



Department of
Building and Housing
Te Tari Kaupapa Whare

Briefing for the Minister of Housing

November 2008



New Zealand Government

978-0-478-32769-4 (web)
978-0-478-32773-1 (print)

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Introduction

The Minister for Housing is responsible for the oversight and management of the government's interests in and relationships with the Housing New Zealand Corporation (HNZC). Your responsibilities are to:

- make sure an effective board is in place to govern HNZC through Board appointments, reappointments and removals
- set strategic direction and expectations for the HNZC
- monitoring and reviewing HNZC performance and results
- managing the risks on behalf of the government.

In addition you have parliamentary responsibility for the HNZC, which includes answering Parliamentary questions about the operations of the Corporation.

You also have Budget responsibility for Vote: Housing as it relates to HNZC.

The following briefing is in two parts, the first provides an overview of the building and housing sector and the second relates to your role as Minister of Housing.



Part One: Overview of Building and Housing sector

The building and housing sector is a key part of the economy and critical to economic recovery and growth

1 Activity in the building and construction (including housing) sector has a significant impact on New Zealand's economic performance:

- the sector contributes around 5% of GDP¹
- the total capital spend in the building and construction sector is more than \$20 billion per annum² of which around \$8 billion is surplus after input costs
- the sector also contributes to activity in a number of related sectors (manufacturing, transport, property and business services)
- has a significant impact on consumption levels (homeownership and the value of people's homes affects their perceptions of wealth and financial security)
- currently about 176,000 people are employed in the building and construction sector (about 8% of people employed) – this figure is projected to decline as a result of the current economic downturn
- housing, along with commercial/industrial construction, is a key component of the infrastructure needed to support the successful growth of Auckland (and other cities).

¹ Statistics New Zealand, GDP by industry.

² Investment amounts are gross fixed capital formation in current prices. Source:
<http://www.stats.govt.nz/NR/rdonlyres/61D5633A-FC9C-4794-BFA9-23578BE9EC5A/23059/nayemar07revcapitalstock.xls>.

2 What happens in the building and construction sector has a 'multiplier effect' on the wider economy. The level of activity and the productivity of the sector will be important to New Zealand's economic recovery and growth.

3 Critical issues:

- New Zealand is currently experiencing a sharp downturn in the building and construction sector – this is having a dampening effect on the wider economy (the housing market downturn is discussed below).
- As construction activity weakens in New Zealand, we risk losing skilled workers. Loss of skills and capacity will reduce the ability of the sector to respond, once demand begins growing. This would contribute to delaying an economic recovery, inhibit housing supply and increase the cost of new building and housing.
- The successful performance and growth of Auckland is critical for New Zealand's economic growth and transformation – however, there is a projected shortage of dwellings to meet the future Auckland population and housing affordability remains a major problem. A recent survey of land supply undertaken by the Department of Building and Housing (the Department) has indicated that, in Auckland City, North Shore and Manukau, land supply for conventional-density housing may be exhausted between 2015 and 2016.
- Homeownership is dropping and housing affordability remains an issue for an increasing number of people.
- Some aspects of the Resource Management Act 1991, and the way it is applied, create significant costs and uncertainties, which constrain development activity. Developers argue that the land use decision process under the Act is lengthy, adds cost and limits their ability to provide an adequate volume of housing.
- Development fees (infrastructure contributions) charged under the Local Government Act 2002 and the Resource Management Act by territorial authorities are highly variable between authorities. The way these charges are set lacks transparency, and the amounts charged can be high. These charges increase the costs of new construction (particularly homes) and may be constraining development activity in some areas.

- Productivity in the sector lags behind the rest of the economy and is low relative to building and construction sectors in other countries. This reflects low training and skill levels, a fragmented industry structure, and current purchasing and sub-contracting arrangements on projects (which add cost and time to the construction process). It also reflects the rapid and sustained growth of the sector from the early 1990s – while industry output grew in line with the broader economy, both labour and capital input rose considerably faster.
- Risk aversion on the part of some territorial authorities, in issuing building consents and code compliance certificates, is likely to be impeding activity and innovation in the sector. Many territorial authorities seek to minimise risk by adopting a conservative approach in carrying out their building control functions (following the liability many are facing for historical weathertightness claims and the impact of joint and several liability).

Housing market downturn

- 4 The sharp downturn in the housing and construction sector is resulting in markedly lower volumes of property sales and new construction, falling house prices and growing reports of firm closure and job retrenchment. This downturn follows wider global financial market turmoil (the credit crisis) and has led to the Reserve Bank further reducing its forecasts of economic activity in New Zealand³. Treasury has also revised its forecasts downwards.
- 5 Following a period of strong house price growth from 2002 to 2007, current economic conditions – and predictions of how these will continue to change – are likely to have a constricting effect on the housing and construction market in the short to medium term. This is predicted on the back of the following conditions:
 - A sharp fall in the number of building consents for new dwellings (down 18% – from 1988 in September 2007 to 1635 in September 2008), only partially offset by continued growth in the value of non-residential building consents (with a 10% increase in the year ended September 2008,

³ Reserve Bank 'Monetary Policy Statement', October 2008.

although the average floor area/volume of new non-residential building consents increased by only 6% over the same period).

- Increasing liquidity issues for the sector including the collapse of mezzanine finance companies in New Zealand (which provided most of the financing for property development companies) and the risk of growing restrictions to the volume of lending from mainstream banks in New Zealand (resulting from international banking sector liquidity problems).
- A 6% reduction in the average sale price of dwellings in the year to September 2008 (from \$351,500 in September 2007 to \$330,000 in September 2008) and with further reductions in prices forecast over the next year.
- A reduced volume of property sales (the 4220 house sales in August 2008 were the lowest since January 1992 – the starting point of REINZ data – which represents a 62.9% fall from a peak of 11,378 sales in March 2004); the number of days taken to sell a property has also increased – median days to sell are up 67% from August 2007 to August 2008 – from 33 to 55 days.
- A fall in employment in the construction sector (as at September 2008, the construction sector employed approximately 176,000 people, 8% lower than its peak of about 192,000 people in December 2006) and an estimated 10–20% of people completing apprenticeships leaving for overseas almost immediately.⁴ As construction activity weakens in New Zealand, a lack of training and employment opportunities will potentially increase our migration of skilled building sector labour (which will affect the ability of the sector to respond once demand picks up again).
- Declining net migration gains, which result in reduced housing demand.

6 Recent Reserve Bank reviews of the economy point to the New Zealand business sector coming under pressure from both rising costs and falling

⁴ Infometrics report, prepared for the Department of Building and Housing, 2008.

demand.⁵ The Treasury now forecasts that house prices will fall 11% from their peak in late 2007 and remain depressed over the next year as a result of high interest rates, low net migration flows and falling consumer confidence. A weak housing market will in turn affect private consumption and residential investment.⁶

- 7 This downturn differs from previous property market adjustments in that it is not associated with negative net migration or an oversupply of housing. The reduction in prices and activity levels has also been much sharper and larger than most forecasters expected. These factors – along with feedback from industry on their decisions and expectations, and the trend direction of market indicators – suggest a high risk of continued strong negative movement in sector activity (ie, prices, volumes and employment levels). The speed and scale of the downturn in the industry suggest that we may be facing a larger adjustment shock than a normal downturn at the end of the property cycle.

Housing supply risks

- 8 Despite some reduction in housing demand, as the heat comes out of the property market and access to mortgage finance constricts new housing construction volumes are dropping to the extent that supply issues could emerge. Other factors which are likely to impact on housing supply, particularly in the lower value rental market, are:
 - a reduced expectation of future capital growth in residential property values
 - very low (or negative) cash yields from rental investment properties.
- 9 Work undertaken as part of the house prices work programme identified that without some supply-side intervention, housing shortages (especially affordable housing) could be expected to emerge in the medium term, which would further exacerbate housing affordability problems. The Department considers that supply-side interventions may mitigate the risk of housing shortages and

⁵ Reserve Bank 'Monetary Policy Statement', September 2008.

⁶ <http://www.treasury.govt.nz/budget/forecasts/prefu2008/prefu08-pt2of9.pdf>.

housing affordability as a whole. Advice is currently being prepared on:

- A 'development fund' which could lower the cost of (or remove barriers to) readying land for development.
- The feasibility of strategic purchase of land by the government for the development of affordable housing.
- Ways to improve the adequacy of land supply in Auckland and reduce the costs of the development process.
- The way in which urban development can be improved (including contributing to the Department of Internal Affairs 'Sustainable Urban Development' project).
- Encouraging more longer-term investors into the housing market (ie, institutional investors and not-for-profit providers), particularly in the areas of affordable housing, long-term rental and social housing.

The building and housing sector also contributes to New Zealand's social and environmental goals

10 Housing costs (including utilities) absorb 23% of household income.⁷ They are also the main part of both household assets and debts, and have significant implications for employment, labour mobility and consumption levels through wealth and multiplier effects.

- House prices have steadily increased since 2001 – with the median house price increasing by 101% between early 2001 and the high point of \$352,000 in November 2007. The value of housing stock more than doubled from \$236 billion in early 2001 to \$616 billion in early 2008.

⁷ Statistics New Zealand's Household Economic Survey for the year ended 20 June 2007.

- In the year to March 2007, there was \$10.8 billion invested in new residential building, \$5.4 billion invested in non-residential building and \$5 billion invested in other construction.⁸
 - There were 1,478,709 occupied dwellings recorded on census night in 2006. Sixty-seven percent of occupied dwellings were owner-occupied and 28% were rental properties.⁹
 - The Housing New Zealand Corporation is the largest single landlord in New Zealand, with 68,000 properties amounting to just over 4% of the total housing market.
- 11 The sector influences a wide range of occupations, from builders and local authorities to real estate agents, property investors and mortgage providers.
- 12 The building and housing system and its outcomes shape the wellbeing of households, neighbourhoods, towns and cities, and accordingly contributes to economic growth as well as social and environmental outcomes for society as a whole.
- 13 The Government's involvement in the housing sector is changing, moving beyond the core roles of providing state housing and housing-related benefit supplements and regulating the building and construction industry. Considerable work has been undertaken on programmes to boost homeownership (Welcome Home Loan scheme, shared equity) and to encourage third sector provision of housing (Housing Innovation Fund). The Government has also taken on a broader housing development role, such as the Hobsonville development.
- 14 This new approach recognises the impact building and housing have on economic, social and environmental outcomes. Building and housing are a

⁸ Investment amounts are gross fixed capital formation in current prices. Source: <http://www.stats.govt.nz/NR/rdonlyres/61D5633A-FC9C-4794-BFA9-23578BE9EC5A/23059/nayemar07revcapitalstock.xls>.

⁹ A further 5% of dwellings come under other tenure arrangements (eg, dwellings not owned but no rents are paid).

core infrastructure component to wider economic and social objectives.

Part Two: Issues directly relating to the Minister of Housing

Agencies involved in the housing sector

Housing New Zealand Corporation and your role as responsible Minister

- 15 The Corporation is a statutory Crown entity, with you and the Minister of Finance as its joint shareholding Ministers. The Corporation's business and powers are defined by the Housing Corporation Act 1974 and the Crown Entities Act 2004. The Corporation holds the second largest asset base of any Crown agency (\$15 billion of assets), and Vote: Housing is the 11th largest out of 69 Votes for government. The Corporation:
- receives the majority of Vote: Housing appropriations (over \$550 million operating and approximately \$290 million in capital)
 - manages some 68,000 tenancies
 - collects over \$350 million in rent from state housing tenants (in addition to receiving close to \$500 million in Income Related Rent subsidy from government).
- 16 The Corporation has responsibility for the core business of state housing – asset management and tenancy management. As a result of broader government involvement in the housing sector, the Corporation has undertaken an increased number of activities beyond the core business of asset and tenancy management. This includes providing advice and delivering services in areas that stretch across the housing sector, such as housing affordability (including shared equity), developing third sector capability and property/community development (Hobsonville). These new tasks are fiscally small in comparison to the core business – out of a total income of \$918 million, the Corporation receives approximately \$31 million of operating appropriation for what could be considered non-core activities – but still require a considerable amount of time and effort to implement. They are also often capital

intensive and carry a degree of risk.

- 17 The Housing Corporation Act 1974 also provides the Corporation with a mandate to provide policy advice and undertake research on social housing interventions and housing systems. This is different to the usual Crown entity function or model. Generally there is a separation between policy and purchase advice and operational implementation of Government decisions by Crown entities. In practice, this has meant HNZA provides policy advice on access to housing and services related to housing (excluding regulatory policy), in particular on social housing interventions by the Government.
- 18 The Crown Entities Act 2004 sets out the framework for the governance and operation of Crown entities and the accountability relationships between Crown entities, their board members and their Responsible Ministers. The Ministers of Housing and Finance are jointly responsible for appointing members to the Board of the Corporation, and one of the Department's roles is to assist you in making these appointments. The Corporation's current Board is made up of eight members, six of whom have terms expiring in 2009, requiring an appointment process to begin early next year (see Annex One for a list of Corporation Board Members). We will be providing a more detailed briefing on your role and obligations as a responsible Minister.

The Department of Building and Housing – our role in supporting you

- 19 The Department of Building and Housing was established in 2004 to strengthen the capacity and capability of government housing and building policy advice and service delivery functions. This followed comprehensive reviews of the government's institutional arrangements connected with housing and housing issues, and a review in relation to building issues and building quality in the wake of the leaky home crisis.
- 20 The key drivers in the establishment of the Department were the need to work with the sector to improve performance and the desire to take a more coherent approach to housing and building policy and to service delivery. Reducing fragmentation across government, having a critical mass of expertise and a strategic overview of the sector were seen as important to future success.
- 21 The Department's interest and involvement in the building and housing sector is

diverse. It covers provision of policy advice, maintaining a system of controls and standards over building and construction, information, advice and administering the law covering landlords and tenants, providing dispute resolution services, dealing with weathertight issues, the regulation of retirement villages, as well as administering a variety of building and property legislation.

- 22 The Department also has policy functions in relation to housing and is available to assist you in this capacity. Both the Department and the Corporation work together to ensure that their respective policy work programmes are aligned and complementary to avoid duplication. Active and constructive engagement between the two agencies is essential and the relationship is positive and productive.
- 23 As a result of the work of the House Prices Unit within the Department of the Prime Minister and Cabinet an interdepartmental work programme focused on housing affordability and supply has been a key focus of a number of departments (including the Department and the Corporation) through 2008. This work has been overseen by a steering group of senior officials and is now chaired by the Chief Executive of the Department of Building and Housing.
- 24 In relation to the Corporation, the Department assists you in monitoring its performance and supports you in a number of other governance and administrative functions including:
- assisting the setting of performance and accountability expectations through avenues such as the Statement of Intent and Purchase Agreement
 - providing advice on whether the Corporation has achieved against these expectations, including analysis of monthly, quarterly and annual reporting
 - monitoring the financial performance of the Corporation, including commercial and fiscal risks
 - administering Vote: Housing, including ensuring funds are disbursed in line with the scope and amount of appropriation, coordinating the annual Budget process, including advice to Ministers on the Corporation's budget proposals, and forecasting the Income Related Rents subsidy payments

- assisting you and the Minister of Finance with making appointments to the Board of the Corporation.

- 25 The Department is currently funded \$635,000 for its monitoring role in relation to the Corporation. This requires a breadth and depth of analysis across all areas of the Corporation's business and wider organisational performance. Our focus is on performance, monitoring and issues. There is only limited capacity to carry out more in-depth inquiries into areas of key risk and opportunity (e.g. cost effectiveness of interventions and closer monitoring of substantial projects such as the Hobsonville development). Additional resources would be required to undertake this work.
- 26 As the administering department under the Public Finance Act 1989, the Department assists you in your responsibility for non-Departmental Vote: Housing appropriations. This includes relevant requirements to the preparation of Estimates of Appropriation and any adjustments to appropriations throughout the year. The Department manages the budget initiatives process for Vote: Housing and provides you with advice on bids from the Corporation.
- 27 The Treasury also has responsibilities for monitoring aspects of the Corporation, particularly from the Government's ownership perspective. Treasury also provides second opinion advice in respect of social housing interventions and through the Budget process on budget bids.

Other players in the social housing sector

- 28 The social housing sector involves a wide number of other players. At a whole-of-government level, departments such as the Ministry of Health and Ministry of Social Development and Crown entities such as the Energy Efficiency and Conservation Authority (EECA) and District Health Boards all have interests in social housing. Local government also have interest in social housing.
- 29 A number of non-profit organisations, think tanks, and universities either participate directly in the sector through the provision of housing or through research into housing-related matters. These include Community Housing Aotearoa Incorporated (CHAI), New Zealand Housing Foundation, and Habitat for Humanity amongst others.
- 30 In terms of provision of social housing, the Corporation remains the dominant

player, with currently very little involvement by the third sector (not-for-profits and institutional investors). The Department of Prime Minister and Cabinet House Prices Unit report noted that there has previously been little incentive for the development of not-for-profit community-based housing, and the sector is therefore still in an 'embryonic' stage in New Zealand.

Housing sector trends

Demographic changes are taking place...

- 31 New Zealand's population is growing and changing, with family structures altering and increasing ethnic diversity. Older people will make up a higher proportion of the population in coming years. Urbanisation is also continuing, with Auckland growing faster than the rest of New Zealand.
- 32 The type and location of state housing required in 10 to 15 years time is estimated to be substantially different in nature to what is currently held because of these demographic changes. For example, smaller family sizes and the aging population are likely to lead to a demand for smaller houses.
- 33 Because over 50% of the current social housing stock was built in the 1940s to 1960s (when families with two to three children were the predominant household demographic), mismatches already exist between the type and size of social housing being provided and that which is demanded. Most of the Corporation's portfolio (65%) is made up of stand-alone single houses, and is often heavily concentrated in low income suburbs. There are also mismatches in terms of social housing location, with an under-supply in the Auckland region and an over-supply across the rest of New Zealand.
- 34 The Corporation has recognised these pressures as part of a comprehensive medium to long-term Asset Management Strategy, and has a programme of acquisitions, modernisations, and disposals aimed at reducing these mismatches in their own stock. This Strategy is based on current policy settings and therefore does not expressly consider the options available for managing the asset if existing assumptions were to be altered. Current projections point to \$4.4 billion-\$4.8 billion of capital expenditure over the next 10 years to maintain social housing at current policy settings.
- 35 The incoming Government's announced intention to provide the opportunity for

state tenants to purchase their house, with reinvestment of the proceeds into state housing stock, could provide for more flexibility in management of housing stock and purchase of stock that better fits current needs.

...with home ownership and affordability remaining issues...

- 36 Growth in house prices has been consistently strong over the last 10 years, with the median house price doubling over this period. Home ownership rates declined over this time, and affordability reduced as median house prices increased much faster than the increase in median incomes.
- 37 New Zealand is currently experiencing a sharp downturn in the housing and construction sector, with markedly lower volumes of property sales and new construction. Current and predicted economic conditions are likely to have a constricting effect on the housing market in the short to medium term.
- 38 While the recent downturn in the housing market has meant that affordability has eased slightly (as at September 2008 it took just under seven times the average wage to afford an average-priced house, down from 7.7 times in 2007), it is unlikely that this will continue to the extent required to substantially alter home-ownership rates. There is currently an under-supply of affordable modest homes on the market and a shortage of greenfield land available for housing in areas of high demand (i.e. Auckland, where in some cases greenfield land is expected to be exhausted by 2014-2016). This will continue to put pressure on prices and constrain supply.
- 39 Like many other jurisdictions, the New Zealand government has responded to changes in the housing sector and housing supply by putting in place a number of initiatives. In addition to the core business of providing social housing, the Corporation is increasingly delivering programmes to encourage home-ownership such as the mortgage insurance scheme (Welcome Home Loans) and the shared equity scheme. The current lack of a significant third-sector presence reduces housing options for those experiencing difficulties in securing housing or those aspiring to home-ownership. This also places more of an expectation on the Government to fulfil this role.

...the rental market is also changing...

- 40 A consequence of rising house prices and the changing demographics of households is that the size of the rental market is growing and it needs to cater for a growing volume of longer term renters (families and older people). The current structure of the rental market is mainly suited to the younger and more mobile 'flatting' population.
- 41 Rental housing is almost entirely provided by the private sector, with Corporation and local government tenancies being a declining share of a growing market (private rental properties are approximately 27% of housing stock, the Corporation holds less than 5% and local government less than 1%).
- 42 While rents may hold or drop in the immediate to short term due to the current housing market situation, predictions are for rents to rise in the medium term, with some analysts predicting increases of 6% per annum over the next five years. This will put considerable stress on some low income families and communities. Increased rent stress will inevitably flow through to increase in demand for the Accommodation Supplement, which has already seen a 50% increase in the numbers of people receiving the maximum payment between 2005 and 2007 and greater pressure on waiting lists for state housing.

...costs to the Government of housing assistance are increasing...

- 43 Rental housing assistance from the Government is provided in two main ways – Income Related Rents (available to Corporation tenants and paid directly to the Corporation) and the Accommodation Supplement (available to non-Corporation tenants and is paid to the tenant). Both forms of assistance are increasing in terms of cost to the Government.
- 44 The Government is bearing a larger proportion of annual operating costs in terms of Income Related Rental subsidies. In 2002 these totalled \$290 million, and by 2008 had risen to \$500 million - an increase of over 70% at just over 9% a year. If Income Related Rents continue to increase at this rate, in 2018 the cost to Government will be \$1.15 billion.

Table 1: Comparative cost of housing assistance

2002	2008
IRR is \$290 million, and makes up 52% of HNZN revenue (the remainder coming from tenants themselves).	IRR is \$500 million, and makes up 56% of HNZN revenue (the remainder coming from tenants themselves).
Value of housing assets totalled \$6.9 billion.	Value of housing assets is \$15 billion.
Accommodation Supplement is \$711 million, received by 258,000 households.	Accommodation Supplement is \$877 million and is received by 250,000 households.
40,000 households receive maximum Accommodation Supplement payment.	60,000 households receive maximum Accommodation Supplement payment.

Critical issues

Significant investments in capital are being signalled

- 45 The Corporation has recently submitted its long term (10 year) capital plan to Treasury as part of the Cabinet directed Capital Asset Management (CAM) requirements. This reporting provides Ministers with greater information about the capital requirements of agencies and how this may impact on Government baselines, and where additional Government funding may be required.
- 46 Significant capital expenditure of around \$4.4 billion is signalled by the Corporation over the next 10 years with the Government being required to provide \$2.3 billion (the remainder being funded by the Corporation itself). These estimates are based on a range of existing assumptions about the demand for, and supply of, state housing. The likely costs of policies that are currently being considered (for example, the development of Government land for affordable housing) are not included.
- 47 Capital expenditure on state housing in recent years has primarily been driven by the need to acquire additional stock, with the achievement of this target generally requiring a trade-off in terms of the level of investment in maintenance of existing stock. As part of the total \$4.4 billion of capital expenditure over the next 10 years, the Corporation point to \$2.4 billion being required to bring the current stock to a 'decent' standard over the next 10 years.
- 48 A number of decisions on the capital programme are likely to be required from you as part of Budget 2009. The Department will assist you with advice and analysis in making these decisions.

A better understanding of performance is needed

- 49 The Corporation's current set of outcome indicators and performance measures do not allow for an easy understanding of the effectiveness of housing interventions, or sufficiently assist making the necessary trade-off decisions between programmes. Improvements are needed to performance information in order to provide assurance that the existing investment, and future investment, is achieving the goals desired for the core business of asset and tenancy management.

50 There are several projects that will be undertaken in the 2008/09 year that are designed to improve performance information and accountability of the Corporation to responsible Ministers. Each of these projects aims to ensure that performance measures are sufficiently meaningful and informative to users. The projects include:

- Implementing the findings of a financial governance review. Issues arose that made it difficult to determine whether cross-subsidisation of 'core' and 'non-core' activities was occurring. The Corporation and Department are working together to implement the findings of the review and achieve better clarity in this area.
- Reviewing the Corporation's output structures. Improved transparency over what outputs are delivered by the Corporation, particularly around 'core business', is needed in order to achieve a greater level of assurance around value for money. This work includes designing clearer measures of performance.

51 Previous work has been undertaken on obtaining improved performance information. For example, a benchmarking exercise was undertaken between the Corporation and housing providers in Australia which examined a number of high level measures of core business efficiency and effectiveness. However, this only focused on certain aspects of the business and does not provide a complete picture of core business performance.

A greater role for not-for-profit providers and institutional investors

52 Increasing the involvement of third sector providers, such as not-for-profit agencies, can reduce the burden on the Government whilst achieving social housing goals by providing a wider range of rental options to tenants. Not-for-profit agencies are currently the 'missing market' in the social housing sector – while some do exist they are very small (less than 1.5% of New Zealand's current rental market) and therefore do not provide a significant alternative to state or private rental. As well as broadening the range of housing options to renters, not-for-profit agencies are also able to access a wider range of capital sources (such as philanthropy) than the Government or private sector is able to.

53 There is also a lack of institutional investment in residential housing in New

Zealand, with the majority of private rental properties owned by 'ma and pa' landlords. Encouraging more institutional investment can offer a number of potential benefits, including providing a source of funding for the development of a not-for-profit sector as well as for more general housing supply. Since the investment horizon for institutions is often 20 years or more, this can also provide greater security of tenure for tenants compared to small investors who traditionally have shorter horizons and look to have a very high degree of flexibility in terms of their asset. Leveraging institutional investment can also assist the Government to achieve more from its own investment.

- 54 Recent efforts to encourage the growth and development of these providers have not achieved the goals desired. For example, a recent independent review found that the criteria for assigning funding under the Housing Innovation Fund lacked specificity, and clarity and the allocation process lacked transparency. Communication with applicants also needed improving. The focus and application of the Housing Innovation Fund needs to be reconsidered if this part of the sector is to make any significant contribution to meeting housing needs in the future.
- 55 Getting the mix right in terms of the respective roles that the Government, not-for-profit, and private providers can play in the housing market will be important to achieving sufficient levels of flexibility to meet future demand and match client need. It will also be important to enable social housing goals to be achieved in a cost effective manner.
- 56 Potential options being considered as part of work on encouraging greater participation of not-for-profit providers and institutional investors include:
 - Focus existing funds (such as Housing Innovation Fund) on those providers who have growth potential and are able to achieve self-sustaining scale in the short to medium term.
 - Facilitated partnerships between not-for-profit providers and institutional investors as a way to introduce such investors into the residential housing market and to achieve greater leverage from any investment the Government provides and access funding from the financial sector.
 - Examine options around removing any distinctions that current methods of providing housing assistance (Accommodation Supplement and Income Related Rent) create between state housing and that provided by not-for-

profit providers. For example, one option is to create a more 'seamless' social housing market by lessening the gap between current subsidies. This would remove the current strong incentive to remain in state housing and make it easier for tenants to transition from state owned-housing to not-for-profit or other rental providers.

Responding to market downturn through Corporation activity

- 57 As noted earlier, New Zealand is currently experiencing a sharp downturn in the building and construction sector, which has a dampening effect on the wider economy. As construction activity weakens in New Zealand, the sector risks losing skilled workers through emigration. There is already evidence of firm closures and staff lay-offs, and a growing risk that skilled workers will migrate offshore – this loss of skills and capacity will reduce the ability of the sector to respond, once demand begins growing. This would contribute to delaying an economic recovery, inhibit housing supply and increase the cost of new building and housing.
- 58 Government could play a more direct role in supporting/stimulating activity in the building and construction sector through increasing Corporation works. This could be done in both the short and long-term:

Short term

- An immediate lever to drive economic activity through infrastructure investment would be to ramp up the Corporation's modernisation and maintenance programmes aimed at improving the quality of its housing stock. The current proposal is a 10-year programme – this work could be brought forward. Because these programmes are largely focused on improvement (and some redevelopment) of existing state housing stock, there is less reliance on consent and engagement processes that can protract infrastructure projects. Increasing the speed and scale of these programmes would not necessarily require new Government funding (but may require adjusting funding profiles through bringing expenditure forward).

- There is also potential for increasing the level of government investment in rural housing and the supply of not-for-profit housing beyond that currently funded.

Long term

- Housing development projects could be ramped up over the longer term. Current large development projects, such as Hobsonville and Tamaki, cannot be significantly sped up in the short term because of the substantial timeframes required to carry out planning, consultation and consent processes. These timeframes can subsequently make project deliverables prone to changes in the economic conditions, placing further emphasis on rigorous planning, however there is opportunity to re-evaluate current development timeframes and assess against new development prospects.

Housing developments undertaken by Corporation

59 The Corporation is currently undertaking or planning a number of housing and community developments. These are being driven by three main objectives:

- Provision of state houses in order to maintain the current market share (4.5% of total housing market) of state housing as part of the growing general housing market.
- Ensuring a supply of modest, affordable homes.
- Achieve community renewal by creating more socio-economically mixed communities.

60 The developments at Hobsonville and Weymouth (McLennan) are examples of the first two objectives. These developments include a mixture of houses for private sale (including affordable homes) as well as state houses. The Tamaki development is an example of the community renewal work.

61 The Corporation has recently been given an expanded role as the agency responsible for developing Corporation and Crown land. Parcels of Crown land have been identified by Land Information New Zealand that are likely to be suitable for state housing and affordable housing development. These developments are likely to be similar in nature to current work in Hobsonville

and Weymouth.

62 Key considerations in all of these developments include:

- The level of risk being borne by the Government and whether governance arrangements sufficiently manage the high risks involved in housing developments.
- That effective engagement with Ministers is maintained throughout projects.
- Changes in the economic environment that impact upon business case assumptions are monitored and reported on.
- Resource consent and other procedural issues are taken into account as part of planning.
- Whether the government is best placed and has the necessary capacity and capability to successfully undertake a large number of property and community development projects.

Hobsonville development

63 The Corporation is undertaking a redevelopment of the former Hobsonville Air Force Base in north-west Auckland. This development is currently based on producing an integrated urban community of 3,000 homes, including a number of state houses and affordable homes, over the next 10 to 15 years. Site works for the first precinct of 660 homes is about to commence with the first homes planned for completion in 2010.

64 Cabinet considered the Hobsonville Development Business Case in November 2006. The Case was premised on a range of assumptions concerning the economic, legal and financial environment. Understanding the impacts of the changing economic and financial environment will be necessary in order to ensure that the underlying assumptions of the business case are still valid and still able to be achieved. Other options for staging the development may have to be considered if the significant changes occurring in the housing market have a considerable impact on the business case assumptions.

65 In addition, the Prime Minister has indicated his desire to review the proposed composition of the development.

Tamaki development

- 66 In June 2007 Cabinet agreed that a multi-agency Tamaki Transformation Programme be developed to create a more socio-economically mixed community in Tamaki. The programme will substantively renew the urban environment over the next 20 years, and augment the community through integrated services delivered by the Ministry of Social Development, Ministry of Health, and Ministry of Education amongst others.
- 67 The Tamaki Transformation Programme provides significant opportunities to achieve social outcomes through a different way of working within a community. It also provides a key opportunity to deliver a well designed, more intensive urban environment in an area of Auckland where the population is expected to almost double by 2050 and where socio-economic challenges exist at the individual, family and community level.
- 68 The Corporation has developed a housing strategy for its assets in Tamaki, and is developing scenarios for redevelopment that will provide in the region of 2,200–4,000 new dwellings (including affordable housing) and 1,600 refurbished Corporation dwellings. An inter-agency business case is due to Cabinet in February 2009 that will include planning for the 20 year programme and detailed costs and benefits for the initial set of demonstration projects. It is important that this considers the impact of the changing economic environment, and aligns with other policy directions around affordable housing, land development and capital expenditure. A particularly strong linkage will be with the work on Urban Development Agencies being led by the Department of Internal Affairs.
- 69 The Tamaki Transformation Programme is complex and involves a number of government and non-government players. Substantial effort is being placed on ensuring the community and service providers are engaged up front, and in carrying out the necessary planning to support the business case. Local Government is an important part of making the programme a success and the Corporation has been working closely with the relevant local authorities. Non-government players are also being included such as businesses, churches, Pacific groups and iwi.



Appendix 1

Housing New Zealand Corporation Board Members

Name	Date of original appointment	Expiry date of present term
Pat Snedden (Chair)	23 July 2001	16 December 2010
Greg Hinton	1 July 2005	16 December 2010
Penelope (Lope) Ginnen	23 July 2001	12 September 2009
Anthony Paine	17 November 2004	16 June 2009
Garry Wilson	13 September 2006	12 September 2009
Sandra Lee	13 September 2006	12 September 2009
Colin Dale	13 September 2006	12 September 2009
Jo Brosnahan	6 December 2006	5 December 2009

Department of Building and Housing contacts

Purchase and monitoring advice on the Corporation are the responsibility of the Deputy Chief Executive, Sector Policy, Suzanne Townsend.

Within the Sector Policy Branch Andrew Caffery, Manager Monitoring and Governance Group, is the key contact for matters relating to the Corporation.

Vote administration responsibilities within the Department are the responsibility of the Deputy Chief Executive Corporate, Ann Clark.

Vote administration

The Department provides advice to Vote Ministers in relation to Budget bids and issues, forecasting, preparation of information for the twice yearly baseline updates March and October, preparation of information for the Budget Economic Forecasts and the pre-Election economic forecasts and the preparation of the Estimates of Appropriation and the Information Supporting the Estimates. The Department also reviews proposed expenditure by the Corporation to ensure that it is within appropriation. The Department will also prepare any documentation for approvals for demand driven appropriations which are forecast to exceed the voted amount.

The Department has an operational delegation for 2008/09 of \$75.658 million across all outputs. The Department also has a non-departmental delegation for funding the Corporation through Vote: Housing for \$846.173 million.

Delegations

Cabinet Office circular (99)7 defines the financial delegations and delegation limits for responsible Ministers and Departmental Chief Executives. The Chief Executive controls Government expenditure by the Department consistent with the requirements of the Public Finance Act 1989.

Departmental appropriations

The departmental operating appropriation for Vote: Housing for 2008/09 totals \$75.658 million following October Baseline Update. This includes the appropriation for monitoring the Corporation (*Purchase and Monitoring Advice – Housing New Zealand Corporation*) of \$635,000.

Non-departmental appropriations

Non-departmental operating appropriations approved in Vote: Housing for 2008/09 total \$536.782 million, plus \$309.391 million capital contributions. This is intended to be spent as follows:

Table 2: Allocation of appropriation

Community Housing Rent Relief Programme	\$5 million
Contracted Housing Support Services	\$3.509 million
HNZC Housing Support Services	\$12.677 million
Housing Assistance	\$11.118 million
Housing Policy Advice	\$2.554 million (provided by the Corporation)
Income Related Rental Subsidy	\$498.205 million (provided to the Corporation)
Increase in Debt Provision	\$2.251 million provision for doubtful debts on Income Related Rents Crown Debt
Management of Crown Properties held under the Housing Act 1955	\$1.468 million for the administration and management of Crown owned properties held under the Housing Act 1955.

Crown revenue and receipts

Crown revenue and receipts for the 2008/09 year are to be forecast to total \$156.096 million comprising of:

- \$154.435 million of interest paid by Housing New Zealand Corporation on government loans

- \$1.661 million dividend from Housing New Zealand Corporation.

State Housing Appeal Authority

The State Housing Appeal Authority was established under provisions of the Housing Restructuring and Tenancy Matters (Appeals) Regulations 2000. The State Housing Appeal Authority consists of a Principal Member, Deputy Principal Member, and members (the number of members is not specified in the Regulations).

The Principal Member and Deputy Principal Member are appointed by the Governor-General on the joint recommendation of the Minister of Housing and the Minister of Justice.

The purpose of the State Housing Appeal Authority is to sit as a judicial body to determine appeals from applications relating to decisions made by Housing New Zealand Corporation (HNZC) on the:

- assessment of income-related rents
- applicant's eligibility for HNZC housing
- applicant's assessed need for HNZC housing.

A panel is convened of either the Principal or Deputy Principal Member and two other members. In accordance with the Housing Restructuring and Tenancy Matters Act 1992, the State Housing Appeal Authority (in determining an appeal) has all the powers, duties, functions and discretions HNZC has in relation to the matter concerned and may confirm, modify or reverse the decision or determination; or refer all or any part of the matter back to HNZC for further consideration, together with any directions it thinks just relating to the reconsideration and a written statement of its reasons for doing so.

There are currently ten members on the State Housing Appeal Authority, including the Principal Member and the Deputy Principal Member.

The members are:

Name	Date of original appointment	Expiry date of present term
Kay McKelvie (Principal Member)	10 August 2007	9 August 2009
Alister James (Deputy Principal Member)	10 August 2007	9 August 2010
June Kearney	24 November 2000	7 August 2009
(William) Geoff Tucker	17 November 2000	7 August 2009
Jeanette MacKenzie	4 December 2000	7 August 2009
Dean Hyde	3 December 2000	7 August 2009
Conrad Jackson	26 November 2000	7 August 2009
Rt Hon Jonathan Hunt	3 September 2008	2 September 2010
Gregory Fortuin	3 September 2008	2 September 2010
Selma Scott	3 September 2008	2 September 2010

The Department employs the Registrar for the Authority and provides administrative and operational support to it. The Registrar receives the appeal applications and makes arrangements for hearings to be conducted by panel members.