration of the portfolio and meet the specific and changing housing needs of its customers.

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### **Asset Management Strategy**

In June 2010 the Corporation adopted an Asset Management Strategy, which sets out how it will manage the portfolio and ensure that it meets the Corporation's standards. The goal of the strategy is to reconfigure the portfolio to increase the number of state homes of

the right type, in the right place, and in the right condition by 10,000 over 10 years. This will deliver a portfolio that is fit for purpose and aligned with priority demand.

This means optimising the value of the \$15 billion state housing portfolio through better use of land, divesting properties that are underperforming or surplus to demand, investing in suitable homes in the right locations to meet priority demand, and working closely with central and local government, the private sector, and third sector partners.

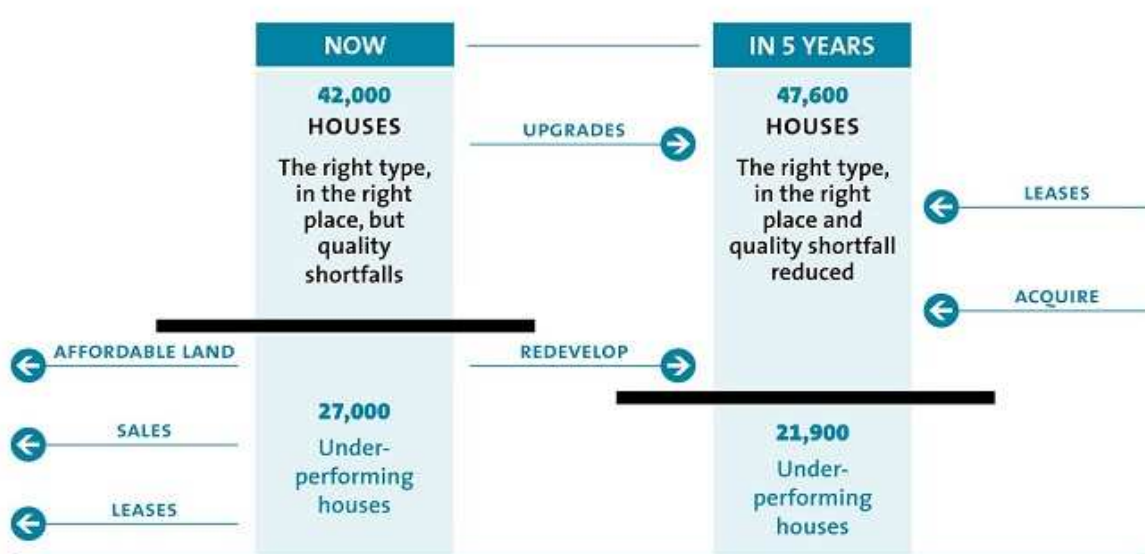
The Asset Management Strategy also aims to achieve cost-effective maintenance of the portfolio, and improve community outcomes by reducing the density of state housing in areas with high concentrations. This is particularly important as the Corporation’s customer base shifts towards a higher proportion with high and complex needs.

## Tactical Plan

The Corporation’s Tactical Plan translates the strategic direction of the Asset Management Strategy into a 5-year national work programme. The Tactical Plan is reviewed annually to ensure that it responds at a regional level to changes in the Corporation’s operating environment, such as the impacts of the Canterbury earthquakes and changes to the Corporation’s policy settings.

The following diagram provides a model of the Corporation’s planned portfolio activity from 2011 to 2016, as set out in its Asset Management Strategy.

### Model of planned state housing portfolio activity 2011 to 2016



## Partnerships to deliver social housing

The Corporation’s ability to reconfigure the portfolio depends on being able to leverage off partnerships with the private sector, the third sector, local authorities, and iwi. A partnership approach also aligns with the work of the SHU to increase the involvement of the third sector and increase the overall quantum of social housing.

The Corporation has developed a partnership framework to effectively deliver state housing redevelopments in a structured, measurable, governed, and auditable way. This will ensure that performance is robust, transparent, and meets the Corporation’s

expectations and requirements. A number of projects have been identified as prototypes for this new partnership approach.

The partnership framework uses an Expression of Interest (EOI) process to seek project partners who can demonstrate cost effectiveness, innovation, and the ability to work collaboratively with government agencies, relevant authorities, and the community. The EOI process also seeks partners with knowledge and experience in urban design, house design, future proofing, and incorporating design principles that reduce ongoing maintenance and household running costs.

The Corporation is using the EOI process to pursue opportunities to reconfigure the state housing portfolio in partnership with the private sector, the third sector, local authorities, and iwi. The Corporation is also in discussions with the SHU about further partnership opportunities that will contribute to the growth of the third sector and grow the overall quantum of social housing.

## Auckland state housing activity

In the next two decades, population growth and housing demand are forecast to increase faster in Auckland than in the rest of New Zealand. This high growth will increase the pressure on available housing.

The Corporation is carrying out an overhaul of its Auckland portfolio over the next 5 years. Nearly half of the 30,600 state homes in Auckland will be upgraded and up to 1,400 new state homes will be added to the portfolio. These new and renovated homes will be the right size, in the right condition, and in the right place to meet current and future priority demand. As at 30 September 2011 there were just over 950 priority applicants on the waiting list for state housing in Auckland (excluding transfers), which was 48 percent of the national total.

The Corporation is basing its Auckland work programme on the draft Auckland Spatial Plan, which is due to be adopted in February 2012. This means that, wherever possible, new state homes will be close to planned transport hubs and the infrastructure necessary to ensure that tenants can access schools, support centres, and work opportunities.

As part of the programme, the Corporation will look to reduce the density of state housing in areas where there is a high concentration. The Corporation will work through the SHU, the third sector, and iwi, to identify opportunities created by the subdivision of larger properties to provide more social and affordable housing in Auckland.

The following table shows the forecast activity in Auckland over the next 5 years.

### Forecast Auckland state housing activity over the next 5 years

	Central and East Auckland	West and North Auckland	South Auckland	Auckland total
Existing units	11,000	6,600	13,000	30,600
New dwellings	850	1,150	1,270	3,270
Divestments	(730)	(700)	(420)	(1,850)
Net additions	120	450	850	1,420
Upgrades	5,100	3,200	6,200	14,500



## **Tamaki Transformation Programme**

The Tamaki Transformation Programme (TTP) was launched in 2007 as a 15- to 20-year urban regeneration initiative aimed at transforming the socio-economically depressed area of Tamaki into a thriving and prosperous place to live. Tamaki has been identified by Auckland Council as a priority area in its draft Auckland Plan. With a 57 percent concentration of state housing, it is also a priority area for the Corporation.

TTP activity was initially overseen by a Corporation-led Establishment Board with support from other agencies and the community. In October 2010 Cabinet agreed to establish an Interim Tamaki Transformation Board (ITTB) to provide advice to Ministers on an urban regeneration entity for Tamaki. The ITTB comprises an independent Chair and a mix of representatives from the private, community/iwi, and government sectors, including the Chief Executives of the Corporation, DBH, MSD, and Auckland Council.

The ITTB first met in June 2011, and since 1 July 2011 has been supported by DBH as the lead government agency. The Corporation is now focusing its efforts in Tamaki on redeveloping state housing.

In October 2011 the Cabinet Business Committee agreed in principle to establish a Tamaki Redevelopment Company (TRC) to lead transformation activities, procure and plan housing and infrastructure, and coordinate social and economic programmes in Tamaki. The Committee also directed the ITTB to work with DBH and the Auckland Council on the governance, shareholding, and funding arrangements for the TRC before reporting to the Ministers of Finance and Housing by March 2012.

### ***State housing redevelopment in Tamaki***

In October 2011 the Corporation completed a redevelopment at Kings Road, Panmure, which has seen 14 bedsit units replaced with 40 new two-bedroom units suitable for older people. The Corporation is also on track to complete 120 modernisations over the 3 years to 2011/2012.

The next major state housing redevelopment planned for Tamaki is the Northern Glen Innes Redevelopment Project, which will reduce the concentration of state housing and be a catalyst for wider urban regeneration under the TTP. The project will see 156 state housing properties redeveloped to create at least 260 new homes, including 78 state homes and at least 39 other social housing properties.

At least 15 percent of the remaining new homes delivered by the project will be affordable rentals or will provide affordable home ownership opportunities. Project partners may deliver this affordable housing through partnerships with third sector organisations.

In September 2011 the Corporation released an EOI seeking partners for the project and received a number of responses in October 2011 from private developers, third sector organisations, and iwi groups. In November 2011 the Corporation released a Request for Proposal to shortlisted groups, with preferred partners due to be selected by February 2012. The project deed should be executed in May 2012, subject to final negotiations.

In November 2011 a group of Tamaki residents protested against the Northern Glen Innes Redevelopment Project. However, redevelopment is essential to support wider urban regeneration in Tamaki and to help build a prosperous and safer community. The Corporation will assist affected tenants with their relocation expenses as it transfers them to alternative state housing from mid-2012.

## Pomare redevelopment

As part of its work to reconfigure the state housing portfolio, the Corporation is redeveloping the Pomare area of Lower Hutt. The state housing stock in the area consists mainly of three-bedroom properties, which are poorly matched with priority demand. There is a high vacancy rate in the area, which is exacerbated by significant social issues.

In August 2011 the Corporation removed 27 old state homes on the corner of High Street and Farmer Crescent. The Corporation plans to remove a further 61 properties in the area before redeveloping it during 2012 to provide a mix of social, affordable, and private housing and create a safer, more vibrant community.

The redevelopment is planned to deliver a mix of larger houses and smaller two-bedroom units to match demand. The number of houses to be used for state housing has not yet been determined, however, as the Corporation is working through the council planning process and seeking interest from other social housing providers.

A draft concept subdivision plan for the Farmer Crescent area has been completed. Once the initial resource consents are obtained, the Corporation will begin roading and infrastructure works. These works are scheduled to begin in February/March 2012, with the first homes being built as early as mid-2012. The Corporation has also brought forward its upgrade programme for the remaining state houses in the immediate area.

From 19 November to 7 December 2011 a group of Pomare residents occupied vacant Hutt City Council land in Farmer Crescent. The group was concerned that the redevelopment will not provide enough state housing in the area. However, the Corporation is committed to retaining a state housing presence in Pomare, and has been able to transfer many affected tenants within the area. Over half of the remaining 61 units are currently vacant. Affected tenants will have the option of applying for a transfer back to Pomare, although the Corporation must give priority to those with the greatest housing need.

## Managing demand for state housing

As at 30 September 2011 there were nearly 2,000 priority applicants on the waiting list for a state home (excluding transfers). There are also over 4,000 state house tenants living in homes larger than they require, and nearly 3,000 who live in overcrowded conditions.

In addition to reconfiguring the state housing portfolio, the Corporation is managing the demand for state housing by:

- allocating state homes through the Social Allocation System to those with the greatest need
- providing an Options and Advice service to inform customers about their housing options, and to assist them into accommodation suitable for their needs
- having introduced reviewable tenancies for new tenants, so that state housing assistance is available for the duration of need
- helping tenants to move into more suitable state housing, or into appropriate alternative accommodation if they are ready and able to move on from state housing
- taking action against tenants who abuse the state housing system, freeing up state housing for those most in need.

## **Social Allocation System**

The Corporation assesses need for state housing through the Social Allocation System (SAS). Following a review, the Government approved changes to SAS from 1 July 2011 to improve the Corporation's ability to identify applicants whose current accommodation puts them and their family at risk, and to ensure that state homes are allocated to the households in the greatest need.

Since 1 July 2011 the Corporation has had the mandate to only house new applicants with a priority need ('A' and 'B' applicants). Lower priority ('C' and 'D') applicants are no longer eligible to be placed on the waiting list for state housing. These applicants are instead offered assistance through the Options and Advice service to find a non-state housing solution, and their details are recorded on a Housing Needs Register. They may also be eligible for housing assistance through the Accommodation Supplement.

Applicants confirmed on the waiting list before 1 July 2011 with a C or D priority remain eligible for state housing. The Corporation also continues to accept transfer applications from state house tenants with a low priority for housing who live in homes larger than they require and wish to move to more suitable accommodation.

## **Options and Advice service**

Developing an Options and Advice service was identified by the Government as a key priority for the Corporation in 2009/2010. The service has been available nationally since June 2010. All customers who approach the Corporation for housing are assisted through the service, except where they show an urgent need for housing.

Options and Advice provides customers with information about their housing options, and helps them to access housing suitable for their needs. In many cases, this does not mean joining the waiting list for state housing, but means getting assistance to find an alternative housing solution such as a private sector rental.

The Corporation's direct contact with customers through Options and Advice also provides an opportunity to link them with other agencies and services that they may not have previously considered. For example, many customers are not aware that they may be eligible for assistance through the Accommodation Supplement.

Analysis by the Corporation suggests that only around a third of customers who attended an Options and Advice session in 2010/2011 went on to have a needs assessment under SAS, compared with over half of new customers before the service was introduced. This has enabled the Corporation to focus on those with the greatest housing need.

## **Reviewable tenancies**

As one of its reforms of the social housing sector, the Government decided to introduce reviewable tenancies for new state house tenants from 1 July 2011. Housing need for these tenants will be reviewed at least every 3 years using the revised SAS criteria. This marks a shift from the perception that 'a state home is for life'.

As at 30 September 2011 there were nearly 2,000 priority applicants on the waiting list for a state home (excluding transfers), while around 4,700 current state house tenants pay a market rent and may be able to sustain alternative housing such as a private sector rental. While the Corporation has in the past been able to house priority applicants through a combination of purchasing, leasing, and reconfiguring the portfolio, it previously did not have a mandate to move tenants on who no longer have a serious housing need.

The Corporation will implement reviewable tenancies sensitively, taking account of the needs of tenants such as the elderly and those with disabilities. Vulnerable tenants and those whose circumstances are unlikely to have changed will undergo a 'desktop' review in the first instance.

To support the introduction of reviewable tenancies, the Corporation has developed and introduced Household Action Plans for all new tenants from 1 July 2011. These plans provide a basis for tenants to work in partnership with the Corporation to help identify their barriers to gaining housing independence, and to build their capability to access and sustain a non-state housing solution.

## Changes to customer base and waiting list

The Corporation's customers are primarily lower-income households. Around 93 percent of state house tenants pay an income-related rent. This proportion is expected to increase as the Corporation houses more people with high and complex needs.

As at 30 September 2011, 34.4 percent of primary state house tenants identified as Māori, compared with 14.6 percent of the general population (Census 2006). Similarly, 26.3 percent of tenants identified themselves as Pacific peoples, compared with 6.9 percent of the general population. Customers may identify with more than one ethnicity.

The most frequent household type for state homes is a single parent with child(ren), which accounted for 34 percent of households as at 30 September 2011. Couples with a child or children accounted for 16 percent of households, while 8 percent had multiple adults and a child or children. Around 27 percent of households consisted of single adults, while another 14 percent were tenanted either by multiple adults or by couples without children.

There is a long-term trend toward a need for smaller or larger state homes, reflecting continuing changes to family compositions and household sizes. For example, as at 30 September 2011 only 18 percent of priority applicants for state housing in Auckland (including transfers) required a home with three bedrooms, which currently account for 43 percent of the Auckland state housing portfolio.

The following table sets out the Auckland portfolio according to number of bedrooms as at 30 September 2011, and compares this with demand from priority applicants (including transfers).

### Auckland state housing portfolio according to number of bedrooms versus demand

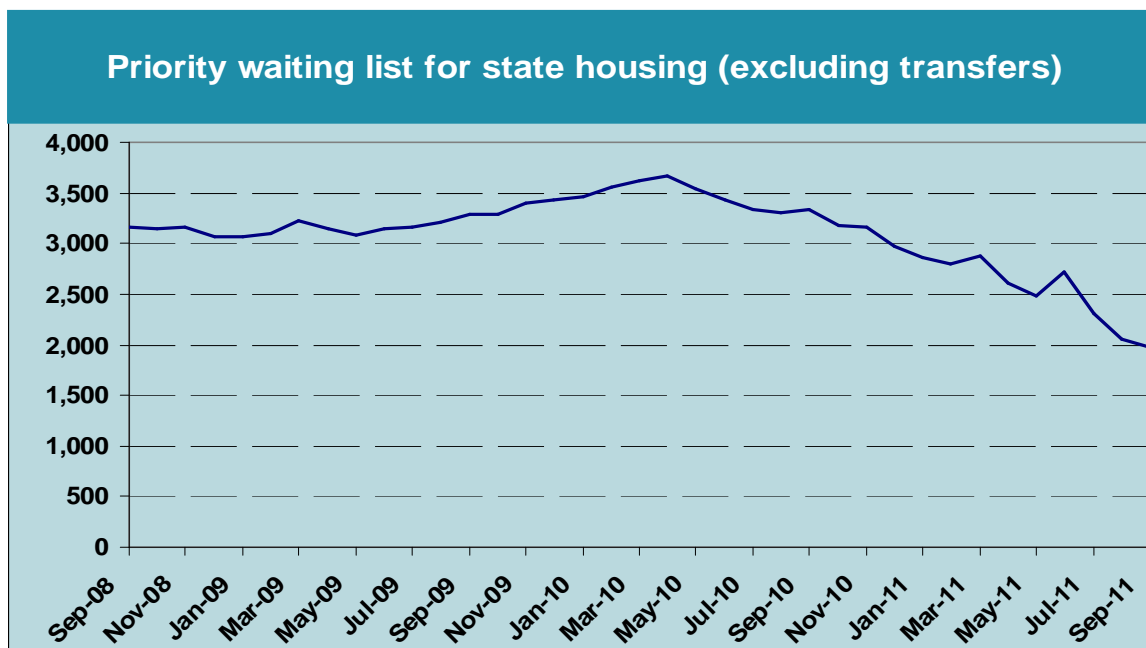
Bedrooms	Proportion of portfolio	Priority demand
1	10%	22%
2	33%	29%
3	43%	18%
4+	14%	31%

As at 30 September 2008 there were 3,166 applicants (excluding transfers) on the waiting list with a priority ('A' or 'B') housing need. By 30 September 2011 this had fallen to 1,971.

The decline in the waiting list appears to be linked to the introduction of the Corporation's Options and Advice service, which was implemented nationally in June 2010. In the 12 months before implementation, around 56 percent of customers seeking housing assistance from the Corporation had a housing needs assessment. In the 12 months following implementation, this had decreased to 32 percent. The number of priority applicants as a proportion of those housed has also increased over the last year.

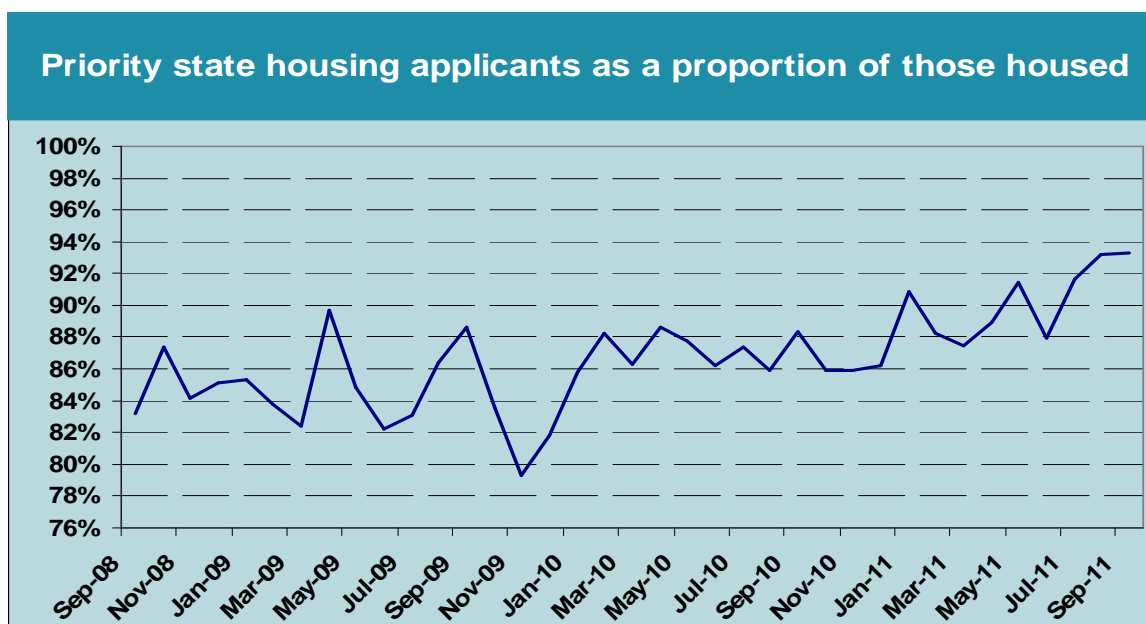
The figure below shows the changes in the Corporation's priority waiting list (excluding transfers) in the 3 years to September 2011.

**Priority waiting list for state housing (excluding transfers)**



The figure below shows the increase over the 3 years to 30 September 2011 in the proportion of priority applicants housed.

**Priority state housing applicants as a proportion of those housed**



While DBH is responsible for analysing supply and demand for social housing at a sector level, the Corporation needs robust information about future demand for state housing in order to effectively plan its asset management activities. In December 2010 the Corporation established the Demand and Supply Forecasting project to provide improved forecasting capability.

The Corporation reviewed world-wide best practice and visited a number of New Zealand social sector agencies to learn about modelling techniques before identifying a preferred approach. The Corporation is currently adapting the model to make it fit for purpose for the New Zealand environment.

The forecasting information provided by the model will be used in the Corporation's Asset Management Strategy and Tactical Plan to help ensure that the right houses are provided in the right places at the right time. The improved forecasting ability will also help the Corporation to plan for environmental changes and improve and develop its frontline services.

## Tenancy services

The Government has directed the Corporation to focus on its core business of tenancy and asset management. To support this, the Corporation is concentrating its frontline services on supporting people with priority housing needs during their time of need.

### **Social landlord**

As a social landlord, the Corporation operates differently from private sector landlords in many ways. For example, the Corporation allocates its tenancies on the basis of need and provides housing at below market rent through income-related rents. The Corporation also provides much more intensive tenancy management than private sector landlords, as many of its tenants have high and complex needs.

However, the Corporation does not employ mental health professionals, specialists in dealing with family violence, or probation officers. As a social landlord, the Corporation links its tenants to assistance from a range of social agencies when it notices any issues that might require broader social services than the Corporation can or should provide.

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## **Better understanding tenants' changing needs**

To effectively and efficiently manage its assets and tenants, the Corporation must better understand the make-up of its current and future customers, and the barriers they face in achieving housing independence.

In 2010/2011 the Corporation began using a customer segmentation framework that provides the demographic information required to understand the characteristics of the Corporation's different customer groups. This is helping to improve the Corporation's service delivery and ensures that it responds effectively to customer needs.

## **New tenancy services delivery model**

As set out earlier in this briefing, the Corporation is re-organising its frontline services to provide a better, fairer, and more responsive service to its customers.

The Corporation is streamlining and centralising key processing functions to enable frontline staff to focus on better meeting the needs of both applicants and tenants. For example, in January 2011 a specialist team was established to process income-related rent applications, freeing up tenancy managers to spend more time in their neighbourhoods. The Corporation is also relocating more of its service delivery points within cross-government Community Link offices to allow customers to get a linked-up service from multiple agencies.

## **Assistance to Housing Independence**

The Government has directed the Corporation to work with other agencies to transition existing state house tenants whose circumstances have improved into alternative housing. In September 2011 the Corporation began a controlled roll-out of the Assistance to Housing Independence programme to help these tenants.

The programme, which is voluntary, is focusing on tenants who pay a market rent, and on tenants who are living in homes larger than they require and are interested in moving to a more suitable property. Tenants are being offered a range of assistance to help them transition out of state housing, including help with moving costs and support through the Options and Advice service.

## **Responding to abuse of the state housing system**

Over the last 3 years the Corporation has put more resources into detecting and investigating state housing fraud to ensure that those most in need are being housed. This has included developing the capability and effectiveness of its Investigations Team.

Between 2008/2009 and 2010/2011 the Corporation freed up 397 state homes after investigations uncovered that the tenants had provided false or misleading information about their circumstances. In 2010/2011, 241 houses were freed up, with 150 of these in Auckland, where demand for state housing remains high.

As discussed earlier in this briefing, the Government has agreed to the Corporation introducing a suspensions policy from 30 November 2011 for state house tenants who lose or vacate their house following anti-social behaviour or a serious breach of their tenancy obligations such as fraud. These tenants may be suspended from eligibility for state housing for up to 12 months.



## Operating in a business-like manner

The Government has directed the Corporation to maintain its focus on improving value for money, operating efficiency, and cost control, and has asked it to provide a higher rate of return on the Corporation's \$15 billion asset base. In delivering this return, the Corporation must also continue its core activities of reconfiguring the state housing portfolio and providing state housing to those in greatest need.

### Returns to the Crown

Section 40(1) of the Housing Corporation Act 1974 requires the Corporation to pay its annual surplus (capital and operating) for each financial year to the Crown, unless the responsible Ministers authorise the Corporation to keep all or any part of it.

The Corporation also returns a social dividend to the Crown as a result of the services it provides to its customers. These services include needs assessments, helping tenants to sustain their tenancies, the Options and Advice service, the Assistance to Housing Independence programme, social support referrals, managing income-related rents, and administering Crown products and programmes.

The following table sets out the annual distribution that the Corporation has paid or is forecast to pay to the Crown since 2005/2006. The annual distribution is paid after year end once the Corporation's accounts have been finalised.

#### Housing New Zealand Corporation annual distribution

2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
\$20m	\$13m	\$2m	\$132m	\$71m	\$68m	\$108m	\$121m	\$88m

The forecast distributions for 2011/2012 and 2012/2013 are based on the 2011 LoE from the Minister of Housing to the Corporation, which requires the annual distribution for these years to be \$45 million higher than forecast in Budget 2011. These increased distributions include capital distributions of \$35 million in 2011/2012 and \$31 million in 2012/2013, and have been incorporated into the Corporation's Statement of Intent 2011-14.

However, no capital distribution has been included for 2013/2014. This is mainly due to forecast asset impairment of \$38 million as a result of significant planned asset activity. This impairment is normally in the range of \$10 million to \$12 million per year.

The requirement for the Corporation to pay its surplus to the Crown reduces the Corporation's flexibility to maintain the state housing portfolio to its current standard of amenity. All capital expenditure, unless funded by additional capital from the Crown, is limited to surplus cash flow generated internally and principally funded by depreciation.

In addition to the annual distribution, the Corporation pays tax and interest to the Crown on the debt it has with the Debt Management Office. This contrasts with many NGOs that are registered charities and do not have to pay tax, or have been able to attract government funding at concessionary rates, or capital from philanthropic sources.

## Efficiency Plan

The Corporation's focus on value for money is helping it to meet the Government's financial expectations. The savings made in previous years have been embedded into normal service delivery and have been incorporated into business plans.

The Corporation has developed an Efficiency Plan to help it to return an increased distribution to the Crown. The Corporation's return on equity target has been set at 1.5 percent for 2011/2012 and 1.7 percent for 2012/2013. This compares with a return of 1.4 percent achieved in 2010/2011, excluding the impact of the Canterbury earthquakes.

Underpinning the Efficiency Plan is the Corporation's new operating model, which will drive greater efficiency from the Corporation's operations, and will help it to achieve long-term, sustainable savings. Another significant initiative that will help achieve the required efficiencies is the Corporation's Enterprise Transformation Programme, which is forecast to deliver \$240 million of efficiencies (net present value) over the next 10 years.

Other key initiatives underway to improve efficiency and effectiveness include:

- implementing asset management improvements to reduce the ongoing costs of maintenance and upgrades so that more can be achieved for the same cost
- continuing to drive procurement efficiencies through bulk purchasing, inventory control, national contracts, and increased use of central government purchasing
- continuously reviewing business operations through a programme of business improvements.

## Funding for Crown programmes delivered by the Corporation

The appropriations for Vote Housing are administered by DBH. The Crown uses these appropriations to fund the activities of DBH, and to contract with other providers. Some of this funding is contracted with the Corporation to deliver income-related rents and a number of other programmes on behalf of the Crown.

The following tables detail the funding available to the Corporation to deliver Crown programmes in 2011/2012:

### Operating funding to deliver Crown programmes

Crown programme	\$m
Purchase of housing and related services for tenants paying income-related rent	587.115
Community Group Housing – Rent Relief	4.150
Community Group Housing – Top up to market rents	5.500
Interest subsidies and administration for legacy mortgages	1.729
KiwiSaver Housing Deposit Subsidy	5.200
KiwiSaver Housing Deposit Subsidy – Administration costs	0.743
Welcome Home First Steps (home ownership education)	2.400
Welcome Home Loans (mortgage insurance scheme) including administration costs	9.100
<b>Total Operating Funding</b>	<b>615.937</b>

### Capital funding to deliver Crown programmes

Crown programme	\$m
Acquisition of community houses	5.800
Energy Efficient Warm Homes	3.500
KiwiSaver housing deposit subsidy capital requirements	0.027
<b>Total Capital Funding</b>	<b>9.327</b>

The tables exclude funding for the Housing Agency Account, which is accounted for separately from Corporation activities in a formalised agency arrangement with the Crown. This account, which holds Crown land designated for state housing purposes, has a \$1.4 million operating appropriation and a \$19.1 million capital appropriation in 2011/2012.

The tables include a number of non-core programmes, such as Welcome Home Loans, Welcome Home First Steps, the KiwiSaver first-home deposit subsidy, Community Group Housing, and a number of legacy loan portfolios that require ongoing administration. As set out earlier, the Corporation has established the Crown Products and Programmes Unit to temporarily manage these programmes until decisions are made about their future delivery.

The Crown Products and Programmes Unit also manages the Gateway Housing initiative, which, despite being a Crown programme, is funded from Corporation resources.

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The Corporation has allocated \$4 million from internal revenues in 2011/2012 to supplement the \$3.5 million appropriated for the Energy Efficient Warm Homes (retrofit) programme. The programme will be completed in 2012/2013.

A further appropriation of \$175.5 million is included in Vote Housing to roll over existing debt securities issued by the Crown (through the Debt Management Office) to the Corporation when they reach maturity. It does not reflect additional capital available for Vote Housing.

### Cost of being a social landlord

The Corporation's forecast operating surplus before tax, as set out in the Statement of Intent 2011-14, is \$178 million. This provides a return of 1.5 percent on the Crown's investment in the Corporation.

The Corporation's forecast operating surplus takes into account a cost of approximately \$42 million for the various additional services it provides as a social landlord. These services include needs assessments, waiting list management, and the administration of the income-related rent subsidy and Crown debt recoveries. In addition, the Corporation does not recharge water rates to its tenants as the necessary systems and infrastructure are not in place. This will cost around \$28 million in 2011/2012.

Without these costs, the Corporation's forecast surplus would be some \$70 million higher at \$248 million, which would provide the Crown with an increased return on equity of 2.1 percent.

# Canterbury earthquakes

## Extent of damage

The Corporation has been significantly affected by the Canterbury earthquakes. The Corporation has 6,122 properties (just under 9 percent of the portfolio) in Christchurch, housing approximately 18,000 people. Around three-quarters of these properties have sustained earthquake damage, with approximately 548 properties assessed as having structural damage. Of these, 175 are currently uninhabitable and 25 are beyond repair.

In late June 2011 the Government announced the creation of residential land damage zones: red, orange, white, and green. The table below shows the distribution of Corporation properties according to land damage zone as at 20 October 2011.

### State housing in Christchurch according to residential zone

Residential zones	Number of properties	
Red (where remediation would be prolonged and may be uneconomic)	209	69 tenanted
Orange (hold, further assessment required)	254	183 tenanted
White (unzoned and unmapped)	22	21 tenanted
Green (the repair/rebuild process may begin)	5,638	5,138 tenanted

On 28 October 2011 the Canterbury Earthquake Recovery Authority (CERA) announced that 6,430 houses have been re-zoned from orange to green, and 1,666 remain orange. The Corporation has not yet received a list of those properties that have been re-zoned.

## Responding to tenants

The Corporation's first priority is the safety of its tenants, and it acted quickly to re-house tenants whose homes had become unsafe due to the earthquakes. In addition, more than 7,000 urgent health and safety jobs have been carried out at over 3,000 properties.

The Corporation has also provided rent relief for all tenants who have had reduced services as a result of the earthquakes. Tenants continue to be encouraged to contact the Corporation if they have any concerns. As at 14 October 2011, 926 tenants were receiving a rebate. The combined value of these rebates is just under \$50,000 per week.

The relocation of tenants from Canterbury's red zone properties is progressing well. There are approximately 44 households left to shift in Christchurch and 21 in Kaiapoi. It is expected that nearly all tenants will be moved by next winter.

## Strategic response

A full assessment of Corporation properties has been completed so that repairs to properties with more extensive damage can be planned. Decisions to be made by CERA will impact on the Corporation's repair programme.

The Corporation has developed a Recovery Plan to define its medium- to long-term response to the earthquakes, encompassing both state housing and civil defence responsibilities. In developing this plan, the Corporation has taken the opportunity to improve its asset and tenancy management in the area, including redevelopment work.

The Corporation is working with other government agencies at both the local and national level to maximise earthquake recovery efforts and ensure that state house tenants are supported. For example, the Corporation has moved its service delivery from the Linwood

Neighbourhood Unit to a cross-government Community Link office, where it can provide integrated services to tenants together with MSD and the Inland Revenue Department.

## **Impact on Tactical Plan**

Any loss of portfolio value resulting from the earthquakes will impact on the Corporation's Tactical Plan objectives. As maintaining stock and addressing essential improvements must be prioritised over new acquisitions, a loss of portfolio value will result in less capital to invest in housing in high-demand areas.

The impact for Christchurch in particular is less tangible. The Corporation will continue to reconfigure the housing stock in Christchurch to better meet the demand for smaller units and larger family homes. However, it is too soon to assess the level of investment required to meet the future demand for state housing in Christchurch. If population trends return to normal levels, the Corporation will continue to increase the number of state houses in Christchurch as outlined in the Asset Management Strategy.

In the interim, the Corporation will continue to remediate damaged homes so that they are fit for purpose, and will remain flexible to meet any increasing demand through leasing.

## **Redevelopment opportunities**

To date, 15 potential redevelopment sites have been identified across Christchurch. Many of the redevelopment sites identified may also suit a partnership or joint venture arrangement with developers, housing trusts, or the Christchurch City Council.

Additional work is being done to assess the viability of each site in terms of existing infrastructure capacity, site layout, and financial feasibility. There is capacity for an additional 154 new housing units, but older existing housing would need to be demolished and rebuilding would be to a higher density.

Permits for higher-density development through zoning changes could potentially create a greater number of, and more financially viable, redevelopment options for the Corporation. The Corporation discussed possible up-zoning with CERA city planners in October 2011.

## **Financial impact**

The financial implications of the Canterbury earthquakes are closely linked to the outcome of the Corporation's insurance claims. Each of the three earthquakes has been separately identified for insurance purposes. Claim 1 (September 2010) is estimated at \$94 million, Claim 2 (February 2011) is estimated at \$199 million, and Claim 3 (June 2011) is estimated at \$30 million. Of this \$323 million, \$294 million is for material damage, while \$29 million relates to business interruption costs. There is a \$10 million policy excess applicable to each claim.

These estimates are subject to material changes due to the complexity of the insurance claims, which are continually being reviewed as repairs are costed. The actual cash loss to the Corporation will be the \$10 million policy excess for each event, plus land remediation costs and removal of liquefaction, which are not covered by insurance.

The Corporation has provided in its 30 June 2011 annual accounts for a write-down of 218 properties, including all of its red zone properties, which will almost certainly need to be demolished. The amount of this write-down was \$46 million.

The proceeds from the earthquake claims have yet to be received.

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