



28 AUG 2018

Dear [REDACTED]

On 21 June 2018, you emailed the Ministry requesting, under the Official Information Act 1982 (the Act), copies of the following documents:

1. *New Public Housing Supply in Auckland: Seeking Agreement to Progress Opportunities for New Housing Supply (Received by the Minister of Housing and Urban Development's Office 22/3/2018)*
2. *Winter 2018 Contingency Planning (Received by the Minister of Housing and Urban Development's Office 6/4/2018)*
3. *MBIE's briefing on options for staging the increase in the Refugee Quota - housing implications (Received by the Minister of Housing and Urban Development's Office 29/3/2018)*
4. *Purchasing Strategy for public housing – overview of purpose, proposed content and release of the next iteration (Received by the Minister of Housing and Urban Development's Office 16/2/2018).*

Please find enclosed copies of the four documents you have requested. Please note that the correct title of the first document is 'Auckland New Supply: New Supply of Public Housing in Auckland, with Direct Leasing Model'. The title you requested was a preliminary title for the document that was replaced prior to the document's completion.

Appendix A of document four is available from the Ministry's website here: www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/housing/2016/purchasing-strategy-final.pdf.

You will note some information has been withheld from the documents under:

- section 9(2)(f)(iv) of the Act as the information is under active consideration. The release of this information is likely to prejudice the ability of government to consider advice and the wider public interest of effective government would not be served.
- section 9(2)(a) of the Act in order to protect the privacy of natural persons. The need to protect the privacy of these individuals outweighs any public interest in this information.

- section 9(2)(j) of the Act to enable the Ministry to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). The greater public interest is in ensuring that government agencies can continue to negotiate without prejudice.
- section 9(2)(h) of the Act in order to maintain legal professional privilege. The greater public interest is in ensuring that government agencies can continue to obtain confidential legal advice.
- section 9(2)(g)(i) of the Act to protect the effective conduct of public affairs through the free and frank expression of opinions. The greater public interest is in the ability of individuals to express opinions in the course of their duty.

The principles and purposes of the Official Information Act 1982 under which you made your request are:

- to create greater openness and transparency about the plans, work and activities of the Government,
- to increase the ability of the public to participate in the making and administration of our laws and policies and
- to lead to greater accountability in the conduct of public affairs.

This Ministry fully supports those principles and purposes. The Ministry therefore intends to make the information contained in this letter and any attached documents available to the wider public shortly. The Ministry will do this by publishing this letter and attachments on the Ministry of Social Development's website. Your personal details will be deleted and the Ministry will not publish any information that would identify you as the person who requested the information.

If you wish to discuss this response with us, please feel free to contact OIA_Requests@msd.govt.nz.

If you are not satisfied with this response providing copies of four documents regarding housing, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at www.ombudsman.parliament.nz or 0800 802 602.

Yours sincerely,



 Scott Gallacher
Deputy Chief Executive, Housing



Report

Date: 21 March 2018

Security Level: IN CONFIDENCE

To: Hon Phil Twyford, Minister of Housing and Urban Development

Auckland New Supply: New Supply of Public Housing in Auckland, with Direct Leasing Model

Purpose of the report

- 1 The Ministry of Social Development (MSD) has been actively working with registered community housing providers (CHPs), investors and developers over the past 30 months to procure the development of new public housing places.
- 2 This report provides you with information about current opportunities (both existing and new) to increase new supply of public housing in Auckland, using a direct leasing model. The direct leasing model enables private developers to partner with MSD and registered CHPs to deliver public housing developments at a greater scale than previously seen in this sector, utilising private sector funding and development expertise.
- 3 The current opportunities are with two prominent private New Zealand investor/developers - the Ted Manson Foundation (TMF) 9(2)(f) - for delivery of a possible 9(2)(f) new public housing properties in Auckland.
- 4 MSD is seeking your agreement to use the direct leasing model to progress these opportunities, as well as future opportunities which fit into the required profile. The use of the direct leasing model represents a proactive way for MSD to increase new supply of public housing at an increased pace, by opening up the market to a broader range of providers (investor/developers).¹ The model varies from the regular contractual arrangements which have been adopted by MSD to date.
- 5 This report also seeks your direction on which crown representative (MSD and/or HNZA) will enter into leases as the head lessee once the relevant developments are completed.
- 6 This report should be considered in the context of advice we have provided you on:
 - new supply of public housing outside of Auckland [REP/17/12/1255], which you approved in December 2017;
 - initial information about current opportunities for new supply in Auckland, for noting [REP/17/12/1306];
 - another opportunity for new supply of public housing in Auckland, 9(2)(f)(iv) [REP/18/1/032];

¹ This is because development or building is the developer's core business, and they are incentivised to develop at pace so they can lease the land and begin generating earnings from it.

- a wider review of current social housing funding policies and the regulatory framework [REP/18/03/376]; and
- an introduction to MSD's strategic partnering approach to sourcing new public housing places, and a summary of the procurement approach, evaluation, contracting and monitoring tools MSD proposes using to support this approach [REP/18/1/027].

Executive summary

- 7 There are currently 788 potential CHP places in Auckland that MSD officials have been progressing with CHPs. Employing the direct leasing model will allow the delivery of around a third of these CHP places.
- 8 It should be noted that such public housing properties were not included in the cost pressure or manifesto Budget bids. However, progressing them, and allowing future use of the direct leasing model, may have implications for the public housing supply manifesto bid, particularly in terms of the regional equity. MSD will work with you on such implications as we progress things further.

Existing project contractual arrangements to be finalised

- 9 There are two current opportunities with prominent property developer, TMF, for the delivery of 163 public housing properties under a direct lease model. These properties will be delivered by December 2019. The two projects are:
 - 40-42 Liverpool Street, Auckland, 73 public housing places with completion due early-2019, and
 - 6 Waikumete Road, Glen Eden, Auckland, 90 public housing places due for completion in mid-2019 (further detail on these two existing projects is included at Appendix Two to this report).

New projects being considered

10 9(2)(f)(iv), 9(2)(j)

11

12

Links to medium-term review of funding and regulatory policy settings

- 13 Direct leasing, as a new approach for MSD, sits within the wider funding and regulatory policy settings for public housing. 9(2)(f)(iv)

Recommended actions

It is recommended that you:

Direct Leasing

- 1 **note** direct leasing of properties to secure public housing places is one mechanism that will be considered in the context of a review of the wider set of public housing funding policy and regulatory settings.
- 2 **note** that, subject to any preferences you might have, either MSD or HNZN could, depending on the circumstances of the developments in question, act as the head lessee for the acquisition of new supply of public housing.
- 3 **agree** to the use of the direct leasing model to progress current, identified and any future opportunities, which fit into the required profile, to increase the supply of public housing.

Agree / ~~Disagree~~

Head lessee

- 4 **note** that MSD has already entered into two Development Agreements with the Ted Manson Foundation for the delivery of 163 new public housing properties in Auckland and that contractual arrangements as to the leases of these projects once completed are now to be finalised.
- 5 **note** that either HNZN or MSD could act as the head lessee, but their preference would be for MSD to do so, particularly in light of its core role as the purchaser of public housing places.
- 6 **agree** that MSD act as head lessee for the acquisition of new supply of public housing using a direct leasing model.

Agree / ~~Disagree~~

- 7 If you have indicated a preference for MSD, depending on the circumstances of the developments in question, to act as the head lessee for the acquisition of new supply of public housing
 - 7.1 **note** the Chief Executive of the Ministry of Social Development has agreed in principle to MSD acting as the head lessee for the acquisition of public housing.
 - 7.2 **agree** to delegate your powers under sections 6(1) and 6(2) of the Housing Act 1955 to the Chief Executive of the Ministry of Social Development to directly lease new public housing properties for approved projects.

Agree / ~~Disagree~~

- 7.3 **note** MSD will prepare an Instrument of Delegation for you to sign to delegate your powers under sections 6(1) and 6(2) of the *Housing Act 1955* and to authorise MSD to sign lease agreements and other documents on behalf of the Crown.

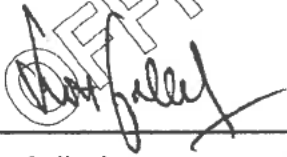
Development

- 8 **note** that your preferred representative(s) of the Crown will proceed to enter into leases once the relevant arrangements and negotiations have been completed for the following developments:

Project	Places	Developer
40-42 Liverpool Street, Auckland	73	Ted Manson Foundation
6 Waikumete Road, Auckland	90	Ted Manson Foundation

9(2)(j) - Commercial and Industrial Negotiation

- 9 **note** that the decision to progress with direct leasing for the new supply developments outlined in recommendation 8 above may have an impact on the regional equity of new public housing supply, between Auckland and elsewhere across New Zealand. MSD would work with you on this issue as developments progress further.
- 10 **note** that the Treasury recognises the need for additional public housing to be delivered as quickly as possible, but they advise that individual investment decisions should be made in light of the fiscal constraints placed upon meeting that need, and be compared with other investment options and therefore recommend that Ministerial consideration is given to the progression of the developments summarised in recommendation 8 above once Budget 2018 decisions have been made.
- 11 **note** that MSD will ensure that due diligence is applied throughout the length of this direct lease arrangement and that an exit strategy is in place to safeguard both the Crown's interests and vulnerable New Zealanders.


 Scott Gallacher
 Deputy Chief Executive, Housing

21/03/18

Date

Hon Phil Twyford
 Minister of Housing and Urban Development

Date

There are a number of opportunities to increase new supply of public housing in New Zealand using a direct leasing model

Introduction to the direct leasing model

- 14 The status quo for delivery of public housing by registered CHPs in New Zealand is that registered CHPs both manage and own public housing properties. Because CHPs are generally equity-constrained, they typically require upfront development funding assistance⁴ to increase their public housing portfolios. The availability of this funding therefore influences how quickly, and on what scale, CHPs can increase their public housing portfolios and contribute new supply to the market.
- 15 Private sector investment provides an alternative source of capital for increasing the number of CHP public housing properties. Investor/developers have made it clear to MSD officials that they are interested in investing in public housing, but are reluctant to do so unless they can receive the greater security provided by a direct cash-flow from the Crown (or a Crown entity), rather than from a CHP. This is due to the perceived risk of CHP failure and the risk associated with large public housing new supply projects.⁵
- 16 Although current legislative settings and MSD's current funding model both restrict MSD from directly paying investor/developers, they do not prevent MSD from entering in to lease arrangements directly with investor/developers.
- 17 MSD has developed a model whereby MSD (and/or HNZC) directly leases a property⁶ from investors and then sublease that property to a registered CHP, who would provide the tenancy and asset management services for the term of the lease.⁷ MSD would subsidise the services provided by the CHP under a separate services agreement with the CHP.⁸ MSD will ensure that due diligence is applied throughout the length of this arrangement and that an exit strategy is in place to safeguard both the Crown's interests and vulnerable New Zealanders.
- 18 Under this direct leasing model, the Crown takes a central role in the procurement of new public housing properties by effectively partnering with the private sector, as well as CHPs or HNZC. Broadening the market in this way has the potential to allow current and anticipated public housing needs to be better met. A comparison of the direct leasing model and current standard leasing arrangements is shown at Appendix One to this report.

The roles of MSD, HNZC and CHPs under the direct leasing model

Tenancy management services

- 19 The provision of tenancy management services under the direct leasing model would still need to be fulfilled by a contracted CHP.

⁴ Upfront funding is effectively a capitalised operating supplement. This is contrasted with the standard operating supplement, which is provided on a weekly, on-going basis, and is used by CHPs to meet base level tenancy and asset management costs.

⁵ Under current legislative settings, public housing cash flows need to be paid directly to either HNZC or a registered CHP. Investors are reluctant to invest in public housing because of this requirement because there is a risk of the CHP not passing on the investor's public housing cash-flow (e.g. in the event of CHP failure).

⁶ As head lessee, on completion of the development.

⁷ The investor/developers would not provide any tenancy and property management services.

⁸ E.g. by providing an on-going operating supplement.

- 20 While both CHPs and HNZN are able to provide tenancy management services to public housing tenants, it is more likely that this service would be provided by CHPs under the direct leasing model.
- 21 This is because under this model, developments will be on privately owned land which a developer intends to own on a long term basis, employing the services of a CHP to perform tenancy and asset management services. They will also be projects where the specialised services of a CHP are sought after, for example, because the nature of the desired cohort, the typology of the project, or the location is able to be better serviced by local CHPs.

Head lessee

- 22 MSD can act as the head lessee under the MSD direct leasing model for the developments summarised in this report as:
- this aligns with MSD's core role as the purchaser of public housing spaces;
 - MSD has established a robust working relationship with the developers and has a closer proximity to these developments; and
 - the developers have formed relationships with a registered CHP to provide tenancy management services.
- 23 There is, however, no clear statutory mandate for MSD (or any of the other Crown agencies) to act as head lessee under such an arrangement.
- 24 Because of this, the existing two projects with TMF, where Development Agreements have been signed, were progressed on the basis that HNZN could act as the lessee if legal advice was of the view that MSD was not able to perform this function under statute.

Crown Law legal advice

25 9(2)(g)(i), 9(2)(h)

26

27

HNZN as head lessee

- 28 HNZN have also indicated that they are open to discussing the possibility of acting as the head lessee for other lease deals directly, but have observed that their preference would be for MSD to act as head lessee given MSD's closer relationship with CHPs, particularly in the context of the relevant contracts.
- 29 Regardless of whether MSD or HNZN (the crown representative) become the head lessee under the direct leasing model, the following implications apply:
- The leases will be registered against the title(s) of the developed properties. On that basis, the crown representative will be recorded as the lessee on these titles. This provides security of tenure for the Crown, and ensures the leases run with any subsequent sale or transfer of the property by the owner/developer for the duration of the lease.

- As lessee under the head lease, the crown representative will assume ultimate responsibility for the payment of annual rent and continuing performance of the lease obligations.
- The crown representative will also enter into a sublease with the appointed CHP, so will be the sub-lessor under that arrangement.
- The relationship between the registered CHP and public housing tenant will remain the same under the direct leasing model (i.e. as a residential tenancy under the *Residential Tenancies Act 1986*).
- In terms of risk and performance of the obligations contained in the lease, all risks and obligations – including remediation of any meth contamination – will be passed down to a CHP via a sublease, so the crown representative would only assume its ultimate liability under the head lease in the event of that CHP defaulting.

Under a typical CHP lease arrangement (where a CHP has leased a public housing place rather than owning it), the crown representative is not a party to the lease. Accordingly, in the event of a CHP default in this scenario, a lessor could potentially cancel a lease for breach of terms and the crown representative would lose access to the public housing places as a result. Under the direct leasing model, the crown representative has greater certainty of on-going access to properties and can manage a transition of tenancy and asset management to an alternative provider if this becomes necessary.

- We acknowledge that the crown representative's role as both head lessee and sub-lessor will generate additional administration, however in our view this should require no more input than the administration required for an IRRS contract. It is anticipated that the crown representative's role will be relatively 'hands off' – the day to day running of the tenancies and meeting of the obligations under the lease will be the responsibility of the CHP. We anticipate that the crown representative's role will only be to step in if something goes wrong, to ensure the public housing place is retained.

Advantages of the direct leasing model

- 30 In the absence of a second, separate class of CHP registration being available to private developers⁹, the direct leasing model broadens the participants available to deliver new public housing supply. The model offers a viable 'work around' to the absence of any separate class of registration, and enables MSD to partner with the private sector to procure new supply of public housing.
- 31 A lease has the benefit of being a long-standing instrument that is familiar to the housing market, therefore assisting in 'unlocking' private sector supply.
- 32 A long term lease is able to be registered against the fee simple title to land, which provides security of tenure to the Crown (and to tenants, in the event that a CHP scheme fails). In addition, if the underlying land is sold at any point during the term of the lease, the lease runs with the land meaning the Crown's lease remains in place.
- 33 The direct leasing model allows MSD to have control in negotiating appropriate commercial lease terms, to ensure these are fit-for-purpose and mitigate on-going risk to the Crown (e.g. CPI indexed rent reviews).

⁹ The *Housing Restructuring and Tenancy Matters Act 1992* allows for the registration of classes other than Class 1: Social Landlord, however these classes are not in operation at this stage. To bring any further classes into operation would require MBIE to effect a change to the Regulations.

- 34 The direct leasing model is also scalable, to suit both small-scale and large-scale developments. The model is, however, better suited to larger scale development proposals (e.g. TMF's apartment block developments at Liverpool Street and Waikumete Road in Auckland), and the bigger the development proposals, the higher volume of new public housing properties generated.

Disadvantages of the direct leasing model

- 35 The following factors are considered disadvantages of the model as proposed;
- a) MSD directly takes on risks associated with leased properties in the event of a default of a CHP (i.e. rental, property outgoings etc.). Under a standard contract for IRRS, MSD does not carry these risks as the contract is only with the CHP and not the asset owner.
 - b) MSD directly leasing off the private sector for the provision of CHP managed housing potentially impacts on the private sector's willingness to deal directly with CHPs, and;
 - c) The model is a more complex arrangement than a standard IRRS contract in that there are two contractual relationships, one between MSD and an asset owner, and one between MSD and a CHP.
- 36 On balance, MSD is satisfied that the advantages of adopting the new model outweigh these disadvantages in the provision of new social housing places managed by CHPs.

Possible alternatives to the direct leasing model

- 37 The direct leasing model represents one option for partnering with the private sector to procure new supply of public housing. When developing the model, MSD also considered the following alternative options:
- *Bare Trustee.* This option involves an investor sub-contracting a CHP to be the appointed tenancy manager in a 'bare trustee' arrangement, where the CHP would be entitled to receive the statutory IRRS subsidy, but this subsidy would be forwarded directly onto the investor. In some cases, it is possible an investor may require an authority to access a CHP's bank account to secure the investor's position and achieve absolute certainty that the subsidy will be forwarded on.
In MSD's view, this option has the potential to create cash-flow issues for any CHP acting in the capacity of bare trustee. It is also arguable that any arrangement of this nature is contrary to the intention of the *Housing Restructuring and Tenancy Matters (Community Housing Provider) Regulations 2014*.
 - *Capacity Contracts.* We have also assessed Capacity Contracts being entered into by a CHP and separate asset owner.
This option has been deemed unlikely to succeed, as the asset owner will not be willing to assume responsibility for tenancy management issues.
 - *Step-in Rights.* We have considered the option of strengthening MSD's step-in rights under our new supply contracts.
In MSD's view, this option doesn't address the problem of increasing new supply, as we already have the ability (but not the obligation) to step in under an IRRS contract to complete delivery of the services contracted to the CHP. Market feedback has indicated this commitment is not strong enough for private investors and their financiers on large scale projects.
 - *Development of a second class of registration.* We have considered the option of bringing a Class II registration into effect. A second class of Community Housing Provider registration is already provided for in the primary legislation, however to bring this into effect additional regulations would need to be passed.

In MSD's view, the time taken to implement Class II would be prohibitive to short and medium term opportunities. In addition, further work is required to determine whether the private sector would have an appetite to participate in a regulated environment when the services they provide (developing and owning assets) are a business-as-usual activity. This option will further be explored in the wider review of current public housing funding policies and the regulatory framework (a scope note for this work is being provided to you in March 2018)

- 38 On the basis of the foregoing, the direct leasing model is still considered the most appropriate option to enable procurement of new supply of public housing from private investor/developers, in the short term.

MSD is seeking confirmation of your preferred crown representative to act as head lessee under the two existing development agreements with TMF

- 39 Following verbal agreement from the former Minister for Social Housing in December 2016, MSD signed two development agreements with TMF for the delivery of 163 new public housing properties in Auckland by December 2019.
- 40 These agreements were entered into with TMF under a direct leasing model with provision for either MSD or HNZA to be the head lessee, while MSD determined which of MSD or HNZA was the most appropriate agency to perform this role was.
- 41 Either HNZA or MSD could act as the head lessee for the developments summarised in this report because it closely aligns with both of their key roles in the on-going development of new public housing. Nonetheless, it could be agreed that MSD might be better suited in these circumstances because of its core role as the purchaser of public housing spaces, and MSD has an established robust working relationship with the developers and closer proximity to these developments.
- 42 MSD now seeks confirmation from the Minister on which crown representative is best suited to act as the head lessee under these agreements. MSD believes that it is best placed to act as head lessee under these agreements.

MSD would also like to use the direct leasing model to enter into future agreements for new supply of public housing with 9(2)(j)

9(2)(j)

43 9(2)(j), 9(2)(f)(iv)

44

45

46

47

48

9(2)(j), 9(2)(f)(iv)

9(2)(i)

49

9(2)(f)(iv), 9(2)(j)

50

51

Future opportunities

52

9(2)(i)

53

54

55

56

Links to medium-term work on the funding and regulatory policy settings for public housing

57

9(2)(f)(iv)

Appendices

- 58 Appendix One – Comparing the Direct Leasing Model with Standard Leasing Arrangements
- 59 Appendix Two – Detail of Current Opportunities

File ref: REP/18/1/032

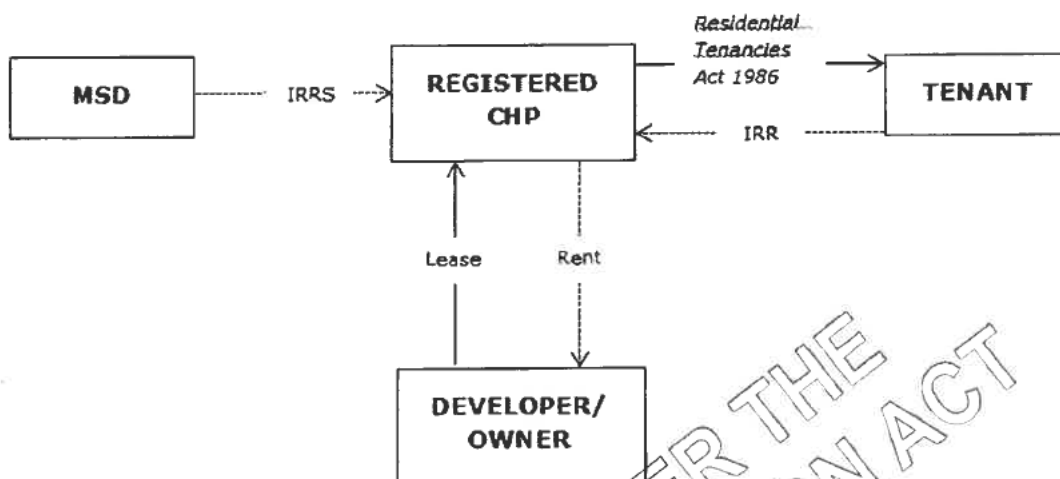
Author: 9(2)(a), Principal Advisor, Strategic Purchasing

Responsible manager: Andrew Plant, General Manager, Strategic Purchasing, Ministry of Social Development

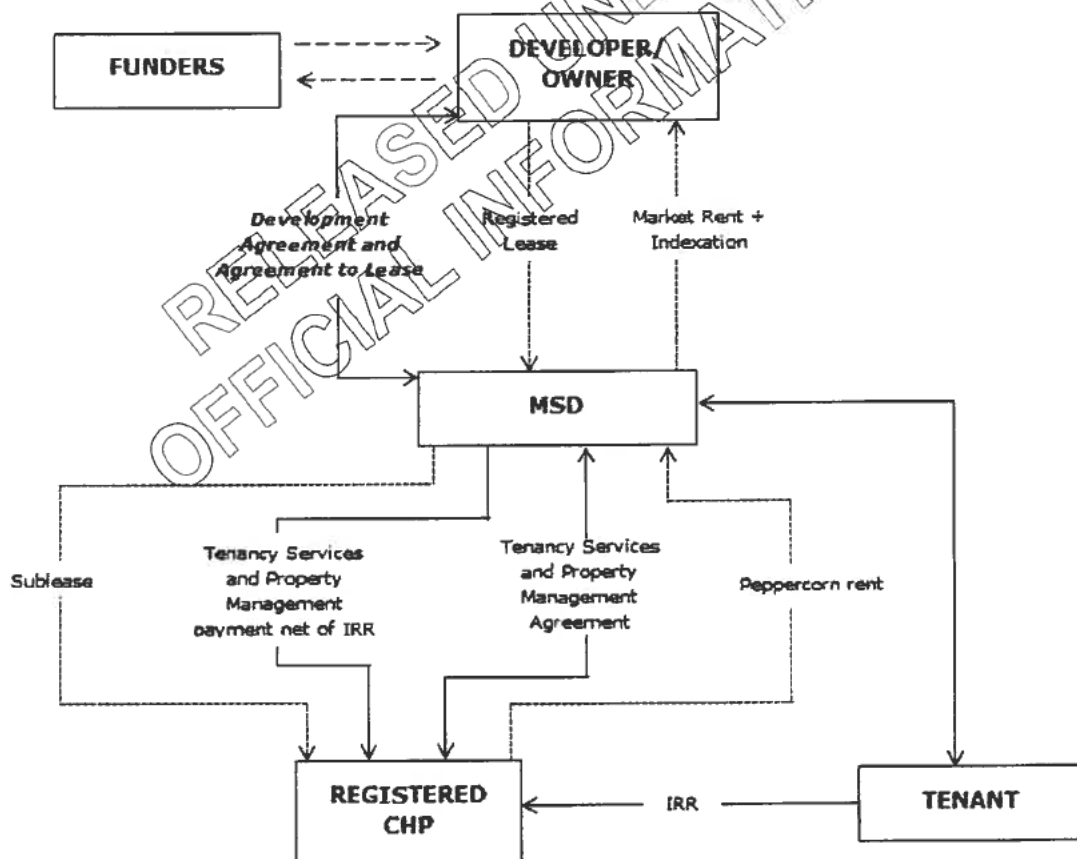
RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Appendix One – Comparing the Direct Leasing Model and Standard Leasing Arrangements

Standard Leasing Arrangements



Direct Leasing Model*



* In the event that Housing New Zealand is the head lessee under the Registered Lease, the structure of this flow chart will alter slightly, recognising Housing New Zealand is the relevant party under the Head Lease and the Sublease to the CHP, but MSD will continue to be the agency responsible for the IRRS payment.

Appendix Two – Detail of Current Opportunities

Existing Opportunities

TED MANSON FOUNDATION		
40-42 Liverpool Street, Auckland	<p>73 public housing places comprising:</p> <p>49 x 1 bedroom units (45 – 49 m²)</p> <p>24 x 2 bedroom units (62 – 71 m²)</p> <p>Dimensions exclude common areas and balconies</p>	9(2)(j)
Whole of Life Cost (25 Years)		

TED MANSON FOUNDATION		
6 Waikumete Road, Glen Eden, Auckland	<p>90 public housing places comprising</p> <p>45 x 1 bedroom units (45 m²)</p> <p>45 x 2 bedroom units (65 m²)</p> <p>Dimensions exclude common areas and balconies</p>	9(2)(j)
Whole of Life Cost (25 Years)		

New Opportunity

9(2)(j)



RELEASED UNDER THE
OFFICIAL INFORMATION ACT



Report

Date: 6 April 2018

Security Level: IN CONFIDENCE

To: Hon Phil Twyford, Minister of Housing and Urban Development

Cc: Hon Jenny Salesa, Associate Minister of Housing and Urban Development

Winter 2018 Contingency Planning

Purpose of the report

- 1 This report provides additional details on the contingency component of the Winter 2018 Response and discusses the approach MSD is undertaking to operationalise the additional solutions outlined in the first contingency planning paper, provided to you in February (REP/18/2/273 refers).
- 2 This paper discusses accommodation options that have been confirmed, options that are being explored and MSD's engagement with the sector.

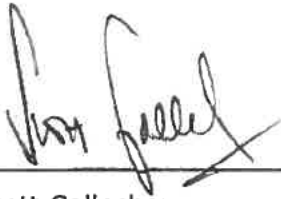
Executive summary

- 3 MSD is actively exploring all options for bringing on additional supply during winter to further strengthen the existing winter package. This includes targeted engagement with providers and local communities to fully explore all opportunities.
- 4 We're working to ensure as much additional supply as possible is in place, as early as possible, and will continue to build this up throughout the winter period. We are already tracking ahead on a number of aspects of the winter package and have brought on 170 net new CHP IRRS tenancies and 123 short term contracted motels for transitional housing since 1 January 2018.
- 5 In addition to bringing on additional short-term contracted motels, we are working to implement small scale, temporary units on land with existing infrastructure in the Auckland and Northland regions, where motel supply is largely exhausted. Initial market investigation suggests a suitable supply of these units will be available over winter; however securing these for tenancing is reliant on land availability and the ability of providers to provide the appropriate support services.
- 6 MSD has already received several proposals from providers across the country which outline options for bringing on additional supply for winter. We will continue to engage with these groups to work through the proposals in coming weeks.

Recommended actions

It is recommended that you:

- 1 **Note** that this report follows on from the original contingency planning paper provided to you on 22 February
- 2 **Note** this report provides you with an update on the progress we have made in identifying further opportunities for additional supply



Scott Gallacher
Deputy Chief Executive Housing
Ministry of Social Development

6/4/18

Date

Hon Phil Twyford
Minister of Housing and Urban Development

Date

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

The Winter 2018 contingency plan gives us the flexibility to respond to any unexpected increase in demand

- 7 MSD is better placed to meet the needs of vulnerable people than in previous winters, particularly through the package of options agreed to by Cabinet on 26 March (CAB-18-MIN-0102 refers). As you know, the package focusses on immediate and short-term responses to homelessness for this year's winter months and will provide a platform of an additional 1,537 places across Housing First, transitional and public housing.
- 8 We are already tracking well on our Winter 2018 targets. Since 1 January 2018, there have been 170 net new CHP IRRS tenancies, 54 of which have been brought on since 1 March, and, as at 31 March, 507 short term contracted motel units for transitional housing were under contract with 48 motels around the country. This is an increase of 123 units since 31 December 2017, which exceeds the initial target for the Winter 2018 Response.
- 9 There is still some uncertainty around any unforeseen surge in homelessness and the resulting increase in housing demand, beyond what MSD has already accounted for. In recognition of this, our contingency plan (also agreed by Cabinet) provides the flexibility to bring on additional supply.
- 10 Two main options for additional supply are:
 - Increased short-term contracted motel units, used as transitional housing, as the lead response outside of Auckland (as motel supply is near saturation).
 - Small-scale temporary units on land with existing infrastructure in place, as the lead response within the Auckland and Northland regions (or other locations where required). This option includes renting on-site cabins at campgrounds or placing re-locatable units on land with existing infrastructure in place (e.g. marae land, campgrounds or land owned by community groups). These will also be additional transitional housing places.
- 11 In the timeframes to winter 2018, larger-scale options, including placing many (i.e. more than five) re-locatable units on vacant land, without existing infrastructure in place, will be difficult to achieve. Despite this, MSD will continue to explore any and all options as they present, to ensure we have as much flexibility as possible to respond to demand.
- 12 We have initiated conversations with our providers in an effort to identify other suitable accommodation, outside the options outlined above. We will consider all options presented to us, with the exception of motor homes, tents and vans, as we note you have confirmed these are not suitable accommodation options.
- 13 None of these options are being advocated as viable long-term housing options, and are instead intended as immediate solutions that can be implemented when required. MSD will determine the most appropriate accommodation option on a case-by-case basis, taking into consideration the needs of the individual or family and the regional circumstances.
- 14 Emergency Housing Special Needs Grants (EH SNGs) offer flexibility to meet immediate need and will continue to be used as a last resort where no other suitable options are available.

We are working with agencies, land-owners and providers to bring on as much additional accommodation as early as possible

- 15 MSD has begun targeted and early engagement with providers and local communities, ahead of any public announcement, to fully explore the broadest range of additional opportunities.

MSD is securing additional short-term motel contracts

- 16 To alleviate the shortage of transitional housing, MSD has been contracting with motels since July 2017 and contracts are generally due to end February 2019.

Providers are contracted to deliver wrap around support services at the motels, to assist clients to find long term sustainable housing, ideally within 12 weeks.

- 17 As at 31 March 2018, 507 units were under contract with 48 motels around the country. This is an increase of 123 units since 31 December 2017, which exceeds the initial target for the Winter 2018 Response. MSD will continue to secure additional short-term contracts with moteliors across the country to increase supply of transitional housing.

Supply risk

- 18 Although some regions are close to saturation (Auckland, Napier and Hastings, Wellington, Tauranga) MSD will revisit motels who previously declined to contract, to determine if they are now willing to consider a contract for winter (given their occupancy rates are likely to be lower than at the time MSD first contacted the motel).
- 19 MSD does not contract with motels deemed to be unsuitable. Reasons may include poor standards of cleanliness, poor room condition (such as mould, broken furniture or damage), staff reputation or behaviour towards clients, or motels that permit guests to rent rooms by the hour. We do, where appropriate, work with moteliors to address concerns and bring their rooms up to a suitable standard.

Provider risks

- 20 Providers may not have capacity and training to manage additional contracted motel units. Where a provider has to recruit additional staff, there can be a delay in being able to start the contract. MSD will continue to work with providers to mitigate these risks.

MSD has completed initial market investigation for the use of re-locatable units as transitional housing

- 21 In line with our previous advice, we are working to implement small scale, temporary units by:
- Renting or using existing housing options (e.g. cabins) on suitable properties with existing infrastructure in place (e.g. campgrounds)
 - Placing re-locatable units, rented or purchased by MSD, on spare or under-utilised pieces of land with infrastructure already in place (e.g. campground sites or marae land), on a short to medium term basis.
- 22 These options will be required in Auckland, where demand is greatest and to supplement any increase in motel supply that could be secured in a largely exhausted market. There will also be a focus on primary locations within the regions, as the same drivers of housing demand and market exhaustion exist.
- 23 A solution to secure additional transitional housing involving re-locatable units requires three basic inputs of suitable land, available units, and the provision of social services from a provider.
- 24 The re-locatable units will primarily take the form of 1-2 bedroom dwellings which have simplified building or resource consent requirements, either because they are defined as caravans or trailers or are less than 10m² in area. These buildings have the appearance of a residential dwelling rather than a trailer or caravan and are constructed to building code standards (if consent was required). More permanent (i.e. fixed and requiring building or resource consent) building options can be explored if access to land was assured.
- 25 Initial market investigation indicates there will be a suitable supply of re-locatable units available over winter 2018. Land availability and the ability to secure support services may constrain MSD's ability to ensure the full number of supply are available for tenanting.
- 26 Preferred locations for the re-locatable units are campsites and marae as infrastructure and other social facilities are in place. Other options will be explored if

no suitable sites are identified, including other Crown or council land that is vacant or underutilised but serviced (including HNZ land), Crown land declared surplus and awaiting disposal or, finally, private land. This hierarchy of options exists as a combination of lack of utilities or distance from services will make placing re-locatable units progressively more uneconomic or difficult to consent.

- 27 Currently 5-6 suitable land options have been identified within Auckland City, with negotiation yet to be undertaken with landowners. One other site in Northland is being actively negotiated.
- 28 Support services include attending to the needs of clients as well as the facilities maintenance of the re-locatable units. Negotiations over who will provide the social services and facilities maintenance are only at a preliminary stage. Given the small number of re-locatable units proposed (20-40 units), the Auckland focus, and the placement of clients with less complex needs it is expected that support services can be covered by existing providers.
- 29 We will continue engagement with existing providers to determine their capacity and willingness to cover support services for these additional transitional housing places.

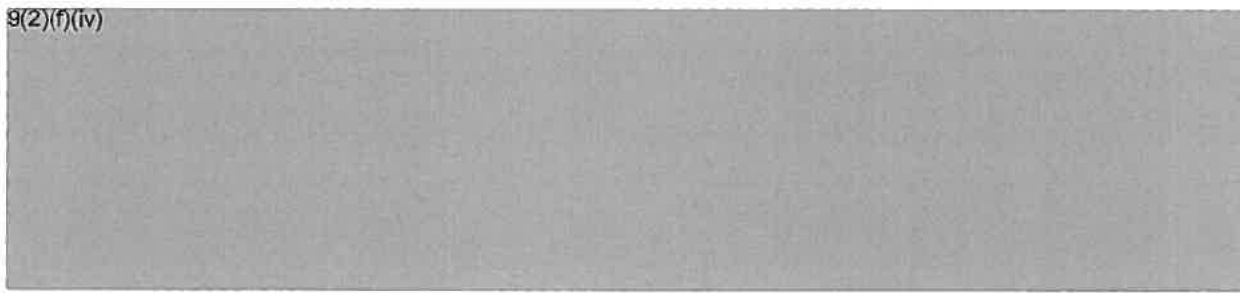
Te Puni Kōkiri has prioritised \$1.3 m in grant funding for the Winter 2018 Response

- 30 Māori are over-represented amongst the homeless population and make up approximately 36 per cent of public housing tenants. A number of iwi have wanted to increase their ability to meet the needs of these whānau within their communities.
- 31 Te Puni Kōkiri works with Māori to build on opportunities for Māori to play a greater role in the delivery of public housing, and supports Māori providers to offer emergency and transitional housing to whānau.
- 32 As part of this, Te Puni Kōkiri has prioritised \$1.3 million in grant funding for up to 28 additional transitional housing places throughout New Zealand, to be bought on during the winter months.

MSD is engaging with providers to determine other options or proposals

- 33 The challenge ahead for MSD is to find vacant accommodation across New Zealand that isn't yet known, or land options that are suitable for the short term placement of re-locatable housing this winter.
- 34 MSD recognises the need to work with others, quickly, in order to meet winter housing demand in priority locations. In order to do this, we need to leverage local knowledge of any and all opportunities available, as early as possible.
- 35 MSD has started contacting all of our providers to ask for their support in finding vacant accommodation or land (that is connected to services and does not pose a health risk) in local communities.
- 36 MSD is also speaking to councils in priority locations in an attempt to uncover additional supply and to highlight and negotiate any barriers to converting any opportunities that are identified (e.g. resource consent.)
- 37 MSD's engagement approach includes reaching out to relevant community partners or industry groups (e.g. the primary industries, local iwi) to assess winter housing solutions and to establish two-way communication channels that enable communities to alert us to opportunities as they may arise.

9(2)(f)(iv)



Recognised Seasonal Employer accommodation

- 43 There is accommodation that is used for the Recognised Seasonal Employer (RSE) scheme across the country that frees up during the winter period. RSE employers are required to provide access to accommodation for their RSE employees which can be purpose-built or provided by a third party. Currently, just under half of all accommodation provided for RSE workers is purpose-built.
- 44 MSD officials are working with MBIE to understand the RSE accommodation that could be available during winter, including the number of places, typology and time period available. We have also had discussions with the Hastings District Council to facilitate access to RSE accommodation in that district.

MSD will seek approval from Joint Ministers to use the contingency fund if and when the need arises

- 45 As you know, Cabinet has agreed the remaining \$9.476 million forecast underspend in the Vote Social Housing Purchasing MCA be reallocated to supplement the Winter 2018 Response.
- 46 Agreement will be sought from you and the Minister of Finance via a joint paper, should the contingency fund, or part of it, be required.
- 47 Where additional transitional housing, short term contracted motels or Housing First places have been identified, the paper will outline how much of the \$37.082 million allocated to the Winter 2018 Response has been spent to date and how much MSD is tracking to spend. This will inform the need for the contingency fund to be used to bring on the additional supply that has been identified.
- 48 Where the additional initiative identified is new HNZA acquisitions of transitional housing, the paper that MSD will prepare for Joint Ministers will outline the resulting implications for the HNZA loan.

Next steps

- 49 A Winter 2018 Response dashboard has been developed to track implementation of the response and to highlight any emerging issues. This dashboard will also provide you with visibility of additional supply that has been bought on as part of the contingency response. The dashboard will be provided to you monthly via the HUDU, and will be supplemented by a cover report. The first monthly dashboard is expected to be attached to the HUDU for the week ending 13 April.
- 50 For period between dashboards, officials will provide a short weekly briefing. The briefing will highlight risks, issues and achievements for the week. We intend to provide the first of these to you in mid-April, following the first dashboard.
- 51 Officials will prepare the necessary paper work to seek approval from you and the Minister of Finance should the need to use the contingency fund arise.

- 52 MSD will continue to proactively engage with key partners who will be providing the vast majority of additional supply identified in the Cabinet Paper and working to identify what else can be done to support those in need.

File ref: REP/18/3/466

Author: 9(2)(a), Senior Advisor, Housing Strategic Advisory

Responsible manager: 9(2)(a), National Manager, Housing Strategic Advisory

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Aide-mémoire



MINISTRY OF SOCIAL
DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date: 29 March 2018

Security Level: In confidence

For: Hon Phil Twyford, Minister of Housing and Urban Development

File Reference: REP/18/3/473

MBIE's briefing on options for staging the increase in the Refugee Quota – housing implications

Proposal

The Ministry of Business, Innovation and Employment (MBIE) has provided a briefing to the Minister of Immigration on options for staging the increase in the refugee quota. The options are:

9(2)(f)(iv)

Both options have significant housing implications and costs and the briefing suggests the Minister of Immigration discuss these options with you.

9(2)(f)(iv)

The paper to the Minister also includes a section on refugee quota operational and policy settings which is not of relevance to you i.e. the international regional allocation of quota places and 9(2)(f)(iv)

Key issues

What is the Government committed to in regards to refugee housing?

The Government has a manifesto commitment to "increase the refugee quota to 1500 over three years, and provide the funding to manage the resettlement of refugees." The Government also has an obligation based on international convention to provide housing, either public or private, to quota

refugees upon their arrival in New Zealand.

Where are refugees housed?

For their first six weeks in the country, quota refugees are housed in the Mangere Refugee Resettlement Centre where they participate in a reception programme. 9(2)(f)(iv)

After completing the reception at MRRC, refugees are permanently settled by MBIE in 7 settlement locations (Auckland, Hamilton, Palmerston North, Wellington, Nelson, Dunedin and Invercargill). 9(2)(f)(iv)

What is the current process for housing refugees?

Currently public housing is the default option for housing eligible refugees. Housing New Zealand Corporation (HNZC) has an operational understanding with MBIE that it will house as many refugees as it can.

MBIE notifies HNZC of the make-up of the refugee families before they arrive in New Zealand. 9(2)(f)(iv)

MSD conducts a housing needs assessment during refugees' stay at MRRC and eligible refugees are placed on the public housing register. Once accepted into New Zealand quota refugees receive permanent residence status and are exempt from the two year stand down period for accessing benefits and public housing. 9(2)(f)(iv)

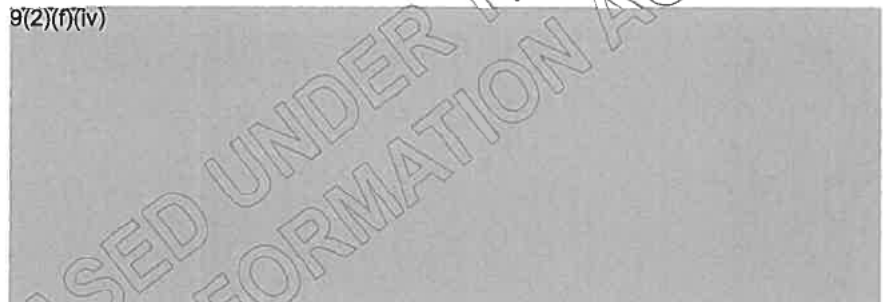
Where suitable public housing is unavailable in settlement locations, or where quota refugees are ineligible for public housing, Immigration New Zealand (part of MBIE) works to source private rentals.

Due to constraints on the supply of public and private housing

some refugees have had to stay at MRRC beyond the completion of their 6 week reception programme. This has created additional cost and operational challenges for MBIE, and also means that the refugee misses out on the start of the resettlement programme in their new town/city. If a private rental is found for a quota refugee then they will generally no longer qualify for public housing and will be removed from the register. This process currently results in about 53% of refugees receiving public housing (and IRRS) and approximately 47% entering the private market (and generally receiving AS) though the proportion provided with public housing is declining due to supply constraints. The proportion of refugees able to be housed in public housing has gradually declined from 60% in 2015/16 to 53% in 2016/17. MSD expects that if the current process continues, we will continue to see the proportion of refugees housed in public housing decline.

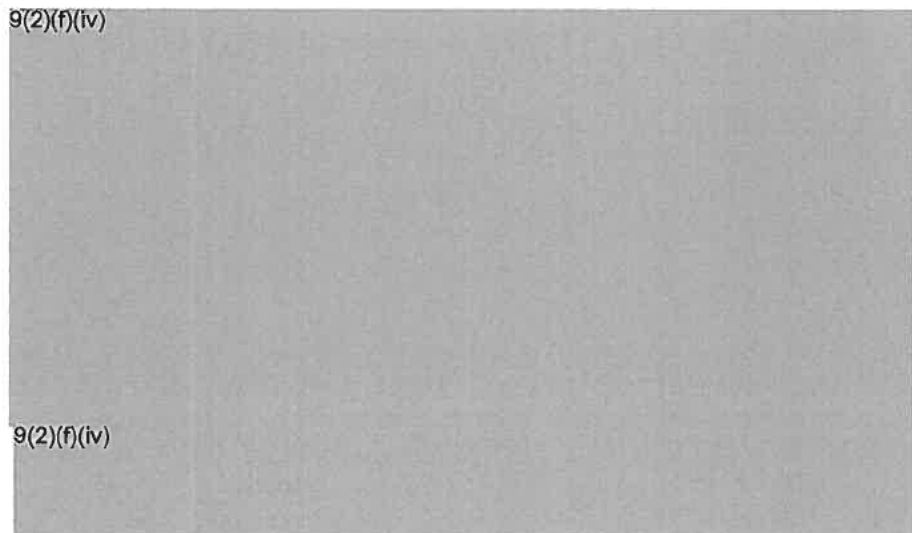
What are the issues with the current approach to housing refugees?

9(2)(f)(iv)



HNZC are also finding it increasingly difficult to source public houses for quota refugees due to the constraints on supply, the large makeup of many refugee families and refugee quota increases. These issues are exacerbated by HNZC's redevelopment programme which requires some capacity to re-locate existing tenants.

9(2)(f)(iv)



9(2)(f)(iv)

Our advice

9(2)(f)(iv)

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Author: 9(2)(a) , Senior Policy Analyst, Housing Policy

Responsible manager: 9(2)(a) , Manager, Housing Policy



Report

Date: 16 February 2018

Security Level: IN CONFIDENCE

To: Hon Phil Twyford, Minister of Housing and Urban Development

Purchasing Strategy for public housing – overview of purpose, proposed content and release of the next iteration

Purpose of the report

- 1 This report provides advice on the Purchasing Strategy for public housing, and seeks your agreement to the proposed messaging to be used with the housing sector in setting their expectations on its release.

Executive summary

- 2 The Purchasing Strategy provides the plan for how Government will secure additional public housing over a four-year period.
- 3 While providers of public housing (both HNZC and CHPs) are the primary intended audience of the document, the information in the document is also used by media and members of the general public.
- 4 MSD was intending to publish the next iteration of the Purchasing Strategy in December 2017, but paused this while wider housing system decisions are made in the Housing and Urban Development Strategic Direction, Priorities and Delivery Approach Cabinet Paper.
- 5 MSD is proposing to line up the next iteration of the Purchasing Strategy with the Budget process, once the target and associated funding of additional houses is confirmed.
- 6 As the Purchasing Strategy is published on an annual basis, the housing sector is seeking an update on the information previously contained in the Purchasing Strategy.
- 7 Officials recommend the following key messages be communicated to the sector:
 - MSD has delayed the release date of the next iteration of the Purchasing Strategy to take into account the change of government and to be more efficient and align to the 2018 Budget process.
 - Our new expectation is that the document will be available for the sector mid-2018.
 - We appreciate the sector's patience with us as we adjust our cycle and acknowledge the sector's need for this information to determine their purchasing and investment decisions that will help more vulnerable New Zealanders into warm, dry and secure housing.

Recommended actions

It is recommended that you:

- 1 **note** that MSD has publically released two versions of the Purchasing Strategy since taking on the role of purchaser
- 2 **note** that once you've set your targets through the Budget process, MSD will do the analysis required to develop the plan to purchase the places, including where the houses are needed based on demand
- 3 **indicate** whether you would like MSD to rename the document, reflecting the recent change away from a competition-based model

Yes / No

- 4 **note** that MSD proposes to publish the next iteration of the Purchasing Strategy, with your approval, after the Budget process
- 5 **agree** that the following key messages can be used by MSD to re-set expectations of the housing sector on the release of the Purchasing Strategy:
 - MSD has delayed the release date of the next iteration of the Purchasing Strategy to take into account the change of government and to be more efficient and align to the 2018 Budget process.
 - Our new expectation is that the document will be available for the sector mid-2018.
 - We appreciate the sector's patience with us as we adjust our cycle and acknowledge the sector's need for this information to determine their purchasing and investment decisions that will help more vulnerable New Zealanders into warm, dry and secure housing.

Agree / Disagree

- 6 **note** that MSD will come back to you with a proposed draft Purchasing Strategy, following Budget decisions.



Scott Gallacher
Deputy Chief Executive, Housing

16/2/18

Date

Hon Phil Twyford
Minister of Housing and Urban Development

Date

Your priorities and vision for the sector

- 8 You have confirmed that your main priority for public housing in the short-term is increasing supply, and that this is likely to continue to be your main priority in the medium term (next 3-5 years).
- 9 You have also confirmed that HNZN will be the dominant public housing provider, sitting alongside a community of other providers.
- 10 You see the key benefits of having multiple providers as being to facilitate diversity of approaches, innovation, and advocacy. The approach is to be one based on partnerships with providers, not competition between providers.

Purpose and scope of the Purchasing Strategy

What is the Purchasing Strategy?

- 11 The Purchasing Strategy outlines the Government's plan to secure additional public housing over the next four years.
- 12 It includes the following information in relation to state/public houses:
 - Information on people in need of public housing;
 - The current number of houses;
 - The number of houses in the pipeline (so providers understand where there are opportunities to increase supply);
 - The number of houses MSD is seeking to secure from either Housing New Zealand Corporation (HNZN) or Community Housing Providers (CHPs) over the next four years – this will reflect decisions to be made relating to the new public housing target and associated manifesto budget bid (draft HUD Cabinet paper refers). The document will describe the number of properties being sought in each Territorial Authority (TA), by the number of bedrooms required (for example, 50 2-bedroom properties in Wellington City); and
 - An overview of the funding subsidies and contractual parameters available to providers to enable them to bring on new supply.

Who is the intended audience of the Purchasing Strategy?

- 13 Providers of public housing (both HNZN and CHPs) are the primary intended audience.
- 14 The information in the document helps providers to make decisions about asset management, development, and investment. It also assists organisations considering becoming CHPs to understand where MSD is seeking additional supply, and what sorts of financial subsidies are available.
- 15 This information will support HNZN to continue to be the dominant player in the market, while also supporting CHPs to continue to grow.

When was the current Purchasing Strategy released?

- 16 The Purchasing Strategy has been published twice since MSD took on the role of purchasing state/public housing – the initial version was released in May 2015 and the second version in December 2016.

9(2)(f)(iv)



Why is it called the 'Purchasing Strategy'?

- 20 In 2015 MSD took on the role of purchaser of state/public housing, as part of the Social Housing Reform Programme. Previously, HNZC had the role of both purchaser and provider of state housing. The term "Purchasing Strategy" reflected this shift.
- 21 However, in essence, the document represents the plan for how Government will secure additional public housing over a four-year period. The document could be renamed to reflect this.

2018 Purchasing Strategy

- 22 MSD intended to publish the next iteration of the Purchasing Strategy in December 2017, but paused this while wider housing system decisions are made through the Housing and Urban Development Strategic Direction, Priorities and Delivery Approach Cabinet Paper.
- 23 MSD proposes to publish the next iteration of the Purchasing Strategy, with your approval, after the Budget process, where the total quantum of funding available, and therefore the number of additional houses that can be signalled in the Purchasing Strategy, will be finalised.
- 24 Following this release, it is proposed that the Purchasing Strategy is updated annually each June. This timing would ensure that it is aligned with the budget process.

What additional material will be included in this release?

- 25 The current Purchasing Strategy is limited to public housing. 9(2)(f)(iv)

Housing sector key messages

- 26 The sector is looking to, and asking after, the next Purchasing Strategy and the information contained within it. Their expectation was that it would be released in December 2017.
- 27 With your approval, at an appropriate time, MSD will send targeted stakeholder communications to let the housing sector know when we now intend to publish the 2018 Purchasing Strategy and re-set the sector's expectations.
- 28 Officials recommend the following key messages:
 - MSD has delayed the release date of the next iteration of the Purchasing Strategy to take into account the change of government and to be more efficient and align to the 2018 Budget process.
 - Our new expectation is that the document will be available for the sector mid-2018.
 - We appreciate the sector's patience with us as we adjust our cycle and acknowledge the sector's need for this information to determine their purchasing

and investment decisions that will help more vulnerable New Zealanders into warm, dry and secure housing.

Appendix A

Social Housing Purchasing Strategy, December 2016 (attached)

File ref: REP/18/1/066

Author: 9(2)(a) [REDACTED], Senior Advisor, Strategic Advisory, Strategic Management and Planning, Housing

Responsible manager: Hayley Hamilton, General Manager, Strategic Management and Planning, Housing

RELEASED UNDER THE
OFFICIAL INFORMATION ACT