



Strategic work programme for social housing

Date: 6 April 2016

Report no.: REP/16/04/336

Security level: IN CONFIDENCE

Priority: Medium

Action Sought

Hon Paula Bennett

Review ahead of discussion at officials meeting

7 April 2016

Minister for Social Housing

Contact for telephone discussion

Name	Position	Telephone	1st Contact
s 9(2)(a)	Deputy-Chief Executive, Social Housing	s 9(2)(k)	<input checked="" type="checkbox"/>
s 9(2)(a)	General Manager, Housing Income Support and Employment	s 9(2)(k), s 9(2)(a)	

Report prepared by: s 9(2)(a), Senior Policy Analyst

Minister's office comments

- Noted
- Seen
- Approved
- Needs change
- Withdrawn
- Not seen by Minister
- Overtaken by events
- Referred to (specify)

Comments

Date received from MSD

Date returned to MSD



Report

Date: 6 April 2016

Security Level: IN CONFIDENCE

To: Hon Paula Bennett, Minister for Social Housing

Strategic work programme for social housing

Purpose of the report

- 1 To provide you with an overview of the Ministry of Social Development's (MSD) strategic work programme on social housing reform over the next 1-2 years. This is scheduled to be discussed at your meeting with officials on 7 April 2016.

Recommended actions

It is recommended that you:

- 1 **discuss** this report with officials on Thursday 7 April
- 2 **agree** that regular meetings are established to discuss the Ministry of Social Development's progress on the work programme, outside of the existing agency meetings.

Agree / Disagree



Carl Crafar
Deputy Chief Executive Social Housing
Ministry of Social Development



Date

Hon Paula Bennett
Minister for Social Housing

Date

MSD's primary accountability is to reduce the social housing liability

- 2 There has been significant change in the system over the last two years with MSD now the single purchaser of social housing places and assessor of social housing need.
- 3 Joint Housing Ministers considered MSD's operating model in March 2016 which focused on MSD's primary accountability to reduce the social housing liability. In order for this to be achieved, MSD's operating model will take an investment approach to social housing, which will drive reform of the social housing system.

MSD's strategic work programme is taking an investment approach and is focused on five key priorities to bring about a significant shift in how social housing is delivered to vulnerable New Zealanders

- 4 In order to deliver an investment approach in social housing, MSD needs to have **information and analytics** to inform investment decisions, good **system and market parameters**, quality **investment and purchasing decisions** and an appropriate **operating model**.
- 5 MSD has identified five key priorities that will collectively bring about a significant shift and change in the way social housing is delivered. These are the building blocks to reform the social housing system. They are critical to meeting the Government's objectives for social housing. **Appendix One** sets out MSD's strategic work programme over the next two years.
- 6 There are short term gains that you can expect within the next 3-6 months and longer term work that is needed on these priorities. These initiatives build on each other. Set out below are examples of how the Needs Assessment Review and future work on subsidy redesign will be phased.
- 7 Changes to the Needs Assessment model are phased over time by:
 - the first stage of the needs assessment review focused on understanding how the current needs assessment currently works and any problems with its functioning
 - the second stage of the review will provide options to ensure that the needs assessment is prioritising vulnerable groups and making sure it is well integrated into MSD's service delivery
 - the third stage will look at a more fundamental reform of the model, including looking at the gateway for social housing.
- 8 Changes to subsidies are phased over time by:
 - the first stage focused on a transition payment to reward social housing tenants that transition into the private rental market
 - the second stage focused on making changes to the subsidies to reduce the gap between the Accommodation Supplement and IRRS, for example increasing the Income Related Rent paid by a tenant from 25% to 30%.
 - the third stage focused on options for fundamental re-design of Accommodation Supplement and Income Related Rent Subsidy.
- 9 Following discussions with you over recent weeks, a number of items have been added to the work programme. For example:
 - Reciprocal obligations for people in social housing
 - Introducing fixed-term tenancies of 1 – 2 years to provide transitional social housing

- Supports to help people on the register and in social housing to find alternative housing
 - Services to stabilise families and people in crisis when they first enter social housing to successfully sustain their tenancies
 - Looking into the Accommodation Supplement, including current expenditure and how it interfaces with IRRS
 - Investigating the causes of overcrowding and developing options to reduce overcrowding over time.
- 10 **Appendix Two** sets out MSD's work programme priorities and key milestones in more detail and when you can expect to receive advice.

To support this strategic work programme and the key priorities, MSD will consider changes to existing feedback groups

- 11 MSD officials have regular meetings with the Housing Assistance Reform Feedback Group (HARFG) and the External Focus Group (EFG). Membership of these groups is provided in **Appendix Three**. These groups provide opportunities to seek feedback from the sector (Community Housing Providers, NGOs, Community Housing Aotearoa, academics) on the policy and operational parts of the work programme.
- 12 These groups provide a critical mechanism to bring stakeholders along with the reforms in social housing. It is important that these groups provide a clear feedback loops for MSD – providing an opportunity to test ideas and challenge the thinking on key pieces of the reform programme.
- 13 MSD is also providing initial advice and options to you this week on thinking about external groups for social housing reform. Depending on any decisions to proceed with a proposal to establish an external group, there is an opportunity to re-vamp the groups with some changes to membership. MSD will consider options for changes to existing reference groups and report back to you in May.

MSD would like to work closely with you as the work programme progresses

- 14 **Appendix One** sets out when you will receive advice and timing for delivery of initiatives and announcements. MSD will work with you closely as the work programme develops and ensure that you are updated regularly on upcoming pieces of work, particularly on those where you will be making announcements.
- 15 MSD would like to have regular meetings with you, outside of the existing agency meetings to discuss items on the work programme as they are progressed.

Next steps

- 16 The strategic reform work programme is scheduled to be discussed at your meeting with officials on 7 April 2016. Following this, you can expect to receive a view of the work programme across the three agencies involved in the Social Housing Reform Programme in May 2016.
- 17 MSD will also work with you and your office to prepare for another Strategy session with Cabinet on social housing in six months' time.

File ref: A8776213

Appendix Three – Membership of MSD’s External Reference Groups

Housing Assistance Reform Feedback Group

Name	Organisation
§ 9(2)(a)	Te Runanganui O Ngāti Porou
§ 9(2)(a)	Te Runanga A Iwi O Ngapuhi
§ 9(2)(a)	VisionWest Community Trust
	Community Housing Aotearoa
§ 9(2)(a)	Comcare Housing Services
§ 9(2)(a)	School of People Environment and Planning, Massey University
§ 9(2)(a)	Individual (previous Head of Auckland City Mission)
§ 9(2)(a)	Eaqub & Eaqub Limited
§ 9(2)(a)	NZ Council of Christian Social Services

External Feedback Group

Name	Organisation
§ 9(2)(a)	Salvation Army
§ 9(2)(a)	Beneficiary Advocacy Federation of New Zealand
§ 9(2)(a)	Accessible Properties
§ 9(2)(a)	VisionWest Community Trust
§ 9(2)(a)	Monte Cecilia Housing Trust
§ 9(2)(a)	Strive Community Trust
§ 9(2)(a)	Downtown Community Ministry
§ 9(2)(a)	Comcare Trust
§ 9(2)(a)	Housing New Zealand



Overview of the Social Housing Reform Programme

Date: 28 November 2014

Report no.: REP/14/11/856

Security level: IN CONFIDENCE

Priority: Medium

Action Sought

Hon Anne Tolley
Minister for Social Development

Note

3 December 2014

Contact for telephone discussion

Name	Position	Telephone	1st Contact
Anna Butler	General Manger, Housing Income Support and Employment	s 9(2)(k)	<input checked="" type="checkbox"/>
s 9(2)(a)	Team Manager, Housing Policy	s 9(2)(k)	

Report prepared by: s 9(2)(a) Senior Policy Analyst

Minister's office comments

Noted
 Seen
 Approved
 Needs change
 Withdrawn
 Not seen by Minister
 Overtaken by events
 Referred to (specify)

Comments

See notes from the Minister on pages 1, 7 and 8

Date received from MSD

Date returned to MSD

28 NOV 2014

16 JAN 2015



report

Date: 28 November 2014 Security Level: IN CONFIDENCE
To: Hon Anne Tolley, Minister for Social Development

Overview of the Social Housing Reform Programme

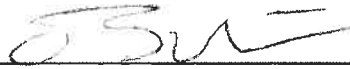
Purpose of the report

- 1 This report outlines the role of the Ministry of Social Development (MSD) in the Social Housing Reform Programme (SHRP) as well as highlighting key features of package of initiatives, and their resource implications, to be considered by Cabinet.

Recommended actions

It is recommended that you:

- 1 **note** that since April 2014 MSD has become responsible for new social housing functions including needs assessment and a new role as purchaser of social housing places
Yes/No No
- 2 **note** that the Minister for Social Housing is seeking Cabinet approval of package of short term initiatives to improve social housing outcomes, medium term changes to enhance MSD's ability to be an effective purchaser of social housing places
Yes/No No
- 3 **note** that these proposals will have direct resource implications for MSD frontline staff and additional funding is being sought to enable the implementation of these proposals
Yes/No No
very important we clarify this. At
- 4 **note** that MSD has identified opportunities to achieve both work and housing outcomes for clients who are most at risk of long term welfare dependency, and will work with you and the Minister for Social Housing on options to smooth the transition from social housing to independence
Yes/No No



Anna Butler
General Manager
Housing, Income Support and Employment

28-11-14
Date



Hon Anne Tolley
Minister for Social Development

3-12-14
Date

Executive Summary

- 2 The Government has signalled that housing is a high priority. A Social Housing Reform Programme (SHRP) is being developed and implemented to address supply constraints and high levels of demand for social housing. The objective of the SHRP is to build a fair, efficient and effective social housing market to better support people in greatest need for the duration of that need.
- 3 The transfer of needs assessment for social housing and responsibility for the administration of the Income Related Rent Subsidy (IRRS) from Housing New Zealand Corporation (HNZC) to MSD advanced key aspects of the SHRP. This report highlights opportunities for improved outcomes arising from this transfer of functions.
- 4 The report also identifies opportunities for further gains to be made. MSD is seeking Cabinet approval of a package of proposals to support people to access alternative housing in the private market. These proposals will allow MSD to:
 - directly manage the social housing register by supporting more applicants into the private market
 - increase the number of social housing places by improving flow through the system and testing some new contracting arrangements with providers
 - alleviate pressure on emergency housing.
- 5 Over the medium-term MSD will work on opportunities to improve the functioning of the social housing market utilising the levers at its disposal as a purchaser of social housing places from HNZC and Community Housing Providers (CHPs). A purchasing strategy will provide greater certainty about the volume, type and location of social housing places that MSD will purchase. MSD is also seeking Cabinet approval to introduce greater flexibility in the purchasing of social housing places with IRRS.
- 6 MSD has identified opportunities to achieve both work and housing outcomes from MSD's work with clients who are most at risk of long term welfare dependency. Current income-based housing support – income related rent (IRR) - provides a disincentive for beneficiaries to find work. MSD seeks Cabinet approval to develop a package of support aimed at smoothing the transition from social housing to independence.
- 7 These proposals will have direct resource implications for MSD. Frontline staff will be involved in the implementation of many of these proposals as part of their day-to-day interactions with clients. The total cost to implement the short term initiatives designed to reduce pressure on the register is \$7.020 million over four years. The cost for commencing work on the medium and long term initiatives is \$2.167 million in 2014/15.

Background

- 8 Since 1992 house prices in New Zealand have increased fourfold.¹ The high cost of home ownership or renting creates pressure in the housing market, which filter through to other segments of the market including demand for low cost housing options.² Any pressures in the general housing market will have a magnified effect on social housing, which caters to the most vulnerable and those with the least choice. The demand for affordable housing, particularly in Auckland and Christchurch, currently outstrips supply with an increasing

¹ After adjusting for inflation

² The housing market is often described as a continuum; with severe housing deprivation (including homelessness) at one end of the continuum, and home ownership at the other end.

number of people seeking social and emergency housing places and more people are living in insecure, substandard or overcrowded housing.

- 9 The SHRP is being developed and implemented to address supply constraints and high levels of demand for social housing. It aims to deliver:
 - improved services and assistance to people with the greatest need
 - a transformed housing market that:
 - has a diverse supply of social and affordable housing and providers
 - is responsive and can easily adapt to changes in market conditions and demand
 - creates incentives to transition to independence from social housing support
 - greater visibility of the true cost of social housing, so that the Government can make informed decisions about where and how much to invest.

MSD plays a key role in the SHRP

- 10 MSD is driving key aspects of the SHRP. In April 2014, the screening and assessment of housing needs was transferred to MSD from Housing New Zealand Corporation (HNZC). The placement of clients in social housing and the provision of support through IRRS³ also became the responsibility of MSD.
- 11 This transfer of functions was a fundamental change to the way in which the social housing market operates, creating a purchaser/provider split. MSD is now the single purchaser of IRRS places for people with serious housing needs and it has the capacity to purchase these places from both HNZC and CHPs. This is part of a transition from a government monopoly model focused on providing *state houses*, to a mixed provider model that now focuses on providing *social housing places*.
- 12 From 1 July 2014, MSD started undertaking tenancy reviews focusing on social housing clients paying market rents. These reviews are intended to ensure that social housing is available for the people who need it the most for the duration of that need. They involve working with clients to identify whether more suitable social housing is required or, where appropriate, a transition out of social housing can be achieved.
- 13 MSD has also introduced new Housing Support Products (HSP) to help people move into sustainable housing in the private market, or into more suitable social housing. These HSP are:
 - **Bond Grant:** a one-off bond payment that removes the entry costs associated with renting in the private market without creating further household debt
 - **Letting Fees Assistance:** an extension of Advance assistance to non-beneficiaries (as well as beneficiaries)
 - **Moving Assistance:** assistance with moving costs
 - **Tenancy Costs Cover:** financial assistance for landlords in situations where tenant-related costs exceed the bond at the end of the tenancy - this is targeted at clients who experience discrimination and difficulty securing alternative accommodation
 - **Statement of Satisfactory Tenancy:** a written reference from social housing providers that provides prospective landlords information about the tenancy history, including rent payments, damages and tenant behaviour
 - **Transition to Alternative Housing Grant:** a one-off payment that aims to reduce the financial impact of a move into the private market and incentivises exits from social housing.

³ The IRRS ensures that tenants in social housing do not pay more than 25 per cent of their income in rent (up to a threshold), by paying social housing providers the difference between the tenant's Income-Related Rent and the market rental for the property.

- 14 As the purchaser of social housing places, MSD has the opportunity to set the way in which the social housing market operates. Ideally, there should be a match between the demand for, and supply of, social housing places (people are matched to places that meet their needs) and across New Zealand (location and type needed).
- 15 MSD's social housing purchaser role is constrained in the short-term. Its ability to make substantive changes to the mix of tenancies that it purchases is limited by current policy settings, including the legal definition of IRRS and by the limited supply of social and affordable housing in some areas. Table 1 below summarises the types of levers that MSD can employ to drive change across the social housing market.

Table 1: Levers for purchasing social housing places

LEVER	DESCRIPTION	RATIONALE
1. INFORMATION	Provision of information about: <ul style="list-style-type: none"> the register for social housing supply and demand projections expected funding. 	Information is easy to provide, low cost and sends a strong signal to the market.
2. CONTRACTING ARRANGEMENTS	Settings in IRRS contracts: e.g. short term or long term, outcomes-based for specific segments. Availability of Social Housing Unit capital grants and the criteria to access these	The way that social housing is purchased and contracted strongly influences incentives on providers (e.g. to enter the market, to develop properties, and to offer places to MSD's clients).
3. TENANT PLACEMENT PROCESS	How people on the social housing register are allocated to social housing providers and places.	This process influences how good the match is between tenants' need and the place they are offered.
4. POLICY SETTINGS	Fundamental policy settings that govern demand (the needs assessment criteria in the Social Allocation System), and rental subsidies (Accommodation Supplement and the Income Related Rent Subsidy).	Policy settings provide the boundaries within which the purchaser role operates and set incentives for both tenants and housing providers.
5. TOOLS TO SUPPORT INDEPENDENCE	For example, tenancy reviews, financial incentives to encourage independence, and accessing alternative housing options.	Tenants face a number of disincentives to transition out of social housing, which can be shifted through the active use of tools.

Initial gains from the transfer of social housing functions to MSD

Improved services and targeted assistance

- 16 MSD has begun to realise some of the benefits of integrating housing assistance with the broader range of assistance it offers to low income and vulnerable New Zealanders. An increased number of clients have been offered housing assistance and there have been marked improvements in the screening and assessment of housing needs.
- 17 Since April 2014, (to the end of October) approximately 18,500 social housing needs assessments have been undertaken, which is around 4,500 more than forecast.⁴ The average time between the screening of applicants and assessment is now six days,

⁴ The forecast figure is prorated based on seven months data.

compared to two weeks when HNZC managed this function. Moreover, the average time required to assess applicants has decreased from 60 to 40 minutes.

- 18 MSD is able to target the assistance it provides based on client needs. Combining MSD data about people receiving benefits and HNZC data about people living in social housing has increased MSD's understanding of client's needs and resulted in the identification of particular client segments. This segmentation informs MSD's approach to providing housing assistance, including the rollout of existing tools, the design and implementation of new initiatives, and the development of its purchasing role.
- 19 The first tranche of tenancy reviews, focused on social housing clients paying market rents, commenced in July 2014. Of the 386 tenancy reviews started since that time,⁵ 27 former tenants have moved out of social housing or have confirmed moving dates. Helping people transition to the private rental market frees up social housing for people with serious housing needs and has positive benefits along the housing continuum.
- 20 Client segmentation has also facilitated the rollout of Housing Support Products. To date 72 people have transitioned out of social housing or off the register into alternative accommodation using these products.

The Social Housing Purchasing Trial

- 21 Since MSD took over the purchasing function 21 CHPs have been contracted to provide social housing, with approximately 80 new tenants housed. MSD has also begun to apply its purchasing levers differently, particularly in the area of tenant placement.
- 22 On 20 October 2014 MSD started the social housing purchasing trial in South and West Auckland. The trial is designed to test a contestable purchasing process between CHPs and the HNZC by enabling providers to view the register and offer places to people who best meet the properties they have available. The current process involves HNZC automatically matching an available property to the highest priority applicant on the social housing register, based on bedroom requirements and location. CHPs are typically provided with a short list of three to five clients, from which a suitable tenant is selected and offered a place.
- 23 MSD expect the trial to improve utilisation and better manage price because clients are housed in properties that more closely match their needs. The objectives of the trial are to:
 - improve property utilisation, by creating processes that support a better fit between clients and properties
 - through improved property utilisation, better manage price and value for money, through contestable offers to house particular clients
 - build an evidence base, in particular about provider behaviour and price, to support the work to reform MSD's future purchasing functions.

Opportunities for further gains in social housing outcomes

- 24 Three SHRP papers are being considered by the Cabinet Social Policy Committee on 3 December 2014. The three SHRP papers are:
 - Paper One: An overview of the Programme (Treasury)
 - Paper Two: Initial steps and future state for purchasing social housing places for clients (MSD)

⁵ MSD remains on track to complete 800 tenancy reviews in 2014/15

- Paper Three: Redevelopment of social housing and engagement with the community housing sector and iwi/Māori (Establishment Unit).

Together, these papers progress the Government's aims to reform social housing in New Zealand.

- 25 The second of these three papers was drafted by MSD and seeks approval of a package of proposals, summarised in Table 2 below, to support people to access alternative housing in the private market, in order to reduce the pressure on the social housing register. If approved, development of each proposal can begin in early 2015, with staged implementation through to July 2015. These proposals have been tested with MSD's external reference group of social housing sector leaders and academics (the Housing Assistance Reform Feedback Group), who are broadly supportive of the approaches.

Table 2: Short term proposals to reduce pressure on the social housing register and on emergency housing

TOOLS TO SUPPORT PEOPLE INTO INDEPENDENCE FROM SOCIAL HOUSING	
Proposal 1a: Work with beneficiaries in Work-Focused Case Management on the social housing register	
What	MSD provides intensive case management for beneficiaries who are most at risk of long term dependency through Work-Focused Case Management. Case managers would prioritise clients on the social housing register and support them to achieve both work and housing outcomes.
Who	1,100 people on the social housing register who are beneficiaries in Work-Focused Case Management.
How	Funding is required for five additional case managers to provide more intensive support.
Proposal 1b: Conditional grant letter to help people find alternative accommodation	
What	Introduce a letter offering a conditional grant of recoverable assistance to help people cover bond, rent in advance and letting fees for alternative housing. This aims to encourage people to actively search for alternative housing. Letters will also be able to be shared with prospective landlords, to remove some of the barriers people face when trying to establish themselves in the private housing market.
Who	All Priority B applicants on the register, and existing tenants seeking to transfer within social housing.
How	Minor amendments to the Housing Support Products Ministerial Welfare Programme, and IT system changes.
Proposal 2: Begin an additional 3,000 tenancy reviews to create better flow through the system	
What	The objective of a tenancy review is to determine whether a tenant is able to transition out of social housing, is the right social house for them, or whether they should remain in their current house. MSD is on track to deliver 800 reviews this year. This option would begin an additional 3,000 tenancy reviews over the next two years, with: <ul style="list-style-type: none"> • an additional 1,000 reviews to begin in 2014/2015, making the total number of reviews begun 1,800. Most could be drawn from the initial target group agreed by Cabinet (market renters under 65 with no children) • an additional 2,000 reviews to begin in 2015/16, for a total of 3,100 reviews in 2015/16. It may be necessary to extend the target group more broadly.
Who	Social housing tenants who are paying market rent. The expanded target group could include: <ul style="list-style-type: none"> • primary tenants aged up to 75 years, paying market rent and with incomes of more than \$1,000 per week (over 300 tenants at 30 September) • those with dependent children (over 970 tenants within the initial target group) • near market renters, that is tenants with an IRRS of \$50 a week or less (about 1,100 primary tenants).
How	This option requires an additional 12 case managers to complete reviews. The process will be adapted to take into account the different needs of tenants as the target group expands (e.g. for tenants with children, looking at options that support continued engagement with local schools or early childhood education centres).

Proposal 3: Supported accommodation for young people on the social housing register	
What	Expand supported accommodation houses for young people.
Who	Young people on the social housing register in high demand areas (Auckland and Christchurch)
How	Funding is required to implement a Request for Proposal (RFP) process, with Non-Government Organisations responsible for finding suitable houses and house mentors.
Proposal 4: Provide information about support available to move from high demand to lower demand areas	
What	Provide information and advice to people who are referred to MSD by housing providers, especially emergency housing providers, about what support could be available to help them to move from areas where there is high demand for social housing to locations where more affordable housing is available.
Who	People on the social housing register and existing tenants who live in high demand regions and who want to move to a region with more affordable housing where they can access better supports. It would focus on people who do not have work obligations.
How	MSD would give providers information about areas that may be suitable for people to relocate to, and would provide information and advice to clients who want to move.
ALLEVIATE PRESSURE ON EMERGENCY HOUSING	
Proposal 5: Improve coordination of the emergency housing response in Auckland	
What	Currently, the response to people who arrive at MSD with emergency housing needs is ad-hoc. This option would introduce an emergency housing database in Auckland to provide up to date information on the number of emergency beds available on any given night, enabling MSD to have a better picture of supply.
Who	MSD clients in Auckland who have emergency housing needs.
How	Funding is required to develop and maintain the database.
Proposal 6: One-off \$500,000 cash injection for emergency housing providers, while a review of funding for emergency housing support takes place	
What	Emergency housing providers are reporting significant operational pressures and growing demand for their services. This option would provide a one-off cash injection of \$500,000 to maintain viability in the sector, while MSD carries out an overall review of emergency housing funding.
Who	Emergency housing providers.
How	One-off funding distributed in the first half of 2015, with a review completed by the end of July 2015. Reprioritisation of \$500,000 from the appropriation set up to support short term housing in Canterbury.
	<i>Review for some services</i>
TESTING NEW CONTRACTING ARRANGEMENTS	
Release a Request for Proposal to increase IRRS places in Auckland	
What	Release an RFP seeking an additional 300 IRRS places in Auckland, as a step towards MSD purchasing social housing places more strategically and signalling on-going demand for social housing. It will provide an opportunity to test what the market can deliver, and to try new contracting arrangements. Contracts would guarantee IRRS tenancies for some or all of the additional places for up to five years, and signal extra support to assist providers to offer additional places (e.g. operating subsidy, one-off cash grants or capital funding).
Who	People in Auckland with serious housing needs, and Auckland-based social housing providers.
How	Funding for these places is possible within the existing IRRS cap for the first two years. In 2016/17 and outyears MSD will need to manage expenditure to remain within the cap (e.g. by funding fewer social housing places in areas with lower demand, or increasing waiting times), unless Joint Housing Ministers agree to increase the cap. MSD would release an RFP in January 2015. The RFP and contracting process is likely to take four to five months. MSD anticipates that a maximum of 200 new places could be available from June 2015, with the additional 100 places becoming available over the course of the 2015/16 financial year.

On-going reform of social housing

- 26 MSD has identified further opportunities to improve the functioning of the social housing market utilising the levers at its disposal as a purchaser. Over the medium-term MSD will develop a purchasing strategy to set out its objectives and priorities for the placement of high needs people in social housing.
- 27 This strategy will address the current mismatch between supply and demand in social housing, where a number of existing properties are in the wrong location or are not suited to client needs.⁶ The strategy will help HNZC and CHPs make investment decisions by providing greater certainty about the volume, type and location of social housing places that MSD will purchase.

Introducing flexibility in the purchasing of social housing places

- 28 MSD is also seeking Cabinet approval to introduce greater flexibility in the purchasing of social housing places with IRRS. This subsidy is prescribed in the *Housing Restructuring and Tenancy Matters Act 1992* with the obligation that social housing providers are reimbursed the difference between market and income related rents. This provision constrains MSD's ability to negotiate with social housing providers, in particular what can be purchased and for what price. Amendment of IRRS provisions in the Act would provide a degree of flexibility in contracting and allow for the development of a responsive and efficient social housing market.

Smoothing the transition from social housing to independence

- 29 There is also the opportunity to achieve both work and housing outcomes from MSD's work with clients who are most at risk of long term welfare dependency.
- 30 Because IRR is based on income, it provides a disincentive for beneficiaries to take up work and to transition out of social housing. Any increase in income leads to increased rent, and this, combined with benefit abatement, means that the effective marginal tax rates for social housing tenants in employment are high, even for income significantly above minimum wage.
- 31 There is also a significant difference between the IRR people pay when in social housing and what the same person would receive (through the Accommodation Supplement), if their earnings increased to a level where they could rent in the private market. The average IRR subsidy is around three times the average AS payment.
- 32 Cabinet agreed in March 2014 that MSD's work programme should include a focus on smoothing the transition between IRR and AS to increase pathways to independence. There are currently 8,695 beneficiaries living in social housing who are also in Work Focused Case Management. Providing package of transition support would aim to increase the number of these beneficiaries taking up employment and transitioning out of social housing. This would have the added benefit of freeing-up social housing places for those people who need them most.
- 33 MSD will work with you and the Minister for Social Housing to develop options to smooth the transition from social housing to independence and will seek final agreement from Cabinet in March 2015 to more detailed options, including funding implications.

⁶ Auckland and Christchurch account for 70 per cent of social housing demand, yet only 55 per cent of social housing stock

- 34 Initiatives to address child poverty, as part of the work for the Prime Minister on Budget 2015, will also consider changes to the Accommodation Supplement that could help alleviate high housing costs, and the potential for additional IRRS places.

Resource implications for MSD

- 35 If approved by Cabinet, a number of the short term proposals will be implemented by frontline staff as part of their day-to-day interactions with clients. Enhancing the range of tools at the disposal of frontline staff is expected to result in improved housing outcomes for specific clients or client segments. For example, providing Priority B applicants on the social housing register with a conditional grant may help them find alternative accommodation. Undertaking an addition 3,000 tenancy reviews is expected to lead to better flow through the system, but will require 12 additional case managers.
- 36 The total cost to implement the short term initiatives designed to reduce pressure on the register is \$7.020 million over four years. This includes \$2.518 million for 2014/15. An additional one-off funding injection of \$500,000 will be required in 2014/15 for emergency housing providers. Cabinet agreement is sought to reprioritise the \$500,000 from the \$6.5 million of funding set aside for the short term housing response in Christchurch. This requires a capital to operating swap and a fiscally neutral transfer.
- 37 The cost for commencing work on the medium and long term initiatives is \$2.167 million in 2014/15. Cabinet agreement is sought to meet these costs within existing appropriations.
- 38 Agencies are currently working together to develop a cross-agency bid for project costs to support on-going development of social housing policy, to be considered for Budget 2015. This will include funding for 2015/16 and outyears.

File ref: REP/14/11/856

aide-mémoire

cabinet paper



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Date: 28 November 2014 **Security Level:** Cabinet Sensitive
For: Hon Paula Bennett, Minister for Social Housing
File Reference: A7821950

Social Housing Reform Programme: initial steps and future state for purchasing social housing places for clients (paper two)

Cabinet Committee Social Policy, 3 December

This paper is the second in a suite of three papers being considered by the Social Policy Committee.

Paper one – provides an overview of reform programme and agreement to bottom line commitments:

- more social houses in New Zealand – particularly in Auckland and Christchurch.
- HNZC will continue to be the biggest owner of social housing in New Zealand.
- Properties will be sold only if this results in better services for tenants and good value for taxpayers.
- Tenants in these properties will continue to be housed for the duration of their need.
- The Government will spend more on income-related rent subsidies and ensure that HNZC has enough capital to build new social housing / redevelop existing properties.

Paper two:

- sets out a framework for how MSD will purchase social housing places over time
- seeks agreement to a package of initiatives that will help to manage the social housing register, and increase pathways from social housing to independence.

Paper three - "Social Housing Reform Programme: Redevelopment of Social Housing and Engagement with the Community Housing Sector and Iwi/Māori" sets out the next steps and detail for transfers and redevelopment of Housing New Zealand Corporation properties.

Key talking points

- There are over 5,000 applicants on the social housing register
- Over 400 people have said their main reason for applying for social housing is homelessness
- At the end of October, MSD were purchasing 60,760 IRRS tenancies, with the vast majority of these being purchased from HNZC and 76 purchased from Community Housing Providers
- The number of IRRS tenancies MSD purchases is forecast to increase from 61,000

now to 65,000 by June 2016.

MSD has new social housing functions including needs assessment, managing the register and purchasing social housing places.

In the short term I am seeking agreement to a package that reduces pressure on the social housing register and emergency housing, including:

- funding for additional case managers to provide more intensive support to beneficiaries in Work Focused Case Management on the social housing register (over 1,000 people).
- introducing a conditional grant letter to help people find alternative accommodation which will require amendments to the Housing Support Products Ministerial Welfare Programme and IT system changes
- funding for additional case managers to begin an additional 3,000 tenancy reviews to create better flow through the system
- funding for a RFP process for supported accommodation houses for young people to provide stable housing environments for young people at risk of homelessness
- providing information about support available for people to move from high demand to lower demand areas
- funding to develop and maintain an emergency housing database to improve the coordination of the emergency housing response in Auckland
- funding for a one-off \$500,00 cash injection for emergency housing providers in the first half of 2015, while a review of funding for emergency housing support takes place
- a ROI and RFP process for an additional 300 IRRS places in Auckland.

Medium term steps to purchase social housing places more effectively

In the medium term, the paper proposes using MSD's levers to:

Develop and publish a purchasing strategy which will provide the market with key parts of information MSD holds about clients and housing demand.

- The strategy will signal MSD's funding and contractual arrangements, and the volume type and location of social housing places MSD needs to purchase to meet its objectives.
- This is a central component of MSD's work to purchase social housing places more effectively. A draft strategy will be brought to Cabinet in March 2015 prior to its publication in April 2015.

Enable more flexibility in using IRRS to purchase social housing places by amending the Housing Restructuring and Tenancy Matters Act 1992 (HRTMA).

- Current legislative settings determining how the IRRS subsidy is calculated are a barrier for flexible purchasing practices. As the purchaser of social housing places, this limits MSD's ability to drive change in the social housing market.
- Amending the HRTMA will allow MSD to contract with providers in a way that responds to market signals and allow for the development of a responsive and efficient social housing market.
- This paper seeks agreement in principle that the HRTMA be amended to enable more flexible social housing approaches with final recommendations to be reported back to Cabinet in March 2015.

Funding implications

In addition to the \$2.518 million to commence work on the short-term initiatives, this

paper also seeks **\$2.167 million** in 2014/15 to start work on the medium term initiatives, making a total of **\$4.685 million** of funding for 2014/15.

Costs for both the short and medium term initiatives for 2014/15 are being sought from within existing appropriations. Your office has advised that the Science Challenges Fund for Housing is underspent by up to \$4.7 million and is the most likely source of funding that could be reprioritised to fund the 2014/15 cost of the package.

As Minister of Science and Innovation and, Minister Joyce is responsible for this fund and you would need to work with both him and the Minister of Finance to gain agreement to use this funding.

Recommendation 11 in the paper seeks delegated authority for you, Minister Joyce and the Minister of Finance to make the necessary changes to appropriations to reprioritise this funding should it be agreed.

Funding for 2015/16 and outyears will be included in a Budget 2015 cross-agency bid for project costs to support on-going development of social housing policy.

Changes to the paper since 25 November

- The proposal to establish ten housing brokers in high demand areas has been removed.
- An ROI process has been introduced into the RFP to increase IRRS places in Auckland proposal. The ROI will test what the market can deliver and any additional support providers may require in order to provide new social housing places.
- Funding of \$4.685 million for 2014/15 is now being sought from within existing appropriations instead of the between budget contingency.

Financial recommendations

There have been some small changes to the financial recommendations to include minor technical details. These technicalities are for audit purposes to ensure that Cabinet has authorised what is required to in order to incur expenses, and are not substantive changes to the recommendations. A new version of the paper has been issued by the Cabinet Office.

Updated numbers for Tenancy Reviews, Housing Support Products and Needs Assessments

Below are updated numbers, which differ slightly from those contained in the paper.

As at 27 November:

- 18,475 needs assessment completed since the transfer – around 4,500 more than forecast
- 389 tenancy reviews have commenced with 22 tenants already exiting social housing and five with moving dates set
- 72 clients have been assisted with Housing Support Products to move into alternative accommodation.

aide-mémoire



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

cabinet paper

Date: 28 November 2014 **Security Level:** Cabinet Sensitive

For: Hon Anne Tolley, Minister for Social Development

Hon Nikki Kaye, Minister for Youth

Hon Maggie Barry, Minister for Senior Citizens

Hon Jo Goodhew, Associate Minister for Social Development

Hon Nicky Wagner, Minister for Disability Issues

File Reference: A7822250

Social Housing Reform Programme: initial steps and future state for purchasing social housing places for clients (paper two)

Cabinet Committee Social Policy, 3 December 2014

This paper is the second in a suite of three papers being considered by the Social Policy Committee.

Paper one – provides an overview of reform programme and agreement to bottom line commitments:

- more social houses in New Zealand – particularly in Auckland and Christchurch.
- HNZC will continue to be the biggest owner of social housing in New Zealand.
- Properties will be sold only if this results in better services for tenants and good value for taxpayers.
- Tenants in these properties will continue to be housed for the duration of their need.
- The Government will spend more on income-related rent subsidies and ensure that HNZC has enough capital to build new social housing / redevelop existing properties.

Paper two:

- sets out a framework for how MSD will purchase social housing places over time
- seeks agreement to a package of initiatives that will help to manage the social housing register, and increase pathways from social housing to independence.

Paper three - "Social Housing Reform Programme: Redevelopment of Social Housing and Engagement with the Community Housing Sector and Iwi/Māori" sets out the next steps and detail for transfers and redevelopment of Housing New Zealand Corporation properties.

Background

MSD is now responsible for key housing functions – needs assessment, managing the social housing register and purchasing social housing places.

Short term approach to purchasing and relieving pressure on the social housing register

Proposed tools to support people into independence from social housing include:

- Working with beneficiaries in Work Focused Case Management on the social housing register, to achieve employment and housing outcomes
- Introducing a conditional grant letter to help people find alternative accommodation.
- Increasing the number of tenancy reviews from 1,800 to 4,800 to create better flow through the system
- Increase supported accommodation houses for young people.

Increasing the number of IRRS places in Auckland

- Funding for an ROI from December to February seeking an additional 300 places with an RFP process to follow to increase IRRS places in Auckland.

Alleviating pressure on Emergency Housing

- Funding to develop and maintain an emergency housing database to improve the coordination of the emergency housing response in Auckland.
- A one-off \$500,000 cash injection for emergency housing providers in the first half of 2015, while a review of funding for emergency housing support takes place.

Medium term steps to purchase social housing places more effectively

MSD has a new role as a purchaser of social housing places and the paper proposes using MSD's levers to:

- Develop and publish a purchasing strategy which will provide the market with information MSD holds about clients and housing demand to support the development of the social housing market including increasing provision of social housing places where they are needed and the type that meets tenant's circumstances.
- Amend the Housing Restructure and Tenancy Matters Act (1992) to enable MSD to contract with providers more flexibly and to support the development of a responsive and efficient social housing market.

Links to wider MSD portfolios

Safe and stable housing is vital to achieving positive social outcomes. Housing touches all cohorts MSD works with on a day-to-day basis, including jobseekers, older people, vulnerable children, youth and disabled people. Proposals will enable the social housing system to better meet the needs of these groups. For example:

- By working intensively with **beneficiaries** in work-focused case management who are on the social housing register or already in social housing, there is an opportunity to build on the support provided to achieve both employment and housing outcomes
- The proposal to increase the number of supported accommodation places for **young people** will mean that young people on the register will have greater access to supportive and stable housing environments
- The ROI and RFP for additional IRRS places in Auckland will benefit **older people**. As at September 2014 there were over 200 NZS recipients on the register in Auckland.
- Improvements to the provision of social housing should impact positively on **disabled people** requiring accessible housing, by improving the match between clients' needs and the properties they are offered.

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OFFICIAL INFORMATION ACT

Aide-mémoire



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Cabinet paper

Date: 7 May 2015

Security Level: Budget Sensitive

For: Hon Paula Bennett, Minister for Social Housing

File Reference: REP/15/5/471

Social Housing Reform (Flexible Purchasing and Remedial Matters) Bill: Approval for Introduction

Cabinet Committee Cabinet Business

Date of meeting 18 May 2015

Minister Hon Paula Bennett, Minister for Social Housing

Proposal This paper seeks the Committee's approval for the introduction of the Social Housing Reform (Flexible Purchasing and Remedial Matters) Bill ("the Bill") with urgency on 21 May 2015.

Key talking points

What does the Bill change?

Currently, MSD makes agreements with, and pays HNZ and CHPs for providing social housing. The current law says that the payment (known as an Income-Related Rent subsidy) must be calculated a specific way. (The IRR subsidy being the Market Rent minus the Income-Related Rent).

The Bill specifically enables MSD and providers to negotiate payments for social housing that are not fixed to the IRR subsidy calculation.

How does the Bill do this?

The Bill provides for two different types of agreement that can be used by MSD and providers (including HNZ) for the provision of social housing:

- an IRR subsidy agreement (described as a reimbursement agreement in the Bill)
- a tailored agreement where payment for social housing does not have to be linked to IRR subsidy.

Tailored agreements can only be used if the Minister for Social Housing issues directions for that purpose. Directions can be

general or they can be specific to one or more transactions.

HNZ can currently be compelled to enter into IRR subsidy agreements. This will continue to be the case. However, neither HNZ nor CHPS can be compelled to enter into a tailored agreement. Where a tailored agreement is not being used, payments will continue to be by IRR subsidy.

Why is the Bill necessary?

Government wants MSD to be a smarter, more innovative and flexible purchaser. The current limitations whereby IRR subsidy arrangements are the only way business can be done stands in the way of this.

For example, IRR subsidy agreements are not fit for purpose for longer term contracts, or for managing vacancy risk and promoting developments so that social housing stock continues to meet social housing need.

MSD intends to enter tailored agreements to support the Auckland RFP and it could also be useful if HNZ properties are transferred to CHPS.

Why is the Bill being passed under urgency on Budget night?

Legislation is required to be in place to support the RFP tender in Auckland for 300 extra social housing places.

The legislation is enabling only; no-one can be compelled to enter into the new style agreements.

Consultation with the sector on more flexible purchasing opportunities indicated general support for the proposals to which the Bill gives effect.

**Transaction
Mandate**

The Social Housing Reform (Transaction Mandate) Bill is delayed and will not be introduced on Budget night.

Next Steps

On 11 May we will provide you with speeches, a clause by clause analysis and Questions and Answers to support you in the House on 21 May 2015.



Report

Date: 11 May 2015

Security Level: IN CONFIDENCE

To: Hon Paula Bennett, Minister for Social Housing

Social Housing Reform (Flexible Purchasing and Remedial Matters) Bill: Supporting documents for House

Purpose of the report

- 1 This report attaches documents to support you in the House on 21 May for the Social Housing Reform (Flexible Purchasing and Remedial Matters) Bill.

Supporting documents

- 2 Attached to this report is the:
 - briefing notes
 - key messages and questions and answers
 - first reading-speech.
- 3 Officials will also provide you with second and third reading speeches and speech notes for the committee of the whole House on Thursday 14 May. The Bill will progress under urgency so all stages of the Bill will heard on 21 May. To avoid unnecessary duplication in the speeches it is recommended the second reading speech focus on the remedial matters including the KiwiSaver amendments. Officials propose the third reading speech provide a short summary of the reforms.

Next Steps

- 4 On Thursday 14 May, officials will provide you with second and third reading speeches and speech notes for the committee of the whole House.

Recommended actions

It is recommended that you:

- 1 **note** the contents of this report and the attached documents
- 2 **note** that the Social Housing Reform (Flexible Purchasing and Remedial Matters) Bill will be passed under urgency on 21 May 2015
- 3 **agree** that the second reading speech discuss the remedial matters in the Bill including the KiwiSaver amendments

Agree/Disagree

- 4 **agree** that the third reading speech provide a short summary of the reforms in the Bill

Agree/Disagree

5 **note** that we will provide you with second and third reading speeches and speech notes for the committee of the whole House on Thursday 14 May.

Anna Butler
Anna Butler
General Manager Housing, Income Support and
Employment
Ministry of Social Development

11-5-15
Date

Kevan Scott
Kevan Scott
Manager Housing Policy Integration
Ministry of Business, Innovation and
Employment

11/5/15
Date

Hon Paula Bennett
Hon Paula Bennett
Minister for Social Housing

Date

File ref: REP/15/05/477

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Social Housing Reform (Flexible Purchasing and Remedial Matters) Bill: Further supporting documents for House

Date: 15 May 2015

Report no.: REP/15/05/507

Security level: IN CONFIDENCE

Priority: Medium

Action Sought

Hon Paula Bennett

For noting

18 May 2015

Minister for Social Housing

Contact for telephone discussion

Name	Position	Telephone	1st Contact
s 9(2)(a)	Principal Analyst, Housing, Income Support and Employment	s 9(2)(k)	
s 9(2)(a)	Principal Analyst, Housing, Income Support and Employment	s 9(2)(k)	<input checked="" type="checkbox"/>

Report prepared s 9(2)(a), Principal Analyst. In consultation with MBIE

Minister's office comments

- Noted
- Seen
- Approved
- Needs change
- Withdrawn
- Not seen by Minister
- Overtaken by events
- Referred to (specify)

Comments

Just returning this. Minister was happy with documents. She did not sign the report.

Date received from MSD

15 MAY 2015

Date returned to MSD

29 MAY



Report

Date: 11 May 2015

Security Level: IN CONFIDENCE

To: Hon Paula Bennett, Minister for Social Housing

Social Housing Reform (Flexible Purchasing and Remedial Matters) Bill: Supporting documents for House

Purpose of the report

- 1 This report attaches documents to support you in the House on 21 May for the Social Housing Reform (Flexible Purchasing and Remedial Matters) Bill.

Supporting documents

- 2 Attached to this report is the:
 - briefing notes
 - key messages and questions and answers
 - first reading speech.
- 3 Officials will also provide you with second and third reading speeches and speech notes for the committee of the whole House on Thursday 14 May. The Bill will progress under urgency so all stages of the Bill will heard on 21 May. To avoid unnecessary duplication in the speeches it is recommended the second reading speech focus on the remedial matters including the KiwiSaver amendments. Officials propose the third reading speech provide a short summary of the reforms.

Next Steps

- 4 On Thursday 14 May, officials will provide you with second and third reading speeches and speech notes for the committee of the whole House.

Recommended actions

It is recommended that you:

- 1 **note** the contents of this report and the attached documents
- 2 **note** that the Social Housing Reform (Flexible Purchasing and Remedial Matters) Bill will be passed under urgency on 21 May 2015
- 3 **agree** that the second reading speech discuss the remedial matters in the Bill including the KiwiSaver amendments

Agree/Disagree

- 4 **agree** that the third reading speech provide a short summary of the reforms in the Bill

Agree/Disagree

5 **note** that we will provide you with second and third reading speeches and speech notes for the committee of the whole House on Thursday 14 May.



Anna Butler
General Manager Housing, Income Support and
Employment
Ministry of Social Development

11-5-15

Date



Kevan Scott
Manager Housing Policy Integration
Ministry of Business, Innovation and
Employment

11/5/15

Date

Hon Paula Bennett
Minister for Social Housing

Date

File ref: REP/15/05/477

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Aide-mémoire



MINISTRY OF SOCIAL
DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Cabinet paper

Date: 29 June 2015

Security Level: Cabinet Sensitive

For: Hon Paula Bennett, Minister for Social Housing

File Reference: REP/15/6/691

Progressing Social Housing Reform Programme Transactions

Cabinet Committee

Social Policy

Date of meeting

1 July 2015

Minister

Hon Bill English, Minister Responsible for HNZC

Hon Paula Bennett, Minister for Social Housing

Proposal

This paper asks the Social Policy Committee to:

- note the approach to policy issues related to Social Housing Reform Programme (SHRP) transactions and the commercial process that will be used across transactions
- agree to the delegations framework for SHRP transactions and to progress to market sounding in Invercargill
- agree to the first Ministerial direction for flexible purchasing under recent amendments to the Housing Restructuring and Tenancy Matters Act 1992 (HRTMA)
- agree to establish a new appropriation to support new types of funding for the Request for Proposal (RFP) in Auckland for 300 additional social housing places.

This aide memoire discusses the final two proposals which are related to the development of MSD's contracting lever for purchasing social housing places.

Key talking points

Enhancing MSD's role as purchaser

Decisions are needed in order to make MSD a more effective purchaser of social housing. Today, we are seeking decisions on a Ministerial direction under new legislative provisions for flexible purchasing and establishing an appropriation for new types of funding.

These decisions are needed to progress initiatives underway such as the Auckland RFP and the transactions of HNZC properties.

The sector has been clear that IRRS on its own does not offer the degree of flexibility and the kinds of terms and conditions required to justify organisations entering into negotiations for the provision of social housing.

The RFP is also the first step in securing the 3,000 additional social housing places signalled in MSD's *Social Housing Purchasing Intentions* published in April 2015.

Setting a broad Ministerial direction will enable a wide range of contracting approaches

We are proposing a broad Ministerial direction that enables MSD to enter into tailored agreements.

A broad direction will permit MSD to enter tailored agreements and engage with providers about the specific terms and conditions and price of those agreements with social housing providers.

The direction will set parameters within which MSD can work with providers to agree terms and conditions suitable to both parties. A broad direction will enable MSD to negotiate contracts that fit the needs of a particular area or client cohort.

There is no compulsion on CHPs or HNZC to enter tailored agreements. The calculation of tenants IRR will not be affected by the direction or tailored agreements.

Feedback from the Housing Assistance Reform Feedback Group (HARFG)

Officials engaged sector representatives on their external advisory group on 25 June 2015 to discuss the first Ministerial direction. They expressed a desire to have their feedback presented at Cabinet.

HARFG had a lengthy and robust discussion on the proposal to have a broad and enabling direction. The group understand the need for flexibility to negotiate tailored agreements, but their main concern was the lack of policy guidance on how the flexibility would be used.

MSD is developing a contracting framework for securing social housing places. The framework will detail the terms and conditions and price that MSD will be willing to negotiate and under what circumstances.

This will provide the sector with the contextual information about the tailored agreements that the HARFG group have signalled is needed.

HARFG's feedback is attached to this Aide Memoire. It is recommended that you table these at the Cabinet meeting.

Enabling the Auckland RFP: Establishing a new appropriation

Consultation with the sector earlier in the year highlighted the types of arrangements that are necessary for the sector to supply additional places.

The sector gave a clear indication on the different funding and contracting arrangements that are required in order to stimulate

new supply in Auckland.

These arrangements are over and above what is currently offered through the IRRS or will be offered through tailored agreements.

Within Vote Social Development, there is currently no appropriation to fund some of the arrangements required for the Auckland RFP and potential future initiatives to stimulate supply. To enable these types of arrangements a new appropriation needs to be established.

Agreement is being sought to an in-principle expense transfer of IRRS funding due to the delay in the Auckland RFP. This funding will not be confirmed until the October Baseline Update. In the interim, we propose a fiscally neutral adjustment of \$9.5m to reprioritise funding within 2015/16.

This will temporarily reduce the 2015/16 appropriation for social housing tenancies until the expense transfer is confirmed in October. The in-principle amount is sufficient to cover the interim funding gap.

Next steps

- Table the attached HARFG comments at Cabinet.
 - If Cabinet agrees to the proposed approach, MSD will provide you with a Ministerial direction for your approval.
 - MSD is developing its overall IRRS contracting framework for purchasing social housing places.
 - MSD will propose an approach to secure the additional social housing places signalled in the *Social Housing Purchasing Intentions*.
 - MSD is working with Treasury, MBIE and HNZA on how Government can secure more social housing places in Auckland in the next 6-12 months.
 - MSD, in consultation with Joint Ministers, will finalise the arrangements for the Auckland RFP.
 - Market sounding for the first transactions is scheduled to begin in August 2015.
-

Aide-mémoire



MINISTRY OF SOCIAL
DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Cabinet paper

Date: 29 June 2015 **Security Level:** Cabinet Sensitive
For: Hon Anne Tolley, Minister for Social Development
Hon Nikki Kaye, Minister for Youth
Hon Maggie Barry, Minister for Senior Citizens
Hon Nicky Wagner, Minister for Disability Issues

File Reference: REP/15/6/693

Progressing Social Housing Reform Programme Transactions

Cabinet Committee Social Policy

Date of meeting 1 July 2015

Minister Hon Bill English, Minister Responsible for HNZA
Hon Paula Bennett, Minister for Social Housing

Proposal This paper asks the Social Policy Committee to

- note the approach to policy issues related to Social Housing Reform Programme (SHRP) transactions and the commercial process that will be used across transactions
- agree to the delegations framework for SHRP transactions and to progress to market sounding in Invercargill
- agree to the first Ministerial direction for flexible purchasing under recent amendments to the Housing Restructuring and Tenancy Matters Act 1992 (HRTMA)
- agree to establish a new appropriation to support new types of funding for the Request for Proposal (RFP) in Auckland for 300 additional social housing places.

We recommend that you **support** these proposals.

Key issues ***Growing community housing providers through the transfer of HNZA properties***

The paper updates Cabinet on a number of policy issues surrounding social housing transactions, and seeks Cabinet's approval of a delegations framework to be used across transactions. Implementation of the social housing transactions is largely delegated to Social Housing Joint Ministers (the Minister Responsible for Housing New Zealand and the Minister

for Social Housing), who will report back to Cabinet in the instance that transactions significantly depart from positions outlined in the paper.

It also seeks approval to progress to market sounding (as the first step in the commercial process) for the first transactions in Invercargill and asks Cabinet to delegate decisions to Joint Ministers on whether to progress to market sounding in Tauranga subject to advice on Ngati Ranginui's interests in the area. These recommendations have been based on the outcomes of regional consultation on iwi/hapu interests in Tauranga and Invercargill.

Joint Ministers will take decisions on future regions for transfers following advice from officials in the coming months.

Enhancing MSD's role as purchaser

Decisions are needed in order to make MSD a more effective purchaser of social housing. We are seeking decisions on a Ministerial direction under new legislative provisions for flexible purchasing and establishing an appropriation for new types of funding.

These decisions are needed to progress initiatives underway such as the Auckland RFP to purchase an additional 300 social housing places and the transactions of HNZC properties.

Setting a broad Ministerial direction will enable a wide range of contracting approaches

A broad Ministerial direction is proposed that enables MSD to enter into tailored agreements. A broad direction will permit MSD to enter tailored agreements and negotiate the specific terms and conditions and price of those agreements with social housing providers.

The direction will set parameters within which MSD can work with providers to agree terms and conditions suitable to both parties. A broad direction will enable MSD to negotiate contracts that fit the needs of a particular area or client cohort (eg older people, youth, sole parents, disabled people).

The calculation of tenants income-related rent (IRR) will not be affected by the direction or tailored agreements.

Enabling the Auckland RFP: Establishing a new appropriation

MSD consulted the sector earlier in the year through a Registration of Interest process. CHPs gave their views on the types of arrangements that are necessary for the sector to supply additional places.

These arrangements are over and above what is currently offered through the IRRS or will be offered through tailored agreements.

To enable these types of arrangements a new appropriation needs to be established within Vote Social Development.

Agreement is being sought to an in-principle expense transfer of IRRS funding due to the delay in the Auckland RFP. This funding will not be confirmed until the October Baseline Update. In the

interim, we propose a fiscally neutral adjustment of \$9.5m to reprioritise funding within 2015/16.

This will temporarily reduce the 2015/16 appropriation for social housing tenancies until the expense transfer is confirmed in October. The in-principle amount is sufficient to cover the interim funding gap.

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Key messages on the Social Housing Reform Programme

Date: 27 June 2016

Report no.: REP/16/6/754

Security level: IN CONFIDENCE

Priority: Medium

Action Sought

Hon Paula Bennett

For noting

30 June 2016

Minister for Social Housing

Contact for telephone discussion

Name	Position	Telephone	1st Contact
Carl Crafar	Deputy Chief Executive, Social Housing,	s 9(2)(k)	<input checked="" type="checkbox"/>

Report prepared s 9(2)(a) Communications Director, Social Housing Reform

Minister's office comments

- Noted
- Seen
- Approved
- Needs change
- Withdrawn
- Not seen by Minister
- Overtaken by events
- Referred to (specify)

Comments

Date received from MSD

Date returned to MSD

02 AUG 2016

Aide-mémoire



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Date: 24 June 2016 **Security level:** Confidential

For: Hon Bill English, Minister of Finance
Hon Paula Bennett, Minister of Social Housing
Hon Nick Smith, Minister of Building and Housing

File Reference: REP/16/6/754

Key messages on the Social Housing Reform Programme

The cross-agency officials in the Social Housing Reform Programme (SHRP) are refreshing the programme's communications and stakeholder engagement strategy.

We propose to renew the key messages for the SHRP as outlined in this aide-mémoire.

The proposed refreshed messaging remains consistent with the social housing five objectives the Government outlined in its policy decisions of December 2014, and in the Prime Minister's State of the Nation speech in January 2015.

The proposed messaging is intended to:

- better link social housing to related policies such as the social investment framework and wider housing policy
- emphasise the themes of "right person, right house, right place, right duration, right price"
- clarify that the number and quality of social houses will be driven by the Income-Related Rent Subsidy (IRRS) places the Government pays for, rather than by who owns the houses.

Attached for your consideration and any feedback are:

- a proposed housing narrative that links to, and is supported by, social housing messages (Appendix 1)
- draft messaging for SHRP communications (Appendix 2).

This material was developed by the SHRP communications teams at MSD, Treasury, Housing NZ and the Ministry of Business, Innovation and Employment. It has been refined in discussions with your offices.

We would be pleased to discuss this material with Ministers if you wish.

s 9(2)(a) [REDACTED] Communications Director, Social Housing Reform Programme
s 9(2)(k) [REDACTED]

Carl Crafar, Deputy Chief Executive, Social Housing

s 9(2)(k) [REDACTED]

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Appendix 1: Frame-setting housing narrative

Housing is a fundamental human need. It is the foundation of fully functioning families that build a healthy society.

That's why housing is a huge area of Government spending, and the focus of major and urgent regulatory reform.

Housing takes a long time to plan and build. Government initiatives are starting to deliver thousands of new houses, and further steps the Government is taking now will build on this momentum and yield thousands more houses in future years.

The main solution to the housing problem is to get rid of the artificial barriers that slow down or prevent the supply of houses growing to meet the needs of people – particularly land supply, resource consenting, water and roads infrastructure.

Building **momentum in housing supply** is why the Government is:

- taking firm steps to enable, encourage and require councils to free up land, use it more efficiently, and make it easier to build
- urgently freeing up its own land for housing – Crown land and the Housing New Zealand estate – especially in Auckland.

Meanwhile, the Government provides major **subsidies for people's costs of owning and renting** – and is spending more on these subsidies every year:

- Support for first-home buyers:
 - In the year to March 2016, more than \$55 million was paid in KiwiSaver HomeStart grants to help almost 12,000 families into their first homes.
 - The Government underwrote another 1,000 Welcome Home loans valued at more than \$250 million.
- Subsidising the housing costs of lower-income and other disadvantaged people costs taxpayers over \$2 billion a year, and is one of the government's biggest expenses:
 - about \$1.2 billion on the Accommodation Supplement supports 290,000 people living in private housing
 - well over \$800 million is budgeted in 2016/17 to subsidise more than 60,000 social houses – and this is rising in future years.

For those in the most urgent need, the Government also significantly subsidises **emergency housing**, including with \$41 million over four years announced as part of Budget 2016.

Appendix 2: Social housing – subsidiary messaging

There is the need and opportunity to move Social Housing Reform Programme (SHRP) messaging away from the focus on the number and ownership of social houses, towards a people-focused narrative that incorporates:

- providing the right houses in the right places for the right people for the duration of their need
- fairness to all New Zealanders, including both taxpayers and tenants.

The key messages are:

- The Government's social housing reforms are helping the right people into the right houses in the right locations for the duration of their need.
- The Government is increasing both the money it is spending and the number of people it is supporting in social housing in the years ahead.
- The key outcome is for tenants to reach the highest sustainable level of independence that they can achieve.
- Social housing is not an end in itself; it is one of the many factors that enable independence, so it is considered along with people's other needs.
- MSD's Purchasing Intentions are the key "market creator" that enables the government's partner providers to contribute to the social housing system.

Getting better outcomes for tenants is part of the Government's social investment strategy. Spending levels and IRRS numbers remain a visible sign of the Government's commitment, but the focus is on whether the spending is:

- on households with the highest needs
- leading to the level of independence appropriate for each individual or family.

The Government is investing to reduce the long-term social housing liability, including the social cost of unmet need, as a proxy for better social outcomes. This recognises it is not just about getting people off the register or out of social housing in the short term – but delivering enough sustained support for people to move to independence.

Subsidiary messages that will also be promoted when appropriate are:

- The SHRP will contribute to better support and improve outcomes for those social housing tenants for whom total housing independence is not realistic.
- The SHRP is contributing to improving the supply of affordable housing, especially in Auckland.

SOCIAL HOUSING REFORM IMPLEMENTATION PAPER A: OVERVIEW AND FINANCIAL IMPLICATIONS

Proposal

- 1 This paper provides an overview of a suite of papers that update progress and seek outstanding decisions on the transfer from Housing New Zealand Corporation (HNZC) to the Ministry of Social Development (MSD) of needs assessment for social housing, administration of Income-Related Rent Subsidy (IRRS), and related functions. These papers also seek agreement on the key elements of the service that MSD will offer to housing clients. These changes are to be implemented from 14 April 2014.
- 2 The other papers in the suite are:
 - *Paper B: Service Delivery Model*
 - *Paper C: Outstanding Policy Decisions.*
- 3 This paper is in two parts:
 - Part 1: Overview of the transfer of functions
 - Part 2: Financial implications.

Executive summary

- 4 This paper meets a Cabinet Business Committee (CBC) report back requirement. It focuses on the roles and functions that will transfer from HNZC to MSD, and associated new functions that arise from the transfer and the extension of IRRS to community housing providers.
- 5 This is part of a significant work programme to change the nature of the social housing sector, that will see a more level playing field between HNZC and community housing providers (CHPs) and an integrated view of household need.
- 6 The transfer of functions is a significant and necessary first step. It delivers an independent needs assessor, which is critical to change incentives in the system, so there is an increased focus on ensuring the right person is placed in the right house. Delivery through MSD means that over time housing support will be integrated with other income support and link to wider social services, taking a more complete view of household need.
- 7 From 14 April 2014, MSD will deliver a fully functional housing service. It will initially rely on using existing systems, and require support from HNZC. This will ensure that the initial priority – a smooth and effective transition – is delivered, without disruption to existing tenants and applicants. From the beginning, the service MSD offer will involve significant enhancements – offering multiple ways that screening and assessment can be conducted and a housing internet portal.
- 8 On day one of the model, people will be able to access a simple assessment service, that offers a range of benefits over the existing model. Clients will see a degree of integration of services, such as streamlined assessments that use some of the information collected for benefit purposes, and a focus on overall household need.

- 9 MSD expects an increase in demand for housing services as a result of its wider client group, accessibility and the greater visibility of social housing when delivered alongside other income and social support. An enhanced options and advice service will allow active management of the waitlist for social housing, including the increased demand, and give more options to those for whom social housing is not the ultimate solution.
- 10 There are opportunities to use the new social housing model to better support government priorities, such as Better Public Services (BPS) targets for reducing rates of rheumatic fever, supporting vulnerable children and reducing benefit dependence.
- 11 By mid-2015, MSD's IT systems will be fully integrated, delivering administrative efficiencies and a more tailored approach to household need. Full integration of social housing systems, while a major milestone, will not realise all the gains intended through social housing reform. The proposed model may change as agencies learn from the initial roll-out of the day one model, and officials will provide further advice once the transfer of functions has been implemented.
- 12 While an integrated IT system is planned for mid-2015, the end-state for social housing is some years away. Significant change relies on the wider social housing reform work programme delivering increased supply of social and affordable housing, and greater diversity to meet need.
- 13 The transfer of functions is a significant piece of work, taking place in a tight but achievable timeframe. There are some critical milestones that must be met in order to successfully deliver the day one service model in April 2014:
 - October 2013: Cabinet approval of funding for transition and establishment costs, and agreement to the approach to reviewable tenancies, and transitional arrangements
 - late-November 2013: enabling legislation passed
 - as soon as possible after legislation passed: an Order in Council designating MSD as the Social Housing Agency
 - early December 2013: consultation with affected staff
 - February 2014: Cabinet approval of enabling Regulations and remaining Orders in Council
 - No later than March 2014: human resource processes and staff training complete, Service Level Agreement (between MSD and HNZA) in place.
- 14 Joint Ministers will receive regular updates on milestone progress, and this paper recommends agencies provide a further update in February 2014 to outline progress and confirm that the transfer is on track.
- 15 A communications strategy has been developed and is aligned across agencies. This paper seeks agreement to active engagement with key stakeholders following Cabinet decisions in October 2013.
- 16 Upfront funding will be sought from between budget contingency in the October Cabinet paper to initial transitional and set up costs associated with the transfer of the needs assessment. Further transitional and set up costs will be sought in Budget 2014. Officials propose that costs to HNZA be covered through a lowered divided expectation in the 2013/14 year.

PART 1: OVERVIEW OF THE TRANSFER OF FUNCTIONS

- 17 This part sets out the:
- background to the transfer of functions
 - aims of the transfer and what it will deliver over both the short and medium-term
 - critical path to achieve the transfer by 14 April 2014, and associated risks
 - human resource and communications processes.

Background

- 18 CBC has agreed that assessment for social housing and related functions will transfer from HNZA to MSD, and to extend the IRRS to approved CHPs.
- 19 CBC also noted that the Ministry of Business, Innovation and Employment (MBIE), MSD, HNZA, and the Treasury would report to Joint Social Housing Reform Ministers by August 2013 with advice on:
- the staged roll-out of IRRS, and fiscal and budget implications
 - implementation, costs and funding, sequencing and timing, and communications strategies for the roll-out of reviewable tenancies
 - the operational aspects and costs of the transfer of assessment and associated functions, including how implementation of the transfer can be managed in relation to the timetable for implementing the welfare reform changes [CBC (13) 2/7 refers].
- 20 This suite of papers focuses on the roles and functions that will transfer from HNZA to MSD, and associated new functions that arise from the transfer and the extension of IRRS to community housing providers.
- 21 Joint Ministers have confirmed that tenancy reviews will be the responsibility of MSD. Reviews will be incorporated into the service delivery model set out in *Paper B*. Advice on the approach to reviewable tenancies will be provided as part of the report to Cabinet in October 2013.

What the reforms aim to achieve

- 22 This work is occurring within a large and dynamic housing sector. Policy change in this area is designed to create a level playing field for new social housing providers, recognising that the current model – with a single agency (HNZA) acting as the needs assessor for state housing and also responsible for placing people in houses – will not be appropriate in a pluralistic social housing market.

Transforming the social housing system

- 23 Changes in the supply side of the social housing market will take place over the longer term. The wider social housing reform work programme, led by MBIE, covers:
- consideration of future market development, including management of the Social Housing Fund
 - developing a regulatory framework for community housing providers, to ensure social housing tenants are housed appropriately and to protect Government

investment

- the 'Products and Pathways' project, focused on supporting HNZC tenants who are ineligible for social housing to transition into sustainable housing in the private rental or homeownership markets
 - support for affordable housing.
- 24 In the meantime, the transfer of social housing needs assessment and related functions from HNZC to MSD reflects an essential first step in delivering a more responsive and diverse social housing market. An independent needs assessor is central to a system with a more level playing field between HNZC and community housing providers.
- 25 Delivering social housing assessment through MSD will enable an integrated approach to determining a household's needs, and a more deliberate approach to the services that are offered and the segments of the population that are offered them.
- 26 This reflects an opportunity to deliver better and smarter social housing services, which work alongside other strategies to support BPS targets. From 1 October 2013, provision of state housing will be more directly linked to targets to reduce rates of rheumatic fever, by fast-tracking those who are assessed as in high need who are also at high risk of the disease into state housing [SOC Min (13) 17/4 refers]. This approach will also apply to approved CHPs after the April 2014 transfer. In future there will be opportunities for:
- improving support for vulnerable children and their families, by ensuring stable and appropriate housing and actively linking people in social housing to wider social services where appropriate
 - increased integration with welfare reforms and the investment approach in order to support reduced benefit dependency by aligning products and services that reduce barriers to employment.

Improving outcomes for New Zealanders with significant housing needs

- 27 Reforms will improve outcomes for New Zealanders through ensuring:
- more people are housed appropriately for the length their housing need exists
 - more people have their housing needs met, by promoting social and housing mobility; improving health, safety, and employment outcomes; and helping those who are able to move towards independence
 - an increase in the number and diversity of social housing providers.
- 28 To achieve the best results, different approaches will be needed for different groups - existing tenants who have been in state housing for some time are likely to have different needs to people currently on the waitlist for social housing. The transfer of assessments to MSD means that more people will test their eligibility for social housing, so an increase in the number of assessments and the resulting wait list is likely.

Implications for policy and service design

- 29 The aims below have driven policy development and service design, for both the day one model and the end-state. These have focused on ensuring that:
- housing processes are integrated with existing MSD services
 - where there are differences, housing policies and practice are modified to align with MSD policies and practices

- there is effective use of information (including information sharing) to determine entitlements and accurately identify priority clients
- building strong connections with NGOs to support vulnerable clients.

Service delivery on day one

- 30 By April 2014, MSD must be able to deliver a fully functional social housing assessment service, with appropriate staffing and reliable systems in place.
- 31 This service model initially relies on using existing HNZA systems for some functions in order to ensure a seamless transition of the existing service from HNZA to MSD, establishment of related functions, and extension of IRRS to community housing providers.
- 32 While focusing on delivering a smooth transition, the day one model is also designed to provide some significant benefits over the existing service delivery approach. The priority for day one is to deliver:
 - **a simple, accessible social housing service**
People can apply and be screened and assessed for social housing through Work and Income and other MSD service lines as applicable, i.e. Senior Services or StudyLink. There will be “no wrong door” and the service will be delivered through multiple channels, including on-line, phone and face to face.
 - **a seamless service for existing tenants and applicants and for HNZA**
Tenants’ existing situation is protected, with continued payment of all existing IRRS. Applications that are in progress when the transfer happens continue without additional delay.
 - **initial integration with existing MSD services**
Where possible, MSD will make use of information collected for benefit purposes (e.g. verification of identity or income) to streamline assessment times. Applicants who are also on benefit may be referred for work-focused case management or other social support, as appropriate.
 - **an enhanced options and advice service**
Available at critical points in the social housing application process, this service will focus on providing advice, information and support for people to move into or remain in private housing market solutions wherever possible. This service will mitigate increases in the waitlist due to increases in demand for social housing.
 - **new relationships with CHPs**
Recognising that initial capacity to take on tenants will be limited, the model will focus on working closely with community housing providers to build on existing relationships and learn from the initial implementation.

A fully-integrated social housing delivery model

- 33 By mid-2015 MSD will deliver a fully integrated social housing system, with the full range of MSD client management systems, assessments and services applied to improve social housing assessment and overall outcomes for social housing clients.
- 34 The end state model is based on developing a web-based IT system that enables information to be shared seamlessly between MSD and social housing providers (HNZA and CHPs), creating significant administrative efficiencies. Part Two of this paper provides more detail about the indicative costs of developing this system.

- 35 This will deliver a more seamless and tailored service for clients with significant housing needs. They will have more housing options offered to them, resulting in more opportunities to be appropriately housed for the duration of their need.
- 36 Full integration of social housing systems, while a major milestone, will not realise all the gains intended through social housing reform. The proposed model may change as agencies learn from the initial roll-out of the day one model, and officials will provide further advice once the transfer of functions has been implemented. When the initial implementation is underway, officials will have a better understanding of likely increases in demand for social housing. Delivering needs assessment through MSD is likely to increase awareness and visibility of social housing services, and in turn increase the numbers of households identified with housing needs. Analysis of the waitlist and of existing tenants will help target appropriate service offerings.
- 37 Over time, there will need to be consideration of the eligibility criteria for accessing social housing, to ensure it remains consistent with government priorities. There will be opportunities to use the criteria to better support BPS targets.
- 38 Similarly, over the long-term, there will need to be a review of the incentives created by the social housing system, including the differences between IRRS and the Accommodation Supplement. These are likely to become more evident when the same agency is responsible for administering both.
- 39 The overall success of the transfer in functions will rely on broader changes in the market and the supply-side of social housing.
- 40 MSD is developing an evaluation plan based on evaluating: the transfer of functions from HNZC to MSD, the service delivery process; and of advice, information and support for people to move into or remain in private housing. This plan will be designed to enable learnings to be captured during the evaluation process and feed into the development of the end-state model. This is discussed further in *Paper B: Service Delivery Model*

Implications for HNZC

- 41 The functions that remain with HNZC following the transfer of functions to MSD from 14 April 2014 include:
- placement of applicants from the MSD wait list to vacant properties
 - sign-up of a tenancy agreement with the prospective tenant and all other related tenancy management services (charging of rent, collection of rental and damage arrears)
 - calculation of IRRS and billing advice
 - investigation of matters relating to HNZC financial products.
- 42 In the initial stage (day one), MSD will be supported by HNZC's IT system. HNZC will provide help-desk and reporting services to support MSD during this period.
- 43 Currently, specialised staff support applicants from wait list to being matched to vacant HNZC properties. In recognition of the need to provide a seamless service between agencies at day one for applicants, HNZC proposes to retain the specialised approach to managing customers. HNZC will also look to enhance accountability for this process through the introduction of a centralised account model to assist connection with MSD. As MSD develops their end state model HNZC will also look to adapt its service delivery

model where there are opportunities to improve both customer service and efficiencies.

Timeline: Critical path

- 44 The transfer of assessment and related functions for social housing to MSD is intended to be implemented from 14 April 2014. In order to achieve a successful transfer of services on this date, there are some critical milestones that must be met:
- October 2013: report to Cabinet seeking agreement to the approach to reviewable tenancies, and agreement to initial funding for transition and establishment costs, and transitional arrangements
 - late-November 2013: enabling legislation passed, including changes recommended through the Select Committee process
 - as soon as possible after legislation passed: an Order in Council designating MSD as the Social Housing Agency agreed by Cabinet and Executive Council
 - early December 2013: consultation with affected staff completed
 - February 2014: enabling Regulations, agreed by Cabinet and Executive Council so they are in effect by March 2014, in compliance with the 28 day rule
 - By the end of February 2014: human resource processes (e.g. recruitment) and staff training complete, and Service Level Agreement between MSD and HNZA in place.
- 45 These milestones reflect the end points of significant pieces of work that have considerable interdependencies. Delays in meeting any of these milestones will require reconsideration of the 14 April 2014 implementation date. Joint Ministers will be regularly advised of progress, and will be informed if particular milestones are at risk of not being delivered in time to support implementation.
- 46 Further work will be done on the nature of transitional arrangements determining which, if any, existing processes are transferred. Changes to the Bill to give effect to any transitional matters can be made by Supplementary Order Paper, if requirements are finalised before legislation passes. In addition, Ministers have agreed that a regulation making power be inserted into the Bill enabling regulations to be made, if required, setting out transitional provisions and savings after the Bill has been passed.
- 47 This paper proposes that agencies provide a further update to Joint Ministers in February 2014 in the lead up to final implementation that outlines progress and confirms that the transfer is on track.

Human Resources

- 48 Ensuring that the right staff are in the right place from day one is critical to an effective implementation and a seamless transfer of social housing assessment to MSD. In order to assist in achieving this, Joint Ministers have agreed that Schedule 4 of the Social Housing Reform Bill be redrafted to reflect the staff transfer provisions in the State Sector Act 1988. This will allow some flexibility in that MSD will not be under an obligation to offer employment to all affected HNZA staff, while ensuring that any affected HNZA staff are treated consistently with staff in similar circumstances in the wider public service.

49 HNZC employs a total of 1,023 full-time equivalent (FTE) permanent and fixed-term staff.¹ It is envisaged that a relatively small proportion of these will be affected by the transfer of functions to MSD.² These include:

- Tenancy Advisors who carry out needs assessments
- Income Related Rent (IRR) Specialists
- Investigators

The HNZC Customer Service Centre will also likely reduce in size as HNZC clients become familiar with changes and begin contacting MSD directly (likely to be managed through natural attrition where required).

50 Further detail is being developed on the required FTE headcount, locations for staff, communications and consultation with the PSA and affected staff, and capability requirements for both MSD and HNZC. Officials will update Ministers regularly on Human Resource developments.

Risks

51 This is an ambitious and complex programme of social housing reform, which will ultimately be delivered over many years. The biggest risks to the transfer of social housing assessment and related functions are:

- changes may affect people's certainty about their housing and be unsettling, and careful management of key messages is required to avoid undue concern (see below for the communications plan)
- timeframes are tight and there are many interdependencies, so delay in a critical area (e.g. legislation, staffing) puts the implementation date at risk
- human resources decisions will attract significant scrutiny and be of particular concern for existing HNZC staff, and there may be implications for HNZC business continuity
- increased demand for social housing assessments among MSD clients could exacerbate pressure on the new service delivery model and on the waitlist for social housing
- changes and continuing refinement of policy and implementation settings could impact on costs, and timing
- a genuine shift in the social housing sector relies on the wider social housing reform work programme delivering changes in the nature of the social housing market, including increasing diversity and supply. Without this, the full value of an independent needs assessor and the integrated view of households' needs will not be realised.

Communications and engagement

52 There will be a phased approach to communications and engagement between now and April 2014, with stakeholders engaged as the relevant decisions are taken.

53 Day one communications will focus on the roll-out of new brochures, letters and other

¹ As at 25 July 2013

² As at 25 July 2013- subject to change with staff movement

collateral and services that support delivery of MSD's service model.

- 54 A full suite of channels and tools will be used, including stakeholder briefings, mail-outs, newsletters, factsheets, content on websites and intranets, iwi and ethnic media, government media releases, editorial and some paid advertising (for example in ethnic media and to direct people to new web content). All existing HNZC tenants and waitlisted applicants will be informed directly, to ensure a seamless transfer on day one. Staff will be supported with training and materials.
- 55 Communications are aligned across MSD, HNZC, and the Social Housing Reform Programme (SHRP), to ensure messaging is consistent and opportunities are coordinated.
- 56 MSD has established an external focus group of eight social housing providers and tenant/beneficiary advocates to provide feedback on the proposed service delivery model. The group is discussed further in *Paper B*.

Media announcements

- 57 Officials anticipate Ministers will lead communications on decisions made at Cabinet in October 2013 and for the day one rollout, and will develop communications plans and media materials on that basis. MSD is working with MBIE to ensure that this is coordinated with broader SHRP communications.

PART TWO: FINANCIAL IMPLICATIONS

- 58 The transfer of functions will involve up front setup costs, but will create an independent needs assessor, which is critical to change incentives in the system. Delivery through MSD will also mean that over time housing support will be integrated with other income support and link to wider social services, taking a more complete view of households' needs. From day one this will offer a range of benefits over the existing model including streamlined assessments that use some of the information collected for benefit purposes, and a focus on overall household need.
- 59 This part sets out:
- transitional and setup costs (for both MSD and HNZA)
 - an early indication of on-going fiscal implications
 - technical changes required to appropriations to support the transfer of functions.
- 60 There are transition and setup costs that will be incurred by both MSD and by HNZA. In the longer run, the base service is expected to be approximately fiscally neutral compared with existing services, but new products and services and the administration of the reviewable tenancies policy will carry additional on-going costs.

End state fiscal implications

- 61 MSD expects that over time it can increase the operating efficiency of the administration of the social housing assessment, delivering a more efficient service due to the availability of benefit information relating to most social housing clients.
- 62 However, an increased volume of clients will put pressure on the service, so MSD proposes to invest these efficiency gains into an enhanced options and advice service to help manage this pressure and to enhance the customer experience.
- 63 New functions such as reviewable tenancies that are over-and-above what HNZA carry out will carry an additional fiscal cost, which cannot yet be quantified as Ministers have not yet made final decisions on the operational parameters around these policy settings. New products and services associated with reviewable tenancies and the options and advice service will also carry a fiscal cost.

MSD Transitional and setup costs

- 64 Because the transfer of functions is occurring outside a normal Budget round, funding will be required for the 2013/14 financial year to allow staff to be engaged, IT systems to be built, and the new system to be set up. These costs include both the transitional costs that will be incurred in 2013/14 and the operating costs that relate to that year.
- 65 This MSD funding will need to be sought in the October Cabinet paper from the Between Budget Contingency. At this stage, MSD expects that approximately \$17 million of transitional costs and operating funding will be required in the 2013/14 financial year. This includes staff costs of approximately \$5.2 million in the 2013/14 year to hire and pay staff from February 2014 to begin delivering the needs assessment from 14 April.
- 66 This \$17 million needed from Between Budget Contingency is required to cover the following:

Transition costs

- IT costs for the day one build - \$3.5 million
- Initial IT costs for final IT systems build - \$4 million
- Transitional staff setup costs - \$1.247 million
- Property costs - \$1 million
- Communications - \$0.25 million
- Programme office costs - \$1.55 million
- Managing initial demand pressures – unknown at this stage

On-going operating costs

- Staff costs from February 2014 - \$5.2 million
 - Initial evaluation setup costs - \$0.08 million
 - Debt management – unknown at this stage (see *Paper B*)
- 67 In addition to transitional costs in the 2013/14 year, MSD will require further transitional funding of approximately \$16 million in the 2014/15 year primarily to build the end-state IT system, for evaluation and to refine the service. MSD proposes to seek these costs, along with on-going operating funding in Budget 2014.
- 68 The day one IT systems for MSD will be functional, but will effectively allow remote access to the existing HNZA Northgate system. This represents the least change for day one, and maintains current HNZA processes for needs assessment, IRR calculation and waitlist management. In contrast, the proposed end-state design will fully integrate the MSD's new housing functions with the rest of its business.
- 69 Northgate cannot be used to achieve the integrated end state. It is modular in the sense that you can buy licenses for different functional modules. However, while many areas of functionality will read/write to the tables involved in tenant and tenant relationships, but the software that enables on-going maintenance of the "tenant" won't be neatly divided into clear areas of accountability (like business rules), and clear underlying capabilities (like security).
- 70 Full integration with MSD systems will allow:
- integration with the MSD's investment approach, and the ability to include IRRS into actuarial valuations and system-wide client segmentation. Crucial to this is the ability to segment housing applicants at the point of entry
 - an effective portal through which social housing providers can receive referrals, and interact with MSD – the day one IT solution is to manually manage Community Housing Provider referrals, and this will not be sustainable as the market grows
 - cross-MSD co-ordination of processes and services for social housing clients
 - a single view of the client and their family across housing, employment and income support
 - efficiency gains due to faster processing of entitlements (for example, Work and

Income processes around 1 million individual changes in circumstances in a year – over 90% HNZC clients sit within this group meaning that social housing changes in circumstances could be automated for most clients in an integrated system).

HNZC transitional and setup costs

- 1 HNZC will also incur transitional and setup costs associated with IT changes, service delivery design and support and staff transition. These include:
 - IT changes - approximately \$6.1 million in 2013/14, \$8.5 million in 2014/15
 - Service delivery support – approximately \$0.7 million in 2013/14, \$1 million in 2014/15
 - Support for tenancy services – approximately \$0.6 million in 2013/14, \$1.7 million in 2014/15
 - Transition cost to exit HNZC staff – approximately \$2.3 million in 2013/14
- 2 The transfer of the assessment function to MSD means that HNZC will also achieve administrative savings. In the short-term, however, the upfront costs mean there will be a net negative impact on HNZC's financial position in the 2013/14 financial year, and a roughly neutral impact in the 2014/15 year.
- 71 This paper seeks joint Ministers agreement that these costs are met through a reduced dividend expectation for the 2013/14 financial year.

On-going fiscal implications

- 72 MSD and HNZC are working through the on-going financial implications of the needs assessment transfer. Over time, however, the costs to HNZC resulting from this function will reduce by about \$9.5 million per annum.
- 73 MSD expects that over time it can increase the operating efficiency of the administration of the social housing assessment, delivering a more efficient service due to the availability of benefit information relating to most social housing clients.
- 74 However additional volumes of clients will put pressure on the service. To manage this, and to offer a more tailored and effective service to people who will not ultimately qualify for social housing, MSD plans to offer an options and advice service funded from expected efficiency gains. Providing options and advice to all applicants for social housing will help manage the waitlist. This will ensure those in greatest need are housed as a priority while, with support, others will have their housing needs met through the private market.
- 75 Delivering the new service to MSD's service standards, including time to answer phone calls and customer satisfaction, may also entail additional costs that will need to be met out of efficiencies.
- 76 Over the long term, this base service (delivered at MSD's service standards) and the options and advice service are expected to cost approximately the same as the equivalent services currently cost HNZC to deliver.
- 77 On top of the existing service, Ministers expect MSD to administer the new reviewable tenancies policy, and this will carry additional cost. We will provide advice to Ministers

over the next few weeks, and the decisions on the targeting of this policy will impact the fiscal cost. New products and services to assist people into or to retain private rental accommodation will also carry a fiscal cost.

Changes to Appropriations

- 78 To enable MSD to administer its new functions related to the assessment for eligibility for social housing and payment of the IRRS, two appropriations within Vote Housing that are directly aligned with the social housing functions that are being moved to MSD will need to be transferred from Vote Housing to Vote Social Development. These appropriations are:
- IRRS for CHPs
 - IRRS for HNZC
- 79 The CHPs' appropriation was established in Budget 2013. It is set at levels based on predicted growth of new tenancies in the CHP that are relatively modest. HNZC's appropriation is not capped. Concern has been raised that these two different appropriations do not create a level playing field between providers and do not incentivise growth in the CHP sector. MSD, MBIE, the Treasury and HNZC will provide Ministers with advice prior to the October Cabinet paper on these appropriations, including: whether these appropriations should be combined from 2013/2014; and how a single contestable pool might be managed including the use of a cap.
- 80 In addition to the IRRS appropriations, new appropriations will need to be created within Vote Social Development, or existing appropriations amended, to provide for the administration of the new functions.
- 81 A decision is required regarding these appropriations as to which Minister takes responsibility for the new housing-related appropriations in Vote Social Development. Either the Minister of Housing or the Minister for Social Development could take responsibility for these, but Ministers cannot share responsibility for appropriations.
- 82 The functions in question are:
- IRRS for CHPs
 - IRRS for HNZC
 - administration of the social housing assessment and related functions (this would be a new Departmental Output Expense)
 - management of social housing debt
 - social housing forecasting.
- 83 If the Minister for Social Development assumes responsibility for the housing-related appropriations, the last two of the functions in paragraph 85 could be integrated into existing MSD appropriations.
- 84 If Ministers agree to this approach, officials will seek to obtain the necessary changes to appropriation structure, scope descriptions and performance measures in the October Cabinet paper. We will also put in place any transitional measures needed for the last quarter of the 2013/2014 financial year.
- 85 We recommend that the Minister for Social Development assumes responsibility for all of the above housing-related appropriations within Vote: Social Development as MSD

will be the agency responsible for delivering these services.

- 86 In the longer term, MSD is keen to explore shifting some of the housing-related appropriations into the new Multi Category Appropriation (MCA) that is being established for welfare expenditure. A review of the composition of this MCA is planned in the lead up to Budget 2015 and MSD proposed to consider the inclusion of housing-related appropriations at that time.

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Recommendations

87 It is recommended that Joint Ministers:

- 1 **note** that this suite of papers responds to CBC's direction for officials to report to Joint Ministers on:
 - the staged roll-out of IRRS, and fiscal and budget implications
 - the operational aspects and costs of the transfer of assessment and associated functions, including how implementation of the transfer can be managed in relation to the timetable for implementing the welfare reform changes [CBC (13) 2/7 refers];
- 2 **note** that further advice to Cabinet in October 2013 will detail the implementation, costs and funding, sequencing and timing, and communications strategies for the roll-out of reviewable tenancies;
- 3 **note** that Ministers have agreed that MSD will deliver assessment for social housing and associated functions from 14 April 2014;
- 4 **note** that key milestones for the implementation of the transfer of social housing needs assessment and related functions from HNZC to MSD are:
 - October 2013: report to Cabinet seeking agreement to the approach to reviewable tenancies, and agreement to initial funding for transition and establishment costs
 - late-November 2013: enabling legislation passed, including changes recommended through the Select Committee process
 - as soon as possible after legislation passes: an Order in Council in place designating MSD as the Social Housing Agency
 - early December 2013: consultation with affected staff completed
 - February 2014: enabling Regulations in place
 - By the end of February 2014: human resource processes (e.g. recruitment) and staff training complete, and Service Level Agreement between MSD and HNZC in place;
- 5 **note** that delays in achievement of the milestones set out in recommendation 4 put the 14 April 2014 implementation date at risk;
- 6 **direct** officials to report to Joint Ministers by 21 February 2014 with further advice on progress with the transfer;

Communications

- 7 **note** that an integrated approach to communications and engagement is being taken, with input from MSD, MBIE, SHU and HNZC, and within the context of SHRP;
- 8 **note** that active engagement on the transfer of functions before Cabinet decisions in October 2013 will be limited to MSD's external focus group;

- 9 **agree** that following October 2013 Cabinet decisions, officials undertake a programme of active engagement and communications with a wide range of stakeholders, including staff, to build buy-in to the proposed service delivery model;
- 10 **agree** that engagement will include face-to-face briefings to beneficiary advocates and social housing providers in Auckland, Wellington and Christchurch, and consultation with affected staff and the PSA;

Financial Implications

- 11 **note** that MSD expects that its base service will cost a similar amount to the current HNZC spend on equivalent functions;
- 12 **agree** that transitional costs associated with the transfer of the needs assessment that will be incurred by MSD in the 2013/14 year (approximately \$17 million), be sought from the Between Budget Contingency in the October Cabinet paper;
- 13 **agree** that further MSD transitional costs of (approximately \$16 million -primarily IT) be sought in Budget 2014;
- 14 **agree** that on-going costs (approximately \$15 million) associated with the transfer of the needs assessment function be funded through Budget 2014;
- 15 **agree** that transitional costs be funded by HNZC with the result of a reduced dividend expectation in the 2013/14 year;

Appropriation Changes

- 16 **agree** to the transfer of the following appropriations to Vote Social Development as part of the October Cabinet papers:
 - Income Related Rent Subsidy for Community Housing Providers
 - Income Related Rent Subsidy for Housing New Zealand;
- 17 **direct** MSD, MBIE, The Treasury and HNZC to provide advice on whether these appropriations should be combined into a single prior to the October Cabinet paper;
- 18 **note** that one new appropriation and a number of changes to existing appropriations within Vote Social Development will be required to provide for the administration of the new functions;
- 19 **agree** that the Minister for Social Development assumes responsibility for all housing-related appropriations within Vote: Social Development as the Ministry of Social Development will be the agency responsible for delivering these services;
- 20 **note** that MSD will advise on whether housing-related appropriations should be incorporated into the new welfare Multi Category Appropriation in the context of Budget 2015.

SOCIAL HOUSING REFORM IMPLEMENTATION PAPER B: SERVICE DELIVERY MODEL

Proposal

- 1 This paper seeks agreement to key features of the service delivery model for social housing needs assessment and related functions.
- 2 This should be read in conjunction with other papers in this suite:
 - *Paper A: Overview*
 - *Paper C: Outstanding Policy Decisions*

Executive summary

- 3 The service delivery model for social housing needs assessment and related functions model aims to align and integrate housing services with MSD operations. The approach is consistent with outcomes set out in *Paper A: Overview*, particularly the focus on alignment and integration within MSD.
- 4 As noted in the *Overview*, the Ministry of Social Development (MSD) will deliver an independent and fully functional service delivery model on 14 April 2014. It will initially rely on using HNZC systems to ensure a smooth transition. These will be augmented to include Community Housing Providers (CHPs).
- 5 From the beginning, the service MSD will offer will involve significant enhancements. Clients will see some integration of services, such as streamlined assessments that use some of the information collected for benefit purposes, and a focus on overall household need. MSD will also be delivering reviewable tenancies, which is a new function to be implemented as part of the reform programme.
- 6 MSD proposes to enhance the 'options and advice service'. The service aims to support people to access alternative housing and/or maintain private accommodation options and will be available to applicants and tenants at any stage of the process. MSD will provide tailored support targeted to client needs to maximise the effectiveness of the service. This will be an important tool for managing likely volume increases, a potentially expanded waitlist, and tenants who are exiting social tenancies.
- 7 The model is currently being tested with an external focus group. From April 2014, service delivery will be monitored so that lessons learned can be incorporated in the development of an integrated IT system (planned for 2015). A phased evaluation will be undertaken of the transfer, MSD processes, and the effectiveness of the products and services offered to support clients to independence.

Approach to Service Deliver Design

- 8 The housing service delivery model has been designed to:
 - support a seamless transition from HNZC, with as little impact as possible on applicants for social housing, existing state house tenants, and staff
 - align and integrate existing HNZC policies and processes to sit alongside the existing MSD service delivery model

- manage the likely increase in demand for social housing that will arise from the transfer of assessment to MSD
 - continue to improve the current housing service offerings, including taking a more complete view of household need
 - be flexible enough to adapt as agencies learn from the initial implementation.
- 9 These aims are consistent with the desired outcomes set out in *Paper A: Overview*, particularly the focus on alignment and integration within MSD.
- 10 The proposed service delivery model is outlined in the attached A3. For clients of social housing, the model will provide continuity of assessment and Income Related Rent (IRR) calculation processes while offering an enhanced options and advice service on alternative housing options. This service will offer options and advice to clients at any stage of the social housing process to help manage the anticipated increased volume of clients.
- 11 From 14 April, 2014, all functions of the service delivery model will be operational; however some of the systems needed to support these functions will not be fully developed. As a result, some manual processes will be required initially, which will impact on the expected efficiencies being fully realised (detailed below). These issues will be resolved when the full system is implemented in 2015.
- 12 MSD will use HNZC's existing client management IT system, (Northgate) until integrated IT systems have been implemented. MSD also proposes to continue using Social Allocation System (SAS) to assess need and allocate priority on the social housing waiting list, adapted to account for significant policy changes in how needs assessment in the social housing sector will operate.
- 13 MSD will create a centralised processing unit for housing service delivery, to be operational from 14 April 2014. This will incorporate the existing HNZC IRR functions (currently centralised in HNZC) and perform some of the other administrative support functions, such as payment of bonds and redirection of benefit.
- 14 The service delivery model implemented from 14 April 2014 will support some significant components of the social housing reform programme, which are:
- Providing a simple and accessible social housing service in which people can apply and be screened and assessed for social housing through Work and Income and other MSD service lines. The service will be delivered through multiple channels, including on-line, phone and face to face.
 - Supporting the multiple provider environment - the model enables referrals to CHPs and payment of Income Related Rent Subsidies (IRRS). This component of the day one model will be delivered in part through manual processes.
 - Allowing for policy changes in relation to eligibility for social housing to be implemented.
 - Delivering the existing needs assessment and IRR functions more efficiently
 - Enhancing options and advice services - these services will include access to products and services to assist clients to maintain or access private rental accommodation at all points along the social housing process as outlined in *Paper C: Outstanding Policy Decisions*.
- 15 These additions will improve the client experience.

Options and advice service

- 16 A key difference in the proposed model is the enhanced role of the options and advice service.
- 17 This service will support clients to access and/or maintain private accommodation by providing advice and linkages to housing solutions, including:
 - how to get into social housing (including an online eligibility calculator), information on likely wait list times, and information about IRR
 - self-help options such as information about alternative housing options in the private sector and local authorities, financial supports such as Accommodation Supplement for maintaining accommodation, and information about the local housing market
 - links to tenancy services and home ownership products.
- 18 The service will actively manage the waitlist and likely increases in client volumes.
- 19 The service will be supported by the provision of products and services to support alternative housing options. New products and services are under development.
- 20 The service will:
 - be available to applicants and tenants at any stage of the process
 - support both people accessing the private rental market and retaining private market tenancies
 - provide tailored support targeted to client needs.
- 21 MSD is currently undertaking a process of laying HNZA tenant data over MSD client segments to generate profiling of these cohorts to assist in this targeting exercise.

Screening and assessment

- 22 Clients will be able to apply for social housing through MSD's service delivery lines: Work and Income, Senior Services and StudyLink. Initial contact will be available through multiple channels, including on-line, phone, and face to face.
- 23 MSD will continue to operate the HNZA's existing SAS criteria, questions and priority calculation methods. MSD will learn from early implementation and review the operation of SAS as part of on-going service delivery model development.
- 24 The use of existing information held by MSD, where appropriate, will streamline the assessment for many applicants. For example, MSD will be able to reduce the time taken to verify identity and income details for clients who are also MSD clients (about 80% of applicants).
- 25 In the fully integrated model (mid-2015), there will be increased efficiencies, as some assessment information will be able to be auto-populated with known information about the applicant.

- 26 Further work is underway to determine what additional information requirements and information sharing mechanisms are required to give effect to the service delivery design. You have already agreed to amend the Social Housing Reform Bill to enable MSD to use the information it holds to perform its social security function and its new social housing function.

Referral

- 27 MSD will refer potential tenants to both HNZN and to CHPs where housing vacancies exist. Placement will be the responsibility of the housing provider (HNZN or CHPs).
- 28 Until systems are fully developed, officials propose that HNZN continue to access information on prospective tenants from Northgate and directly match them to suitable properties, based on their priority rating.
- 29 In the short term, MSD proposes to use a manual process to refer applicants to registered CHPs. This manual process will be manageable while there are limited numbers of community housing provider vacancies.
- 30 In future as the community housing sector expands, MSD will implement an integrated system, which will allow it to share information with both HNZN and CHPs, including access to the waitlist. This requires significant IT development work (see *Paper A: Overview*).

Calculation of IRR and payment of IRRS

- 31 The service delivery model for IRR calculation and subsidy payment will remain as it is for HNZN and their tenants. It will be extended to CHPs and their tenants.
- 32 MSD will be responsible for the calculation of IRR and will notify providers of the amount that will be payable by tenants.
- 33 MSD propose that housing providers take responsibility for calculating the IRRS based on market rent for the property, and invoice MSD accordingly. This process will be subject to an audit undertaken by MSD, similar to the current HNZN process.

Redirection of benefit payments

- 34 There will be no change in the immediate approach to redirection of benefit payments to HNZN. MSD proposes that redirection is also used, as appropriate, for CHP tenants.
- 35 MSD is investigating improvements to the existing advance payment of benefit processes to streamline payment of bonds and rents (e.g. using a centralised processing unit).

Changes of circumstances and annual reviews of income related rent

- 36 Currently, all tenants receiving an IRR are subject to an annual review process. This ensures that tenants remain eligible for IRR and it also provides an opportunity to review the IRR charged. Tenants are also required to advise MSD of any changes to their circumstances as they arise.
- 37 MSD will calculate the IRR, based on information received from the tenant, and notify the housing provider. The housing provider will notify the tenant of any change in rent, and

update their subsidy calculation. For existing tenants at day one nothing will change except the agency that change in circumstances are notified to and that undertake annual reviews. However, over time, MSD will seek ways to align reviews between IRR annual reviews and benefit re-application.

Reviewable Tenancies

- 38 Under the Social Housing Reform Bill enables the on-going housing need of social housing tenants to be reviewed. This is a new function that will support housing of those who are most in need for the duration of their need.
- 39 To deliver reviewable tenancies, MSD will develop a new assessment, based on SAS principles, to establish whether the tenant has an on-going housing need. It will require some IT development and may have a manual component when first implemented.
- 40 The plan for the roll out of reviewable tenancies is being developed, and officials will report back with options in October.

Performance management

- 41 Officials will establish new performance management standards, including:
 - the time taken to assess a person housing need (time-to-assess measure) for MSD
 - the time taken to place a person with HNZN or a CHP (a time-to-place measure)
 - combining the above two measures in order to determine overall efficiency (an overall time-to-house mechanism).
- 42 There will also be agreements between MSD and HCNZ and CHPs about prioritisation (housing those most in need) and the performance measures required to do this.

Transitional arrangements

- 43 There are a broad range of assessment processes and associated functions that will require transitional arrangements, including, needs assessments, IRR calculations and reviews, the wait list, fraud investigations, debt establishment, and reviews and appeals. Legislative provision will likely be required to provide for these transitions. Changes to the Social Housing Reform Bill to allow for this could be made by Supplementary Order Paper, if requirements are finalised in time. In addition, Ministers have agreed that a regulation making power be inserted into the Bill enabling regulations to be made, if required, setting out transitional provisions and savings after the Bill has been passed.

Managing client volumes

- 44 The service delivery model will need to manage HNZN's existing client volume, at a minimum. In 2011/12, there were 61,000 IRRS recipients. From August 2012 to April 2013, HNZN carried out on average per month:
 - 2,889 pre-assessments by phone (about 35,000 annually)
 - 1,635 needs assessment interviews in person (about 19,000 annually)
 - 3,684 annual reviews for IRR (about 46,000 annually).

- 45 Although this is a significant volume of work, within the broader context of MSD's work it is relatively small. For example, MSD administers the Accommodation Supplement for 304,000 recipients. Work and Income contact centres take nearly 6 million calls a year from clients, employers, members of the public, and community groups. In contrast, HNZC receives around 300,000 calls each year regarding pre-assessments, needs assessments and IRR. MSD undertakes over a million annual reviews a year for benefits and other income support.
- 46 However, MSD is expecting an increase in volumes as social housing becomes more visible through the integrated service delivery model. Further work is being done to better understand what increases can be expected.
- 47 Tools in the proposed service delivery model will help to manage these volumes, including:
- an options and advice service to actively manage applicants and the waitlist
 - an integrated and streamlined assessment process that uses existing MSD information as appropriate.

External Focus Group

- 48 MSD has established an external focus group (EFG) of eight social housing providers and tenant/beneficiary advocates to provide feedback on the proposed service delivery model.
- 49 The members are:
- s 9(2)(a), Salvation Army, Auckland
 - s 9(2)(a) Downtown Community Ministry, Wellington
 - s 9(2)(a) VisionWest Community Housing Trust, Auckland
 - s 9(2)(a) Accessible Properties (a subsidiary of IHC), Wellington
 - s 9(2)(a) Comcare Trust, Christchurch
 - s 9(2)(a) Monte Cecilia, Auckland
 - s 9(2)(a) Strive Community Trust, Auckland
 - s 9(2)(a) National Beneficiaries Advocacy Consultative Group, Wellington.

- 50 The EFG met for the first time on 15 August 2013, with another meeting planned for September 2013. Further meetings will be convened as required.

Monitoring and Evaluation

- 51 MBIE is leading the monitoring and evaluation programme for social housing reform. MSD's contribution to that programme focuses on monitoring and evaluating its own processes and the effectiveness of the products and services offered.
- 52 MSD's approach includes:
- evaluation of the transfer of functions from HNZC to MSD - anticipated to be complete within six months of the transfer.

- monitoring and evaluation of MSD processes - continuous monitoring information will feed into development of the end state model. A full process evaluation and an evaluation of any new products and services are envisaged for 2016.

53 Officials will report on evaluation timeframes, costs and outcomes being sort in the October Cabinet paper.

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Recommendations

54 It is recommended that you:

- 1 **note** that officials have designed a service model to apply from 14 April 2014, when MSD will deliver social housing needs assessment and related functions, that:
 - 1.1 supports a smooth transition of existing functions from HNZC;
 - 1.2 aligns and integrates housing policies and practices within MSD services;
 - 1.3 aims to manage a likely increase in demand for social housing;
 - 1.4 improves the provision of housing service;
 - 1.5 is flexible enough to adapt as agencies learn from implementation;
- 2 **note** that the model that will be implemented from 14 April 2014 will retain much of the existing HCNZ system, but will also deliver on significant elements of social housing reform including:
 - 2.1 reviewable tenancies
 - 2.2 delivery of government funded social housing by community housing providers;

Screening and Assessment, Options and Advice

- 3 **agree** that MSD provide an enhanced options and advice service, to support clients to access and/or maintain private accommodation and to support active management of the waitlist and the expected increase in demand for social housing;
- 4 **note** the following benefits for clients in the MSD service delivery model:
 - 4.1 clients can apply for an assessment through any MSD service line and through multiple channels, including on-line, phone, and face to face;
 - 4.2 where possible, MSD will use client information it already holds in order to streamline social housing assessment processes;

Referrals

- 5 **note** that HNZC will continue to access the waitlist in HCNZ's existing client management IT system, (to place tenants directly according to priority);
- 6 **note** that MSD will have a manual process to refer a shortlist of suitable applicants to CHPs;
- 7 **note** that, from mid-2015, MSD plan to implement an integrated system that approved providers will be able to access;

Income Related Rent Subsidy

- 8 **note** that MSD will calculate the IRR for each tenant and notify providers;

- 9 **note** that providers will calculate the IRRS owed and invoice MSD, and that this process will be subject to audit;

Monitoring and Evaluation

- 10 **note** that officials will report back in October on the proposed evaluation and monitoring process for the service delivery model;
- 11 **note** that further advice on the housing service delivery 'end-state' model will be refined during the course of implementation and as all parties have more experience with the new systems.

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Cabinet Social Policy Committee

SOC (14) 31

Copy No: 39

Summary of Paper

18 March 2014

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LATE PAPER: This paper was submitted after the Cabinet deadline and has been accepted for the agenda by the Chair.

Social Housing Paper D: The Ministry Of Social Development's Initial Approach to Purchasing and Contestable Trial

Portfolio Social Development

This paper is the fourth paper in a suite of four papers which update Ministers about progress on the elements of the government's social housing reform programme, for which the Ministry of Social Development (MSD) is responsible.

From 14 April 2014, MSD will have a new role as an active purchaser of social housing tenancies. This paper:

- sets out MSD's initial approach to purchasing social housing, including a process to set a benchmark range for market rents and publishing of aggregate waitlist information;
- signals that an initial contestable purchasing trial, which aims to better manage price and utilisation of properties, is being developed.

The paper should be read with the following three companion papers entitled:

- Social Housing Paper A: Next Phase of Reform to Purchasing Housing Assistance [SOC (14) 28];
- Social Housing Paper B: Report Back on Implementation of the Transfer of Social Housing Functions [SOC (14) 29];
- Social Housing Paper C: Income Related Rent Subsidy Funding Model [SOC (14) 30].

The Minister for Social Development recommends that the Committee:

General model for purchasing social housing tenancies from 14 April 2014

- 1 agree that from 14 April 2014, the general model for purchasing social housing tenancies will begin building a foundation for further reform by:
 - 1.1 publishing waitlist information, to send signals to the social housing market about the type and location of properties required;
 - 1.2 using tenancy bond data from the Ministry of Business, Innovation and Employment (MBIE) to benchmark market rents for different property types;

- 2 agree that the Ministry of Social Development (MSD) introduce a process to check a market rent is acceptable before an offer to house a client is made;
- 3 note that MSD will have an agreement with Housing New Zealand Corporation covering reporting arrangements and the payment of the Income Related Rent Subsidy;

Building towards the end state social housing purchaser role

- 4 note that MSD has been working with the Treasury and MBIE to design and implement a contestable purchasing trial;
- 5 note that the overall objectives of the contestable purchasing trial will be to:
 - 5.1 improve property utilisation, by creating processes that support a better fit between clients and properties;
 - 5.2 better manage price and value for money, through contestability over market rents for particular clients;
 - 5.3 build an evidence base to support the work to reform MSD's future purchasing functions;
- 6 direct officials from MSD, MBIE and the Treasury to report back to Joint Ministers in July 2014 with proposals to deliver the trial.

Laurence Tyler
Committee Secretary

Distribution:

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Chair
Cabinet Social Policy Committee

SOCIAL HOUSING PAPER D: THE MINISTRY OF SOCIAL DEVELOPMENT'S INITIAL APPROACH TO PURCHASING AND CONTESTABLE TRIAL

- 1 This is the last paper in a suite of papers which update Ministers about progress on the elements of the Government's social housing reform programme for which Ministry of Social Development (MSD) is responsible for. It should be read in conjunction with the other papers, particularly with Paper A, which lays out future work to develop MSD's purchasing function.
- 2 From 14 April 2014, MSD will have a new role as an active purchaser of social housing tenancies. This paper:
 - sets out MSD's initial approach to purchasing social housing, including a process to set a benchmark range for market rents and publishing of aggregate waitlist information
 - signals that an initial contestable purchasing trial, which aims to better manage price and utilisation of properties, is being developed.

Executive Summary

- 3 The Government's reform of social housing in New Zealand is designed to increase the number and diversity of housing providers, thereby improving the responsiveness of the social housing market to client needs.
- 4 MSD's active purchaser role is central to creating more fundamental change to the social housing sector. This paper lays out the initial steps that MSD will take to purchasing and contracting, building from the creation of a single contestable funding pool (Paper C) and the transfer of needs assessments to MSD (Paper B).
- 5 A general strategy for purchasing will be in place for 14 April this year when key social housing functions transfer to MSD. It will start by sending different signals to the market as more providers are brought into the system, and setting a foundation for further reform.
- 6 To ensure a smooth transition of functions, the initial purchasing model has limited changes to the existing tenant placement process. MSD will establish some key new elements to build from, such as publishing aggregate waitlist information to signal demand to the market, and benchmarking acceptable market rents.
- 7 To progress this active purchaser role, MSD has been working with the Ministry of Business, Innovation and Employment (MBIE) and the Treasury to develop a contestable purchasing trial, with the aim of providing some early learning about how to manage contestability between providers. Delivering this novel approach later in the year will avoid any risk of it disrupting the major machinery of government changes underway from 14 April 2014 (see Paper B).
- 8 This is only the start of the significant programme of reform that I am asking Cabinet to agree to in Paper A. This programme of transformation requires significant support and buy in from

housing providers. MSD needs to work closely with housing providers to communicate the approach to purchasing to ensure that systems enable and encourage their participation.

Initial approach to purchasing social housing

- 9 From 14 April 2014, MSD will be the purchasing agency for social housing tenancies. Cabinet has previously agreed to some key features for MSD's housing service. This included agreement that it would initially rely on using Housing New Zealand Corporation (HNZC) IT systems, with both MSD and HNZC accessing the system as well as manual referrals to Community Housing Providers (CHPs) [CAB Min (13) 39/7 refers].
- 10 The end state for MSD's social housing purchasing function (see Paper A) may look very different to where we start. However, because of these IT system constraints, the model will initially operate differently for HNZC and CHPs and will therefore not be directly contestable.
- 11 From 14 April, HNZC will continue to match tenants directly to vacancies from the waitlist and will then notify MSD of placements, through fortnightly reporting. MSD will analyse matches made by HNZC as they are reported to identify trends in terms of property utilisation and market rents paid, and consider these against the established benchmark range. This will support MSD to build the evidence base for the on-going benchmarking of market rent for particular property types and locations, and client needs.
- 12 From 14 April, registered providers will be able to submit vacancies to MSD, specifying the property type and the market rent. MSD will then manually refer a shortlist of suitable applicants to the provider, who is offered the property. MSD will have contract managers who will be responsible for ensuring that the market rent is acceptable. The factors they will consider are:
 - comparisons to similar sized properties in that location
 - whether the property is acceptable for that tenant given their family circumstances
 - comparisons to other alternative properties in other locations.
- 13 There are two additional elements to this initial purchasing role: a process to set a benchmark range for market rents, and publishing of aggregate waitlist information. Together, these will begin to develop an evidence base on which to make future decisions about shaping and guiding New Zealand's social housing market. This will be critical to support the programme of work proposed in Paper A.

Benchmarking market rent

- 14 For the initial phase of MSD's purchasing role, MSD will use MBIE's tenancy bond data (lower quartile market rent) to provide a benchmark range of market rents across locations and property types for various cohort groups.
- 15 This benchmark range will enable MSD to seek an explanation from a provider for why a particular rent may need to be higher than the benchmark standards. Using a lower quartile average generally aligns with existing HNZC market rent setting procedures, and with current capital grant funding for CHPs issued by the Social Housing Unit. In some areas (such as areas dominated by social housing) using the lower quartile could potentially result in a focus on low quality housing or not reflect realistic market rents for some properties.

- 16 Over time, MSD will develop a process that requires a higher level of managerial sign out for market rent above the benchmark range. Information from the rollout of the initial approach to purchasing and results from trials will inform where this level should be set.
- 17 Information from CHPs on expected rent for different household units, being gathered from a Request for Information process via the Government Electronic Tenders Service, will be compared against this benchmark range to identify discrepancies where further analysis may be required.
- 18 MSD is also developing guidance to support CHPs to develop processes for setting market rent. This will help to ensure that CHPs are using appropriate processes to establish market rents for their properties and increase the acceptance of those market rents by MSD.

Publishing waitlist information

- 19 This paper proposes that, from the end of March 2014, MSD will begin to publish aggregate waitlist analysis. This will begin to signal to the market, particularly potential housing providers, about:
 - locations where there is demand for social housing
 - the client cohorts who require housing.
- 20 Providers (other than HNZC) have not had access to this information previously. In the short term, it will help providers start to determine potential demand for their existing properties and which vacancies they offer to MSD for social housing placements.
- 21 The initial publication will improve transparency and create a building block for richer data to be released in future. When MSD becomes responsible for the waitlist, it will be able to do more in depth analysis, including on additional support services, trends in demand over time, and forecast demand pressure points.
- 22 This information will be an important component of the work proposed in Paper A to build stronger purchasing signals for the housing market, to provide incentives for clients to make better choices, and to redesign the demand-side housing subsidies. Over time, we also expect this information to begin to shape the supply of housing, in terms of location, the type of housing, and support services offered.
- 23 Releasing aggregate waitlist information will increase the visibility of areas of high demand, and may result in increased pricing pressures and pressure to address supply issues.

Agreements with housing providers

- 24 Income Related Rent Subsidy (IRRS) agreements with registered CHPs will focus around the payment of IRRS in respect of the eligible tenancy (a tenancy between a client referred by MSD and a registered provider). Agreements will also include a range of reporting requirements. These will enable MSD to manage funds by monitoring commitments and ensuring that tenancies are being purchased in priority areas for priority tenants, market rents are appropriate, and properties are being appropriately utilised.
- 25 MSD will also have an IRRS agreement with HNZC similar, as much as it possibly can be, to the CHP agreement. It will cover reporting requirements, the payment of IRRS, and purchasing processes. While the obligations and commitments under both agreements will be substantively the same, there may be some differences (such as the mechanism used and the dispute resolution process) because of HNZC's status as a Crown agency.

- 26 The agreement will need to be negotiated with HNZN and be consistent with its obligations as a Crown entity and under the Housing Corporation Act 1974.
- 27 A contract does not create any obligation on MSD to refer clients to a housing provider. If a provider has properties of the wrong type and/or in the wrong locations and/or at the wrong price, then MSD will not refer clients to them.

Building towards the end state social housing purchaser role

- 28 I do not expect these initial purchasing and contracting arrangements to be where we ultimately end up. Paper A proposes a large and comprehensive programme of work, with the end goal of transforming the social housing sector, partly driven by the development of MSD's role as a purchaser of services.
- 29 The first step in developing MSD's purchasing role is set out below.

Development of a contestable purchasing trial

- 30 To advance MSD's active purchaser role, MSD has been working with MBIE and the Treasury to develop an initial trial to test a contestable market approach.
- 31 As the detailed design of the trial has progressed, it has become clear that it is not feasible to start the trial from 14 April 2014. This is largely because limited provider numbers in the short term mean that the trial needs to be large in scale in order to deliver contestability. This is less manageable for both providers and MSD and creates additional risk when happening alongside the transfer of functions. I instead propose to progress this work in July 2014, and expect advice from officials on proposals to deliver the trial.
- 32 As currently envisioned, the contestable purchasing trial would involve MSD providing a waitlist to housing providers in the trial location, and enabling them to make offers of properties for clients on the waitlist over a timeframe that allows for contestability between providers. The objectives of the trial would be to:
- improve property utilisation, by creating processes that support a better fit between clients and properties
 - better manage price and value for money, through contestability over market rents for particular clients
 - build an evidence base to support the work to reform MSD's future purchasing functions.
- 33 In the trial location, a weekly process would operate where:
- MSD provides the whole waitlist of clients seeking to be housed in the trial location to housing providers
 - housing providers assess the waitlist and make offers to MSD to allow for contestability
 - MSD makes a decision on the best offer, based on the match to client housing need and price
 - housing providers know whether their offer has been accepted (and a client has been referred), or not, before the next waitlist is published.

- 34 MSD have identified three main criteria to guide the selection of the test locations.
- **Sufficient demand:** The test locations need to cover enough new clients waiting to be housed.
 - **Sufficient supply:** The test also needs to cover enough new vacancies, of housing types that meet the expected demand, and with a diversity of providers.
 - **Discrete housing market:** Ideally, the test locations should cover a reasonably self-contained housing market, where clients are happy to be housed anywhere in the test area, and within which providers are happy to supply.
- 35 In order for the trial to work there needs to be contestability (and possible competition) between providers. The key challenge is defining a trial area that is large enough to provide a sufficient volume and diversity of non-government providers, while still small enough to be manageable as a trial.
- 36 If the trial were to start on 14 April 2014, in order to generate meaningful contestability, the trial location would need to cover a large area – both geographically, and by number of clients – equivalent to around 20 per cent of the waitlist (South Auckland or West Auckland). The trial will use manual process (to compile and distribute the waitlist, and receive offers from providers). A trial of this scale and nature increases the risk of disrupting the transfer implementation.
- 37 There is also a risk that registered providers will struggle to engage with the trial if it was to start on 14 April. The trial involves a different process to that operating elsewhere, and providers would have just three weeks to adjust to new processes (following final Cabinet decisions on 24 March).
- 38 Delivering the trial at a later date provides the opportunity for MSD to reflect the experience and learning from the implementation of the service delivery model into the design of a trial that is practical for MSD to deliver. Beginning the trial later in the year will also allow more time for:
- new providers to come on board, increasing the possibility of contestability
 - MSD to identify where there is diversity of supply to enable contestability, allowing a more tightly defined trial area (either by location or by client segment)
 - providers to adjust to the new process and be encouraged to participate in the trial
 - MSD, clients and providers to adjust to the major machinery of government changes without adding any additional complexity.
- 39 Monitoring and evaluation will be important in determining what works about the approach, and whether the trial should be extended to other areas, refined or other models considered. The trial could provide evidence of:
- how the market will respond and what works
 - the impact on clients (such as effect on time to house measures)
 - price discovery and whether there is the potential to lower market rents
 - the staffing implications, including the capability required to implement the model.

- 40 Testing the approach will help inform an evidence base for the development of MSD's active purchasing role over time, as it works to develop longer term arrangements for social housing (see Paper A).
- 41 I propose that officials report back to the Joint Ministers in July 2014 with proposals to deliver the trial.

Recommendations

- 42 It is recommended that the Committee:

General model for purchasing social housing tenancies from 14 April 2014

- 1 **agree** that from 14 April 2014, the general purchasing model will begin building a foundation for further reform by:
 - 1.1 publishing waitlist information, to send signals to the social housing market about the type and location of properties required
 - 1.2 using tenancy bond data from the Ministry of Business, Innovation and Employment to benchmark market rents for different property types
- 2 **agree** that the Ministry of Social Development introduces a process to check a market rent is acceptable before an offer to house a client is made
- 3 **note** that the Ministry of Social Development will have an agreement with Housing New Zealand Corporation covering reporting arrangements and the payment of the Income Related Rent Subsidy

Building towards the end state social housing purchaser role

- 4 **note** that Ministry of Social Development has been working with the Treasury and the Ministry of Business, Innovation, and Employment to design and implement a contestable purchasing trial
- 5 **note** that the overall objectives of the contestable purchasing trial will be to:
 - 5.1 improve property utilisation, by creating processes that support a better fit between clients and properties
 - 5.2 better manage price and value for money, through contestability over market rents for particular clients
 - 5.3 build an evidence base to support the work to reform the Ministry of Social Development's future purchasing functions

- 6 **direct** officials from the Ministry of Social Development, the Ministry of Business, Innovation and Employment and the Treasury to report back to the Joint Ministers in July 2014 with proposals to deliver the trial.

for Christopher Finlayson
Hon Paula Bennett
Minister for Social Development

14, 3, 2014

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Consultation on Cabinet and Cabinet Committee Submissions

Certification by Department:	
Guidance on consultation requirements for Cabinet/Cabinet committee papers is provided in the CabGuide (see Procedures: Consultation): http://www.cabguide.cabinetoffice.govt.nz/procedures/consultation	
Departments/agencies consulted: The attached submission has implications for the following departments/agencies whose views have been sought and are accurately reflected in the submission: The Treasury, Ministry of Business Innovation and Employment, Ministry of Health, Ministry of Justice, Department of Internal Affairs, Office of Ethnic Affairs, Ministry of Women's Affairs, Ministry of Pacific Island Affairs, Department of Corrections	
Departments/agencies informed: In addition to those listed above, the following departments/agencies have an interest in the submission and have been informed: Department of Prime Minister and Cabinet, Housing New Zealand Corporation, Te Puni Kokiri	
Others consulted: Other interested groups have been consulted as follows:	
Name, Title, Department: Anna Butler, General Manager, Ministry of Social Development	
Date: 13/04/2014	Signature 

Certification by Minister:	
Ministers should be prepared to update and amplify the advice below when the submission is discussed at Cabinet/Cabinet committee.	
The attached proposal: <i>SOCIAL HOUSING PAPER D: THE MINISTRY OF SOCIAL DEVELOPMENT'S INITIAL APPROACH TO PURCHASING AND CONTESTABLE TRIAL</i>	
Consultation at Ministerial level	<input checked="" type="checkbox"/> has been consulted with the Minister of Finance [required for all submissions seeking new funding] <input checked="" type="checkbox"/> has been consulted with the following portfolio Ministers: <i>HOUSING</i> <input type="checkbox"/> did not need consultation with other Ministers
Discussion with National caucus	<input type="checkbox"/> has been or <input type="checkbox"/> will be discussed with the government caucus <input checked="" type="checkbox"/> does not need discussion with the government caucus
Discussion with other parties	<input type="checkbox"/> has been discussed with the following other parties represented in Parliament: <input type="checkbox"/> Act Party <input type="checkbox"/> Maori Party <input type="checkbox"/> United Future Party <input type="checkbox"/> Other [specify] <input type="checkbox"/> will be discussed with the following other parties represented in Parliament: <input type="checkbox"/> Act Party <input type="checkbox"/> Maori Party <input type="checkbox"/> United Future Party <input type="checkbox"/> Other [specify] <input checked="" type="checkbox"/> does not need discussion with other parties represented in Parliament
Portfolio <i>SOCIAL DEVELOPMENT</i>	Date <i>14 / 03 / 2014</i>
Signature 