

FINDINGS OF A REVIEW INTO THE IMPLEMENTATION OF THE GOVERNMENT'S SOCIAL HOUSING REFORMS

Final Report

Section 9(2)(a) Privacy of Natural Persons

24 December 2015

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Preface

This report has been prepared for the Secretary of the Treasury by Leonie Freeman and Michael Mills.

Leonie Freeman has held senior positions in private and public property contexts, and has a breadth of insight into the New Zealand property sector, having wide experience across most property disciplines, including valuation, property management, development and strategic consulting. Most recently, she was the General Manager Asset Development at Housing New Zealand Corporation (HNZC), responsible for implementing the corporation's large-scale housing development programme. Before that, she was a private sector member of HNZC's Asset Investment Committee, providing a commercial perspective on HNZC's development strategies. She was a strategic property advisor to the Auckland Transition Agency and Project Director of Auckland Council Property Limited's Yard 37 Marine Industrial Precinct development. Between 1998 and 2000, she was a Director of Government Property Services. Leonie was Managing Director of her own company, Interactive Property Management. When she sold the company in April 2007 it had become one of the largest independent property management companies in Auckland, with systems and technology unparalleled in the industry. She is currently head of her own successful property consultancy, Crest Consultancy. Since 2011, she has been a Director of the publicly listed Goodman Property Trust, one of NZX's largest investment entities, with a market capitalisation of over \$1.2 billion.

Michael Mills is an executive director of Martin, Jenkins & Associates Limited (MartinJenkins) with specialist skills and knowledge in public policy review, development and leadership. He has intimate knowledge and first-hand experience of government institutions and processes, and applied knowledge of the relative roles and interests of public and private institutions and entities, based on over 25 years of experience working within and consulting to the public sector. Michael's core public sector experience includes five years in the Department of the Prime Minister and Cabinet, where he advised on matters related to social and health policy reform and the targeting of social assistance, and five years as a policy manager with the then Department of Labour, where he led advice to government on the implementation of full funding and competitive underwriting to the ACC Scheme. Some examples of Michael's work as a consultant with MartinJenkins include his leadership of reviews of the Building Act, the ACC scheme and earthquake prone building policy settings, his analytical leadership for land zoning decisions in Christchurch, and his programme leadership for the work needed to provide for government decisions to allow and provide for Fonterra Dairy Cooperative and the implementation of the Forest Emissions Trading Scheme.

We would like to thank those who have contributed their time and support to this review including Ministers and their staff, officials and external stakeholders. We would especially like to thank Richard Braae for his cooperation and support for the review.

Executive Summary

This report documents the findings of a review into the implementation of the government's social housing reforms. The review was commissioned by the Secretary of the Treasury.

The terms of reference for the review are attached as Appendix 2. They required the reviewers to:

...review the SHRP programme of work to assess whether the processes and decision tools necessary to achieve the Government's commitments, objectives and bottom lines are established or on track to be established

and

...make recommendations on changes or improvements in the SHRP that would support achievement of objectives and bottom lines, in particular meeting the Government's commitment to deliver 65,000 Income Related Rent Subsidy places in 2017.

The reviewers' approach to the review involved them in these activities.

- 1 Familiarising themselves with the Social Housing Reform Programme (SHRP) and its implementation, which they did through their review of relevant documents and interviews with key officials, stakeholders, Ministers and their advisors.
- 2 Identifying issues with the programme's leadership, governance, management and delivery, which they did by comparing current programme management arrangements to a set of baseline expectations.
- 3 Developing and testing with officials a set of proposals to address the identified issues.

Government's objectives and outcomes for social housing

Housing is core to people's lives and contributes materially not only to their individual physical and social well-being but also to how our wider communities function. The issue of housing supply, especially in Auckland, is one of a handful of major domestic challenges facing the country.

Social housing is a subset of housing policy and also an important area of focus in its own right. Government social housing support is primarily targeted at New Zealand's most vulnerable people, whose housing needs are assessed by the Ministry of Social Development (MSD) as being 'significant or severe'.

In order to improve social housing outcomes and to make better use of taxpayer assets, the government has embarked on a major social housing reform. Its outcomes and objectives were articulated by the Prime Minister in his 28 January 2015 State of the Nation speech, in which he also signalled the government's target for growth in the number of income related rent subsidy (IRRS) places by June 2018.

Government's documented objectives for the SHRP include:

- A shift in emphasis from a model whereby the government provides social housing primarily through ownership to one where it purchases services and enables greater consumer choice and diversity
- A larger percentage of social housing delivered by non-government providers

- A less dominant role for the Housing New Zealand Corporation (known as Housing New Zealand or HNZC)
- A level playing field between HNZC and non-government providers, with the needs assessment and allocation functions being handled by an independent agency and providing a more integrated approach to a household's needs - the comprehensive needs assessment moved away from Housing New Zealand to MSD on 14 April 2014.

If successful, the SHRP will result in the following outcomes, also agreed to by government:

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

Baseline expectation for leadership, governance and management of the SHRP

The SHRP is a large scale and complex reform. At its core is a fundamental shift in government's role from being a monopoly owner and provider of social housing to being a purchaser of social housing from a market of competing Community Housing Providers (CHPs) and Housing New Zealand (HNZC).

Achieving successful implementation requires officials from across four government agencies¹ to work together and through non-government and commercial entities to develop and implement new approaches to delivering social housing. It also requires officials to work with local councils and regulators, and through commercial investors and residential developers to make better use of surplus and under-utilised Crown and HNZC land, in order to increase the overall housing supply, especially in Auckland.

Successful implementation requires:

- **On the people or 'demand' side**, establishing MSD as an *intelligent purchaser* of social housing that stands in the market clearly signalling its requirements and bottom lines to CHPs and HNZC.
- **On the housing or 'supply' side**, increasing the overall supply of housing, particularly in Auckland, by facilitating the development and redevelopment of surplus Crown and under-utilised HNZC lands.
- **On the establishment of a social housing market**, establishing a sustainable social housing market through the growth of a social housing sector that competes with HNZC to better and more efficiently meet the needs of those in need of social housing.

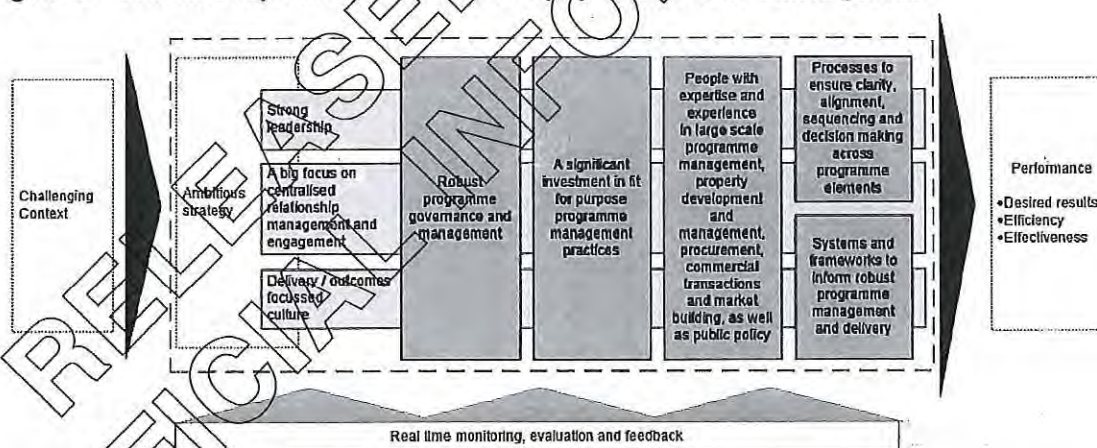
The context for implementation is challenging. Important contextual elements include:

¹ Ministry of Social Development (MSD), Ministry of Business, Innovation and Employment (MBIE), Treasury and Housing New Zealand Corporation (HNZC)

- *The political context* – The provision of housing generally, and affordable and social housing in particular, are high profile public policy and political branding issues.
- *The Auckland context* – Government is seeking to increase supply of social housing through the establishment of new providers in a market in which demand for all housing types is exceeding supply.
- *The residential development context* – Government is primarily seeking to increase social housing supply through building new houses, so as not to exacerbate supply side issues. New houses take time to build and are reliant upon the participation of private capital, developers and builders.
- *The community housing sector context* – Which, despite enthusiasm from CHRs to be involved, is currently relatively small and will take time to build scale, balance sheet strength and the capacity and capabilities needed to effectively provide and manage substantial social housing portfolios.
- *The legacy issues context* – HNZN has a significant portfolio of 67,500 properties, some of which are in the wrong locations or of the wrong size and configuration.
- *The short- versus long-term context* – In which there is a need to balance the implications and trade-offs of achieving short-term objectives, such as the 65,000 IRRS places by June 2018, against the implications for longer term objectives such as the reconfiguration of HNZN's social housing portfolio.

Our baseline expectations for the SHRP's leadership, governance and management are summarised in Figure 1.

Figure 1: Baseline expectations for leadership, governance and management



Our baseline expectations are high because of the nature of SHRP, its importance for government policy outcomes, and the challenging context in which it is being implemented. Our 'baseline' expectations included:

- *Strong leadership and clear accountability for programme implementation*
- *Centrally coordinated sector engagement and communications*
- *A culture focussed on programme delivery and outcomes*
- *Robust programme governance*

- *Fit-for-purpose programme management*
- *People with capabilities in large-scale programme delivery, property strategy and residential property development*
- *Fit-for-purpose processes to ensure clarity, alignment, appropriate sequencing and decision making as well as understanding the impact of trade-offs across all SHRP elements*
- *Frameworks to support programme management and delivery including clear and agreed core principles to guide programme management, implementation, decision making and trade-offs across work streams.*

Our findings and issues encountered

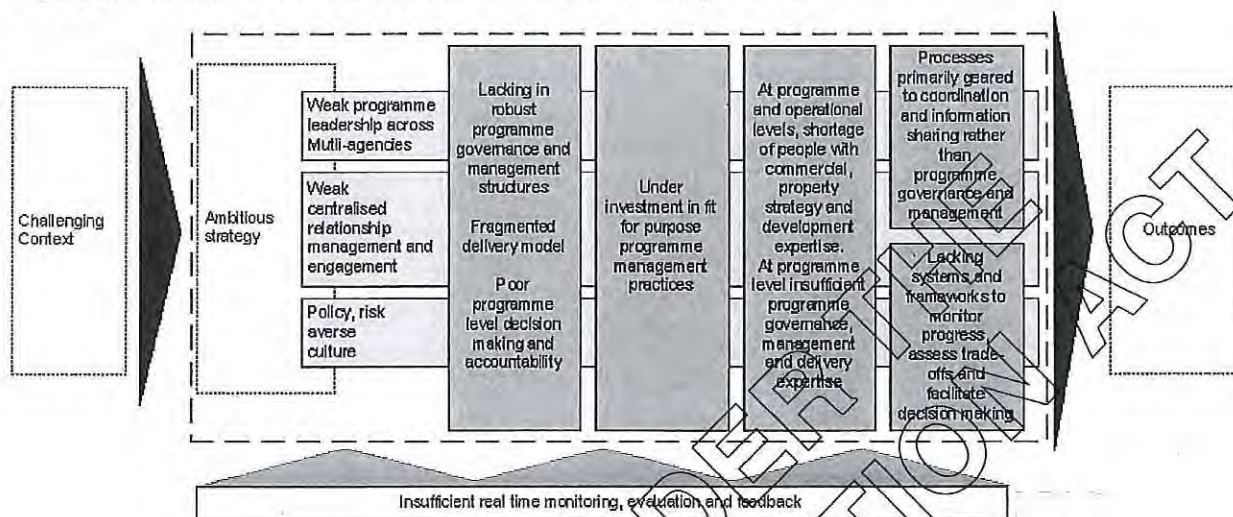
Against our baseline expectations we identified concerns with SHRP's overall leadership and governance. We found that while there is a high degree of understanding of and commitment to the SHRP's objectives across officials, there are also areas of major weakness with the approach that has been taken to SHRP's overall governance and management.

On the positive side we found that:

- there is strong support from all agencies and external stakeholders for the SHRP outcomes – especially the 65,000 IRRS target, but less clarity as to the relative weight that should be accorded particular objectives
- there are many people across all the four agencies fully committed, engaged, enthusiastic and working hard to make this programme a success
- many elements of the required work are in place or in development
- there are areas of good governance and project management practices - these were particularly evident when we focused on specific work streams
- there has been a recent effort to put in place some of the foundations needed for an appropriately robust approach to programme governance and management
- there is strong Ministerial interest
- there has been definite progress made in all aspects of SHRP in a challenging environment and there are strategies in place across agencies to deliver on outcomes and objectives.

Our general concerns are summarised in Figure 2.

Figure 2: Concerns with SHRP's overall leadership and governance



At a general programme level, our concerns include:

- *Weak programme-level leadership.* There is no single person or agency with clear accountability for overall programme leadership (as opposed to programme coordination).
- *Inadequate programme governance.* The current approach appears to be predominantly about information sharing and coordination across agencies rather than robust programme governance.
- *Insufficient, though improving, programme management practices.* Particular areas of under-investment include:
 - Overall programme planning, risk management, and overarching stakeholder engagement and communications
 - Programme-level reporting has yet to be developed. There is no comprehensive set of programme KPIs or milestones, programme dashboard or regular reports to Ministers on overall programme progress.
- *A fragmented delivery model,* especially in Auckland land development strategy, which is resulting in uncertainty for market participants with tangible risks to the speed with which new housing will be provided on Crown and HNZZ owned lands.
- *The need for enhanced programme-level relationship management and communications.* There is insufficient programme-level stakeholder engagement or communications. External stakeholders – CHPs, developers, and other key groups all pointed to a lack of alignment with regard to the messaging directed at the market.
- *A programme implementation culture that has been weighted to a focus on 'policy' rather than programme management and delivery.*

- *The programme is under-weight in some important areas of expertise.* Particular skills and capabilities that are under-weight include:
 - At programme level, people with experience in large-scale programme leadership, governance and delivery as well as property strategy
 - At project or work stream levels, we did not always find sufficient strategic property, development and commercial expertise to adequately inform policy and delivery strategies and outcomes.
- *We found some areas under-resourced.* An example is in MSD. A critical cornerstone for the success of SHRP is for MSD to become an 'intelligent purchaser'. The underpinning of this is the purchasing strategy and a delineation of what is required not just in terms of social housing but in terms of additional wrap-around support services. This has been a new and evolving role for MSD and significant progress has been made to date. We believe additional resource, however, is needed for MSD to get to the position where it has the capability and capacity that it needs to effectively 'drive' the newly established social housing market.
- *Inadequate programme-level frameworks.* We did not find evidence, at a programme level, of the frameworks needed nor of their application to assist in providing clarity of direction across agencies and in making critical programme-level decisions regarding the sequencing, alignment and resourcing of programme components and trade-offs across programme objectives and work streams. Missing were:
 - Key frameworks or core principles – needed to provide a programme-level view of how objectives, work streams and proposals interact
 - Programme-level criteria to evaluate the priority and importance of proposals across work streams and to manage interdependencies and trade-offs
 - A programme-level articulation of what success looks like as a basis for a set of comprehensive KPIs and milestones to guide and monitor progress
 - An associated accountable framework for KPIs and milestones.
- *Real time monitoring and evaluation needs to be implemented.* While an evaluation framework has been developed this has not yet been translated into programme-level KPIs and milestones, which are needed to focus and monitor overall implementation progress and outcomes. We found monitoring and reporting at programme level to be inadequate for a programme of the SHRP's importance, complexity and size, making it difficult to know with confidence whether it is on track.

At a work stream level, we had specific concerns related to several areas of the programme, and in particular:

- *The delivery of 65,000 IRRS places by June 2018.* This project has been designated as Critical Risk by the DCE Governance Group. There is no robust plan to achieve the 65,000 places and there are data and recording issues in monitoring progress to target.
- *Fragmented approaches to land development in Auckland.* Currently Treasury, MSD, MBIE and HNZC are all involved in a variety of initiatives that aim to bring under-utilised land into residential development with the objectives of increasing overall housing supply, of which proportions will be earmarked for affordable and social housing. Lacking is an overall plan, to coordinate and align strategies across agencies and to provide needed clarity and certainty to commercial and other stakeholders to enable them to effectively participate.

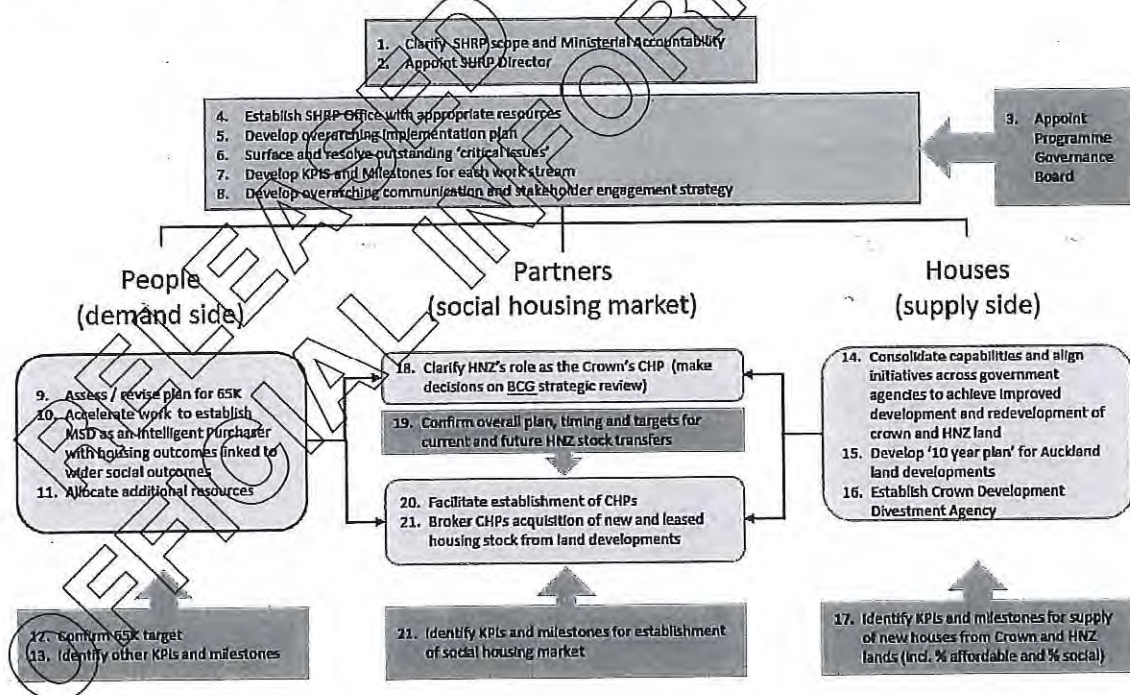
- *The need to more quickly establish MSD as an intelligent and assertive purchaser of social housing places.* Key to the overall reform is establishing MSD's purchase role and capability including its approach to purchasing, contracting and market shaping. Relative to other work streams, this stream needs to be prioritised, and more resources allocated to it in order to more quickly establish MSD in its new purchaser role to provide increased certainty for market participants.
- *Progress in clarifying HNZC's role in the new community housing market.* Decisions are yet to be taken on the Boston Consulting Group review of HNZC's ongoing role and structure. These decisions are critical to the development and long-run dynamics of the community housing market.

Our proposals

Our proposals are based on our view that the SHRP is a programme of related 'work stream' components across agencies, and that stronger overarching leadership and more robust and disciplined programme governance and management is needed to provide confidence that desired programme-level objectives and outcomes will be realised.

Figure 3 provides an overview of our proposals and the outcomes that we are aiming to achieve.

Figure 3: Overview of proposals and intended outcomes



In summary, our proposals aim to:

1. *Strengthen programme leadership, governance and management by:*
 - a. clarifying accountability for programme delivery

- b strengthening programme leadership
 - c introducing more robust programme governance, whole of programme planning and strategic analysis
 - d improving whole-of-programme advice and scrutiny
 - e better resourcing programme management and reporting.
- 2 *On the demand side, more quickly establish MSD as an intelligent, capable and assertive purchaser of social housing by:*
- a providing additional resources to build capability and accelerate work to establish MSD as an intelligent purchaser of social housing
 - b accelerating work to align MSD's purchase of social housing to its wider purchase of services needed to improve outcomes for its clients
 - c clarifying MSD's role in and introducing a more robust approach to achieving the target of 65,000 Income Related Rent Subsidy places by June 2018.
- 3 *On the supply side, better manage the development of surplus and under-utilised HNZC lands in Auckland and other areas where additional housing supply may be required, by:*
- a consolidating the capabilities and aligning initiatives across government agencies to achieve improved development and redevelopment of Crown and HNZC land. This includes, over the short term, transferring the responsibility to develop the strategic plan for large scale redevelopments on HNZC land to HNZC.
 - b developing a 10-year plan and KPIs for new houses from Crown and HNZC owned lands - this includes specifying the requirement for affordable and social houses on mixed tenure developments as well as reconfiguring the HNZC portfolio
 - c over the medium term, transferring capabilities from across government and HNZC into a new specialist residential development and divestment entity.
- 4 *On the market provision of social housing, create the conditions necessary for a dynamic and sustainable social housing market, by*
- a clarifying HNZC's role as the 'Crown's CHP' including decisions on the future location of existing HNZC land and property development functions
 - b completing the stock transfers with the HNZC portfolio moving from 67,500 to 60,000 by June 2017
 - c facilitating the entry of non-Crown CHPs including providing a facilitation/brokerage role for CHPs' acquisition of additional social housing places from new developments on surplus Crown or non-Crown lands
 - d developing KPIs for establishment of a sustainable and contestable CHP market.

Implementing our proposals

Our proposed programme office and associated programme governance and management arrangements are intended to have a finite life.

By the end of 2018 the programme office should have completed its work. By this time, we would expect to see:

- any residual and ongoing programme-level strategic policy, communications and stakeholder engagement, monitoring and advisory functions permanently embedded in MSD
- MSD operating as the lead agency and driving force for the ongoing implementation and delivery of the SHRP
- MSD operating as an assertive and intelligent purchaser of social housing from competing CHPs and HNZN
- HNZN operating as a competitively neutral Crown-owned CHP
- a dynamic and growing market of Community Housing Providers
- a new Crown-owned residential development and divestment agency providing strategic leadership for the residential development and redevelopment of surplus and under-utilised Crown and HNZN owned land in Auckland and elsewhere and the divestment of surplus HNZN assets
- the initial transfer of HNZN assets to CHPs to have been completed, and the Treasury to now be focused on:
 - ownership monitoring of HNZN and the new development and divestment agency
 - business-as-usual Vote analysis and advice
- MBIE focused on its core roles in regulating the operation of the residential tenancy and CHP markets.

Our recommendations

To strengthen programme leadership and management

- 1 Agree to establish a Social Housing Programme Office, suitably resourced and accountable to a lead Minister/s for overarching programme management and delivery. Key functions and responsibilities of this office would include those necessary to:
 - a Support overall programme leadership, governance and advice
 - b Develop and maintain an overall programme plan including short and longer term KPIs and milestones
 - c Monitor and report to Ministers on overall programme delivery
 - d Surface and work with agencies, stakeholders and Ministers to resolve programme-level issues and trade-offs across work streams critical to SHRP's successful implementation and delivery
 - e Ensure that there is consistency of approach across agencies when dealing with CHPs, institutional investors, developers and builders
 - f Develop, maintain and provide operational support for overarching communication and stakeholder engagement
 - g Establish a residential development and divestment agency to lead development and implementation of a whole-of-government strategy to drive future:
 - i residential developments on Crown and HNZN lands

- ii large-scale divestments of HNZC assets.
- 2 Note that the office could either be established: (a) within an existing department with accountability through that department's chief executive to a lead Minister/s; or (b) as a hosted departmental agency whereby the office would be hosted by an existing agency but headed by its own chief executive directly accountable to a lead Minister/s.
- 3 Agree to establish the office within MSD on the basis that the Ministry will assume long-term responsibility for policy and purchase of social housing services.
- 4 Agree that the scope of the Social Housing programme office's mandate include supply side and affordable housing initiatives as well as those directly related to the purchase and provision of social housing, on the basis that social housing and wider housing supply and affordability initiatives are closely related and should not be separated.
- 5 Agree on the need to appoint a credible person to head the office and lead implementation of the SHRP, and that being a person who:
 - a Through their past experience and achievements has high credibility and respect with Ministers, senior officials, external stakeholders and market participants
 - b Has skills and experience and proven success in large-scale programme management and / or policy implementation and delivery
 - c Has skills and experience in most or all of the following:
 - i Strategic thinking and problem solving, preferably in a property or asset management context
 - ii Proven track record of transformational change and being able to deliver on complex outcomes
 - iii A good understanding of government
 - iv Governance experience
 - v Property development expertise
 - vi Leadership skills and the ability to build strong outcome-focused cultures and teams.
- 6 Agree to the establishment of a small board of appropriately experienced and skilled persons to provide programme governance advice and assurance to the director or chief executive of the Social Housing Programme Office

To improve the 'people' or demand side of the social housing programme

- 7 Agree on the need to accelerate work to establish MSD as an intelligent and assertive purchaser of social housing with housing outcomes linked to wider social outcomes, and undertake a review to:
 - a clearly articulate what an intelligent social housing purchaser role and functions look like and entail
 - b determine the functions, frameworks, capabilities, capacity and resources that MSD needs to effectively perform the role of an intelligent purchaser of social housing and to determine from its current position what is required to build this capability by 2017

- c advise on the adequacy of its current resourcing with a view to bidding for additional resources if needed, including consideration of:
- i the need for a designated Project Director for the IRRS Target 65,000
 - ii the composition of a project steering group to support this stream of work
 - iii the adequacy of input from the private property sector to guarantee the clearest possible understanding of the ramifications of the policy and contracting frameworks in the marketplace before it is released
 - iv the need for additional resource to be allocated to ensure the completion of the purchasing strategy as a comprehensive document covering both social housing and other support services is expedited
 - v the adequacy of resources to review HNZN tenancies to ensure targets can be achieved.
- 8 Invite MSD, on the basis of the above review to develop a comprehensive 5-year plan and strategy for its purchase of social housing places, to a level of detail that can be relied upon by CHPs and their partners and HNZN for their planning, capital raising and management of their development pipelines and business strategies. In developing the plan MSD should seek sector input to ensure its practicality.
- 9 Invite MSD to undertake a strategic assessment of the IRRS 65,000 target which includes work stream structure, reporting, project governance, current status, options underway, alternative options, financials, prioritisation of key objectives, and key stakeholder communication, and on the basis of this to:
- a implement comprehensive reporting on delivery targets that clearly links the pipeline options from the 'bottom up'
 - b evaluate, prioritise and communicate the trade-offs of the shorter term IRRS Target 65,000 objectives versus the longer term objectives
 - c clearly articulate what success looks like
 - d develop a detailed plan to achieve the IRRS 65,000 target with clear milestones, accountabilities and reporting frameworks.
- 10 Invite MSD to advise on other KPIs and milestones necessary to focus and monitor demand side performance.

To improve the 'homes' or supply side for social housing

Over the short term

- 11 Agree to consolidate capabilities and align initiatives across government agencies to achieve improved development and redevelopment of Crown and HNZN land, and:
 - a across the various government agencies involved in supply side initiatives, appoint a designated Project Director for the proposed housing supply work stream
 - b review options for a project steering group for this work stream
 - c undertake a shortened strategic assessment report identifying all the issues, interdependencies and trade-offs and make clear decisions based on desired outcomes and priorities including financials
 - d co-ordinate the reporting of all current activities, identify KPIs for supply of new houses from Crown and HNZN lands, and implement reporting at different levels of detail, based on the framework identified
 - e for Auckland undertake a stocktake of all developments currently underway or in the pipeline with estimated dates of delivery
 - f develop robust reporting on timeframes for development delivery, noting clearly the various stages of the pipeline process. Once in delivery the reporting to include budgeted versus actual key milestones
 - g clarify key areas of responsibility and stakeholder management with entities such as Auckland Council and the private sector so government presents a consistent front
 - h identify and resolve any barriers to creating momentum that currently exist
 - i consider options to engender greater interest from the development community – for example centralise the development panels so if one company is on a panel for one government agency, this panel can be used by all agencies without organisations having to continually submit.
- 12 Direct the project director in 1c above to lead work to:
 - a evaluate and agree the role government wants to have in catalysing new housing supply
 - b evaluate and agree the financial parameters upon which the government wishes to operate in the market – balancing out on one hand the desire for a financial return with the risk of development and on the other hand achieving the social outcomes it requires
 - c evaluate and agree the options available for development models and establish agreed parameters as to how this may work
 - d determine the appropriate structure and entity for the development outcomes desired
 - e as part of the strategic framework report investigate the appropriateness of whether government can play a greater leadership role in increasing momentum in the Auckland housing supply - a possible example of a framework is the concept of "Collective Impact" which involves the common theme that large-scale social change comes from better cross-sector co-ordination rather than from the isolated intervention of individual organisations

- 13 Agree to develop a 10-year plan for Auckland land developments for both HNZN and Crown land with a focus on how to create momentum in housing supply, balancing core financial, risk and social outcomes, as a matter of urgency
- 14 Agree to transfer the responsibility of developing the large-scale development strategy in Auckland from Treasury to HNZN after Treasury has presented the Cabinet paper and obtained agreement on government priorities in February 2016
- 15 Agree to establish a Crown development / divestment agency to lead future residential development and HNZN divestments, to be operational in 2018.

To assist in establishing a social housing market

- 16 Agree, as a matter of urgency, to clarify HNZN's role as the Crown's CHP and complete the strategic review on its long-term functions and structure.
- 17 Agree to commission a strategic assessment outlining further options to grow the non-government CHP market including consideration of:
 - a desired outcomes, objectives and bottom lines
 - b method / approach for assessing the net Crown balance sheet and related operational impact as well as the fiscal impacts of HNZN asset transfers over 25 years
 - c feasibility from a CHP perspective.
- 18 Agree to include a property expert who has experience in large-scale New Zealand property portfolio transactions as an additional resource to the Property Steering Group.
- 19 Agree, in order to facilitate the establishment of a viable social housing market to:
 - a incorporate into the proposed social housing work stream all initiatives, in addition to current HNZN asset transfers, that are necessary to establish and grow the CHP sector's capacity and capability, this includes work by MSD to broker/facilitate CHPs acquisition of new builds
 - b ensure alignment of MSD and HNZN approaches and strategy to working with the developers to purchase housing on non-government land to ensure agencies are not bidding against each other
 - c review HNZN's current involvement in expanding its leasing programme to ensure consistency of approach - the current HNZN parameters are to pay market rent as opposed to the MSD leasing programme which can be above market rent for new supply in the Auckland market.
 - d investigate and undertake a strategic assessment of other options to create a social housing market.
- 20 Identify KPIs for establishment of contestable CHPs market.

Introduction

This report documents the findings and recommendations of a review into the implementation of the government's social housing reforms.

The review was undertaken by Leonie Freeman and Michael Mills for the Secretary of the Treasury between 1 November and 24 December 2015.

The terms of reference for the review are attached as Appendix 2. They required us to:

...review the SHRP programme of work to assess whether the processes and decision tools necessary to achieve the Government's commitments, objectives and bottom lines are established or on track to be established

and

...make recommendations on changes or improvements in the SHRP that would support achievement of objectives and bottom lines, in particular meeting the Government's commitment to deliver 65,000 Income Related Rent Subsidy places in 2017.

In undertaking the review we were also required to consider:

- 1 The clarity with which commitments, objectives and bottom lines are understood.
- 2 Whether there is a clear allocation of decision rights across the SHRP, including between Ministers, between Ministers and agencies, between agencies, and within agencies.
- 3 Whether there is the governance, systems, processes and resources necessary for coordination across departments (where coordination includes consistency in decision making and identification of sales or procurement opportunities across silos that are most aligned with the commitments, objectives and bottom lines).
- 4 Whether there is the ability to analyse fiscal and commercial trade-offs in reaching the 65,000 target.
- 5 Whether decision makers are receiving information and advice they need to support their decision making in pursuit of SHRP objectives, and if they are not what changes are needed:
 - a Ability of the system to work backwards from delivery of housing so that officials understand when decisions need to be made (milestones), and that they can be held to account for timely decisions
 - b Whether reported pipelines of social housing places to be delivered over the next 3 years, including from HNZC, are realistic, and what modifications to reported pipelines are needed to provide a 'best estimate' of actual future social housing places
 - c Whether agencies have access to the skill sets needed to deliver on the objectives
 - d Whether agencies have a framework, and the tools and skill sets, necessary to be able to consistently evaluate different opportunities (including large-scale unsolicited offers) against the government's objectives, and to make decisions on which opportunities to proceed with in a coordinated and timely way.
- 6 Whether there are governance, systems, or process overheads which do not add value and what action is required to appropriately deal with it.

- 7 Willingness and ability of the system to receive, understand and, if appropriate, act on innovation in any aspect of social housing delivery including provision of mobility or wraparound services.
- 8 Whether officials are effectively communicating with (actual or potential) Community Housing Providers, developers, financiers – in particular using language and providing information that is most relevant to those potential market participants.
- 9 Whether officials recognise and are protecting the opportunity for patient capital and entrepreneurs who recognise and can incorporate expected future capital gains into willingness to pay.
- 10 Whether an appropriate balance between probity, timely delivery of outcomes and access to innovation in service delivery has been found.

Out of scope for the review were government policy and objectives. All areas of the SHRP were in scope, except for the following (unless these elements directly influence in-scope areas of the SHRP):

- Tāmaki Redevelopment Company
- HNZN business as usual small scale development and divestments
- MSD management of the social housing register (waitlist)
- Provision of mobility products or wraparound services currently provided by the public service
- MBIE Crown land development programme
- Registration and regulation of Community Housing Providers by MBIE
- Communication with tenants and the wider public.

In practice, we found it important to consider initiatives related to increasing housing supply, especially in Auckland, because of the close relationship of these initiatives to matters related to implementation of the SHRP.

A summary of our findings against each of the requirements of the Terms of Reference is included in Appendix 3.

Our approach to the review

Our approach to the review involved us in:

- 1 Familiarising ourselves with the SHRP, its context and the approach taken by officials to its implementation. We achieved this through our:
 - a Review and consideration of papers describing the underpinning policy parameters, objectives and outcomes for the SHRP
 - b Review and consideration of programme documents and reports – a full list of documents sighted is attached as Appendix 4
 - c Interviews with key officials, ministerial advisers and Ministers and external stakeholder representatives – a full list of persons interviewed is attached as Appendix 5.
- 2 Drawing on our combined experiences of large reviews in social housing and residential development and projects plus government's learnings from the Gateway review process, to

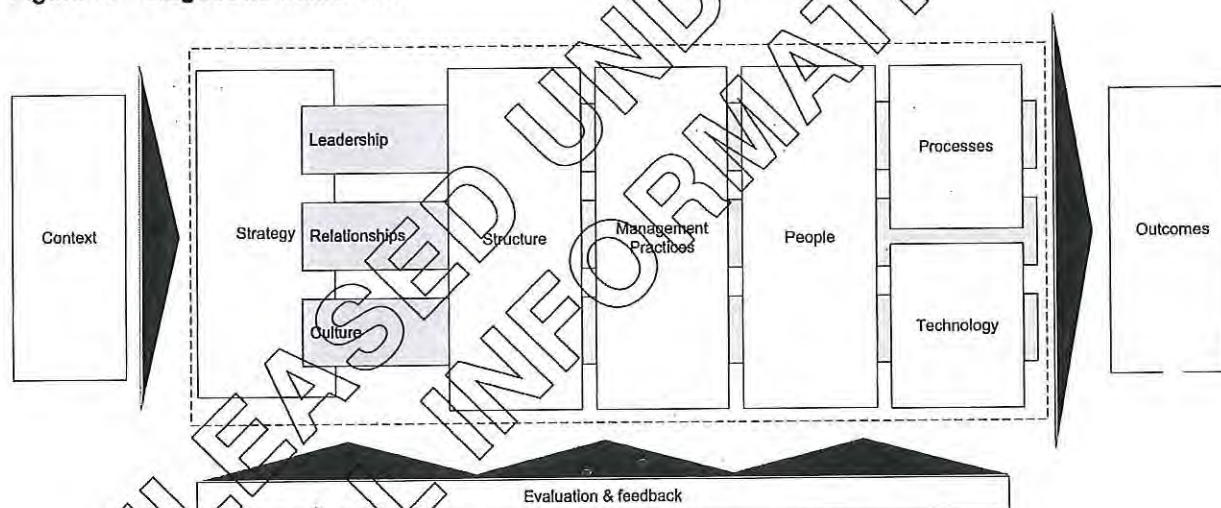
consider the types of governance, management structures, processes, systems and culture that one would expect to be associated with the implementation of the SHRP.

- 3 Identifying, against our expectations, issues of governance, management and delivery impacting the SHRP's implementation as a basis for our development of options and recommendations.
- 4 Testing our diagnosis of issues and proposed solutions with senior government officials as a basis for our finalisation of our conclusions and recommendations.
- 5 Finalising our proposals, including our consideration of feedback from officials, as a basis for our reporting of our findings and proposals.

Diagnostic framework

We used the following diagnostic framework developed by Martin Jenkins to guide our inquiries into the adequacy of SHRP's implementation.

Figure 4: Diagnostic framework



In the first instance we sought to understand the government's outcomes for social housing, the strategies that are being pursued by officials to achieve these outcomes, and the context within which the SHRP is being implemented.

On the basis of this understanding we developed a set of 'baseline' expectations for the SHRP's leadership, governance, management and delivery, which we discuss in Part 1 of this report.

Against these baseline expectations, we assessed the adequacy of the SHRP's leadership, governance, management and delivery. Our initial findings and conclusions were subsequently tested with officials prior to us finalising them and developing our recommendations. These findings are discussed in Part 2 of this report.

Our overall conclusions and proposals to address the issues that we found with the SHRP's implementation are discussed in Part 3 of this report.

Part 1: Baseline expectations for the Social Housing Reform Programme

Housing is at the core of people's lives and contributes materially not only to their individual physical and social well-being but also to how our wider communities function.

The issue of Housing supply, especially in Auckland, is one of a handful of major domestic challenges facing the country. Because of this, housing policy is a subject that commands considerable media, political and public attention.

Social housing is a subset of housing policy. It is also an important area of focus in its own right. Government social housing support is primarily targeted at New Zealand's most vulnerable people whose housing needs are assessed as being 'significant or severe'.

The extent to which provision of social housing has become an issue for government is closely related to current and future housing trends including insufficient supply of housing in some markets, especially Auckland, and changing family composition and demographic profiles that require different housing solutions.

One of the key objectives of government is to improve the overall social housing outcomes. Also to make better use of taxpayer assets by implementing an approach to social housing provision based on creating a long-term focused, efficient, transparent and cost-effective delivery model for providing housing support to those most in need. One of the key strategies for achieving this is the creation of a market for social housing to encourage investment in social housing by non-government entities.

The fundamental blueprint for the government's SHRP was formulated by the Housing Shareholders Advisory Group report – "Home and Housed: A Vision for Social Housing in New Zealand" on 6 August 2010. The overarching vision was articulated as follows:

We envision a future in which the public, private, non-government sectors and iwi all work in concert to ensure that every New Zealander has decent, affordable housing. It is a future where help for people with the highest level of need goes hand in hand with opportunity for those who are ready to move on. It is a future in which all providers of social housing play to their natural strengths, concentrating on the core activities that they do best.

Following from this the 2012 Cabinet paper – Delivering Social Housing Reform – identified some key objectives including:

- A shift in emphasis from a model whereby the government provides social housing primarily through ownership to one where it purchases services and enables greater consumer choice and diversity.
- A larger percentage of social housing delivered by non-government providers.
- A less dominant role for Housing New Zealand.
- A level playing field between HNZC and non-government providers with the needs assessment and allocation functions being handled by an independent agency and providing a more integrated approach to a household's needs. The comprehensive needs assessment moved away from Housing New Zealand to MSD on 14 April 2014.

The government's key objectives for the SHRP were further articulated in a set of three Cabinet papers considered by Ministers in December 2014² – Delivering Social Housing Reform. These make clear that the SHRP aims to increase the overall supply and responsiveness of social housing to the needs of social housing customers through an increased role for community housing providers (CHPs). The expected outcomes are:

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

In addition, the government established the following bottom lines for implementation of the SHRP:

- 1 Tenants in properties that are sold will continue to be housed for the duration of their need.
- 2 Properties will be sold only if this results in better services for tenants and fair and reasonable value for taxpayers.
- 3 Housing New Zealand and community housing providers will collectively provide more social housing places in New Zealand than there are now – particularly in Auckland and Christchurch.
- 4 The government will spend more on IRRS and ensure HNZC has enough capital to build new social housing and redevelop its existing properties.
- 5 HNZC will continue to be by far the biggest owner of social housing and by 2017 Housing New Zealand will provide around 60,000 properties.

The government's outcomes and objectives for housing and social housing were articulated in the Prime Minister's 28 January 2015 State of the Nation speech. In that speech the Prime Minister also signalled the government's target for growth in the number of income related rent subsidy (IRRS) places by June 2018.

We are going to ensure that more people get into social housing over the next three years, whether that is run by Housing New Zealand or a community provider.

The social housing budget provides for around 62,000 income-related rent subsidies a year.

We are committed to increasing that to around 65,000 subsidies by 2017/18, which will cost an extra \$40 million a year.

In particular, there will be an increase in social housing in Auckland and increase in Christchurch.

² A clear articulation of the SHRP and of the Government's desired outcomes and objectives is provided in a series of three papers that were reported to Cabinet in December 2014. These were titled:

- Social Housing Reform Programme Overview Paper 1
- Social Housing Reform Programme – Initial Steps and Future state for purchasing social housing places for clients – Paper 2
- Social Housing Reform Programme – Redevelopment of Social Housing and Engagement with the Community Housing Sector and Iwi/Māori – Paper 3

A complex reform

The SHRP is a large scale complex reform.

At its core is a fundamental shift in the government's role from being the monopoly owner and provider of social housing to being a purchaser of social housing from a market of competing CHPs and Housing New Zealand Corporation (HNZC). It also requires government to more closely align its purchase of social housing support to its purchase of other social supports in order to achieve better outcomes for those most socially disadvantaged and most at risk of long-term welfare dependency.

Successful implementation of SHRP requires officials from across four government agencies³ to work together and through non-government and commercial entities to develop and implement new approaches to delivering social housing. It also requires government agencies to work with local councils and commercial residential developers to make better use of surplus Crown lands and under-utilised HNZC estates in order to increase overall housing supply, some of which might be purchased or leased by CHPS or HNZC as social housing.

Successful implementation requires:

- **On the people or 'demand' side**, establishing MSD as an intelligent purchaser of social housing Income Related Rent Subsidy places and connecting this to related strategies and government's purchase of other services in order to increase the independence of current and future welfare clients. That is, a purchaser able to authoritatively forecast demand for social housing places and to stand assertively in the market clearly signalling its requirements and bottom lines to HNZC and other Community Housing Providers. Achieving this is FUNDAMENTAL to the success of the reform programme.
- **On the housing or 'supply' side**, increasing the overall supply of homes, particularly in Auckland, by facilitating the residential development and redevelopment of surplus Crown and under-utilised HNZC owned lands – a proportion of which will be earmarked for social and affordable housing purposes as well as working with investors, developers and the CHPs to grow the overall supply of social housing providers and homes.
- **On the establishment of a social housing market**, establishing a sustainable social housing market through the growth of a competitive community housing sector. On the one hand this requires government to facilitate the establishment and growth of a competitive market of non-government social housing providers from a relatively immature base⁴. On the other hand it requires government to clarify the role of HNZC in this market as a Crown-owned community housing provider. How this is done, including the extent to which competitive neutrality can be achieved between non-government CHPS and HNZC will impact the overall effectiveness and efficiency of the market.

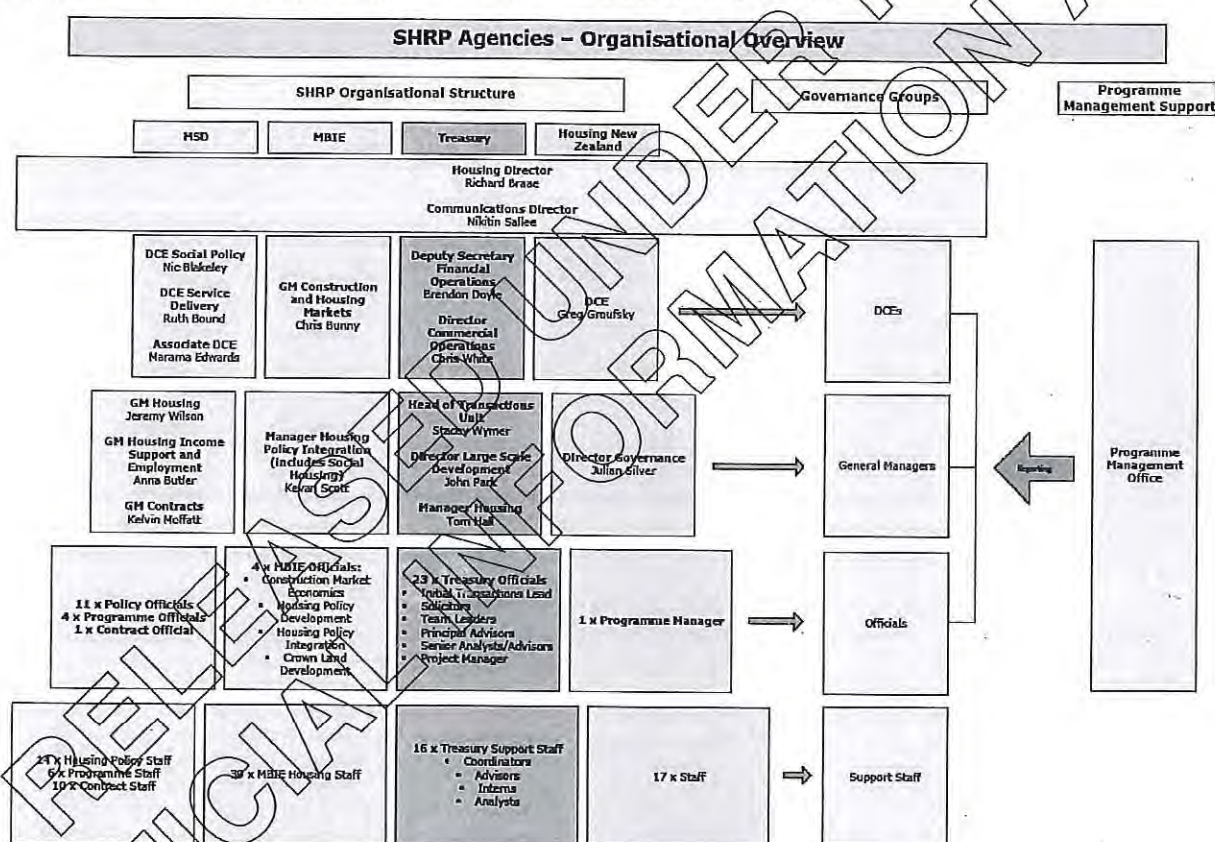
³ Ministry of Social Development (MSD), Ministry of Business, Innovation and Employment (MBIE), Treasury and Housing New Zealand Corporation (HNZC)

⁴ Currently there are few significant CHPs in New Zealand with the capacity, capability or balance sheet to own and manage significant property portfolios, so this will take time to develop and longer to operate at scale.

Officials' current approach to implementation

Official's current approach to implementation and its resourcing across agencies is shown in Figure 5. This chart was prepared for us by the Programme Coordinator to describe the current allocation of SHRP dedicated resources across MSD, the Treasury, MBIE and HNZN. The current programme management office is resourced by one FTE and two PTEs, who primarily act as a programme coordinator and secretariat to a Deputy Chief Executive governance group and a General Managers operations group – which is primarily focused on day-to-day coordination of SHRP. The current programme plan is attached as Appendix 6.

Figure 5: Allocation of SHRP dedicated resources across the four agencies⁵



A challenging context

The context for implementation is challenging. The SHRP programme is a large and complex programme. It is large scale in terms of the number of transactions required, the magnitude of investments involved from government and the non-government and private sectors, and the potential

⁵ Note that the HNZN Programme Manager is supported by 2.5 FTEs

fiscal impacts for government. Fiscal and other risks are significant, in part because the market price for social housing is still being discovered.

In addition to the complex role shift and institutional arrangements associated with the Reform's implementation, the context in which it is being implemented is challenging.

Important contextual elements include:

- *The political context* – The provision of housing generally, and affordable and social housing in particular, are high profile public policy issues. Social housing provision is an important political branding issue for government. Many of those we spoke to ranked social and affordable housing as one of the government's top five issues and potentially the Number One issue for the next general election. It is clear that expectations and pressure to deliver are high. The challenge in this context is to get implementation right, so as not to compromise desired outcomes through poor implementation attributable to haste
- *The Auckland context* – Government is seeking to increase supply of social housing through the establishment of new community housing providers in a market in which demand for all housing types is greatly exceeding supply. This is dictating some difficult judgments on
 - how best to increase the supply of social housing,
 - the cost that government is prepared to pay for additional social housing places as well as facilitating an increased supply of affordable housing,
 - the relationship between general housing and affordable and social supply,
 - and in particular the relative priority that should be given to initiatives to increase the supply of general as against social housing
- *The residential development context* – Because of overall supply side constraints and more general concerns for housing affordability, government is primarily seeking to increase social housing supply through building new housing, so as not exacerbate supply side issues. Development of new housing, however, takes time. And relying narrowly on new supply to meet the short-term targets for IRRS places is challenging. The total elapsed time from initial planning to the availability of a new home even for small scale 10 – 15 unit developments can be two years or longer, with a multitude of factors that can extend this time frame. In addition, initiatives to increase supply can be (and frequently are) constrained by a number of factors including –
 - Development pipelines and having sufficient 'developable' land ready to go⁶
 - The market's capacity and its ability to react with confidence to scale up and undertake development and build projects deemed necessary
 - Whilst there are large tracts of HNZC land in areas such as Auckland there is also a need to house existing tenants – so added pressure is created when existing houses are demolished to make way for new ones.
- *The community housing sector context* – There are a range of CHPs that are committed to the sector and enthusiastic about becoming a key part of the government's plans going forward. However, this sector is small and it will take time for the CHPs to build portfolios of scale, the

⁶ By developable land we mean land that is zoned residential and connected to necessary infrastructure and services.

corresponding balance sheets and the capacity and capability they need to manage and own substantial portfolios.

- *The legacy issues context* – The roles of agencies in the supply of social housing and the location, configuration and condition of existing stock add to the challenge. HNRC has a significant portfolio of 67,500 properties – but a proportion of them are in the wrong location where demand is reducing, and there aren't enough of them in areas of high demand such as Auckland. In addition the typical state house of the past – being the 3 bedroom house on a single section – does not necessarily match today's demand for more 1 and 2 bedroom units and 4+ bedrooms to house larger families.
- *The short- versus long-term context* – The top priority is clearly the 65,000 IRRS places pledged by June 2018. However, other objectives are contained within the SHRP and there is increased complexity with regard to trade-offs between short and long-term objectives, raising questions about what is the immediate priority and what is the longer term plan for the SHRP.

Our baseline expectations of programme leadership, governance and management

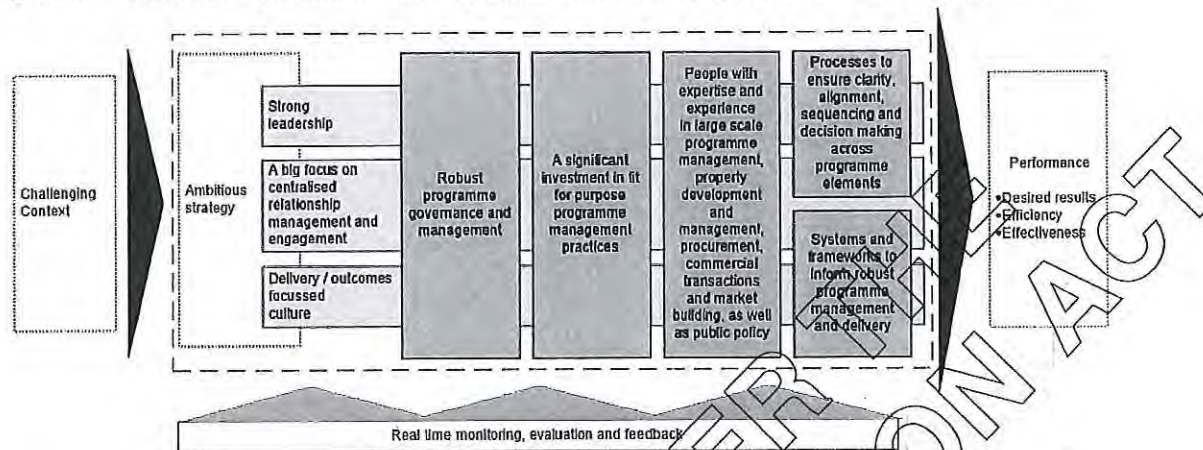
Given the nature of SHRP, its importance for government policy outcomes, and the challenging context in which it is being implemented, we had high expectations for what we would find in terms of programme leadership, governance and management. Our expectations were based on our combined experience of large-scale reviews and projects, our knowledge and experience of housing policy and residential property development, as well as Gateway learnings.

Given the complexity, scale and plainly articulated importance of SHRP we would have expected lessons from the Gateway reviews to be applied. Appendix 6 contains the lessons learnt relating to governance from the analysis of 45 Gateway reports in the December 2013 State Services Commission Report. Some of the key learnings for the SHRP included:

- Increase of complexity of governance arrangements on multiagency initiatives
- The Senior Responsible Owner (SRO) needs to be at an appropriately senior level (usually Tier 2)
- Governance structures defined at the outset with clear terms of reference and with membership and delegations tailored to ensure robust oversight and empowered decision making members from the entire project life cycle
- Consider establishing a separate entity to deliver and operate SHRP products. This ensures SHRP has a single service owner and the entity must have the appropriate levels of independence and commercial management to ensure clear reporting lines, decisions points and accountabilities.

Our expectations are summarised in Figure 6 and discussed in more detail in the sections that follow.

Figure 6: Baseline expectations of programme leadership, governance and management



Our 'baseline' expectations included:

- *Strong leadership and clear accountability for programme implementation* – We expected to find strong leadership and clear accountability for SHRP's delivery. Because the sum of the programme, and the overall achievement of outcomes, is dependent on the parts fitting properly together to deliver on the whole, we expected to find
 - Clear Ministerial accountabilities and reporting lines
 - A senior and credible person with clear accountability for providing overall programme leadership, governance and management, including
 - Understanding the complexity of interconnecting parts, prioritising the objectives and delivery of the whole programme
 - Clear decision making processes and delegations, calling out issues and ensuring the impacts of trade-offs are understood
 - Creating confidence and credibility with the external stakeholders to secure sector engagement and participation.
 - Persons with clear accountability for particular programme components and related milestones and KPIs, including for delivering on the 65,000 IRRS target but also for other key objectives such as establishing MSD as an intelligent purchaser of social housing places more generally and related to establishing the social housing market as well as increasing the supply of new housing.
- *Centrally coordinated sector engagement and communications* – Because of the widespread public interest in SHRP, because of the large number of agencies and external parties involved in SHRP's implementation and because of the critical need for community and commercial providers to participate in elements of the programme, we expected to find a big central focus on stakeholder engagement and relationship management and communications, including:
 - A well planned and coordinated strategy

- Clear, consistent and aligned communications with all the external stakeholders and a clear understanding of how and with whom decision making sits with. Success here will breed confidence and credibility within the key industry participants.
- Engagements with external stakeholders based on clear policy parameters and principles.
- *A culture focused on programme and outcomes delivery* – We expected to find strong alignment across agencies and officials to programme outcomes and objectives, a strong understanding of respective roles in delivery, a culture of working together in a programme mode of delivery, and a big focus on delivery
- *Robust programme governance* – We expected to find a governance group in place, tasked with and accountable for the outcomes of SHRP, and suitably qualified and mandated to draw on a range of skills including policy and delivery skills as well as government and commercial / property skills including:
 - formal meetings, reporting, delegations, and risk registers with comprehensive minutes and action points.
 - a sophisticated understanding of ministerial accountabilities and an appropriate reporting paradigm.
- *Fit-for-purpose programme management* – Disciplined programme management which provides clear plans for all the components through to delivery with clear accountabilities, reporting, milestone targets and responsibilities
- *People with capabilities in large-scale projects and strategic property development* – There are a wide range of skills required for such a complex programme. Prime among them we would expect to see strong commercial skills, strategic property expertise and development expertise within the leadership team to ensure that when decisions are being made at the outset, the ramifications are understood both within a government and a market context.
- *Processes* – Processes should be shaped to ensure clarity, alignment, sequencing and decision making as well as understanding the impact of trade-offs across all SHRP elements.
 A proactive approach to SHRP, knowing that even though much is new, understanding the complexity and issues by robust strategic assessments at the outset is important to mitigate risk and minimise surprises.
- *Frameworks* – The systems and frameworks must be geared towards robust programme management and delivery. This will ensure that the core principles informing what is being done are clear, agreed and in place as delivery rolls out and external stakeholders are engaged.

Part 2: Our findings

We have concerns with SHRP's overall leadership and governance. We found that while there is a high degree of understanding and commitment across officials to the government's social housing objectives that there are areas of weakness with the approach that has been taken to SHRP's overall governance and management. We also found less clarity across officials regarding the relative weighting to be given to objectives and how trade-offs are to be made not just between objectives but between short and longer term considerations.

On the positive side

We found that:

- There is strong support from all agencies and external stakeholders for the SHRP outcomes, – especially the 65,000 IRRS target, which since the Prime Minister's speech in January 2015 has strongly focused the work of officials.
- There are many people across all the four agencies fully committed, engaged, enthusiastic and working hard to make this programme a success
- Many elements of the required work are in place or in development
- There are areas of good governance and project management practices. These were particularly evident when we focused on specific work-streams
- We note a more recent effort to put in place some of the foundations needed for an appropriately robust approach to programme governance and management
- There is strong Ministerial interest
- There has been definite progress made in all aspects of SHRP in a challenging environment and there are strategies in place across agencies to deliver on outcomes and objectives. These include:

People – On the demand side

- Building MSD's role as an intelligent assessor of the need for and purchaser of social housing places from CHPs and HNZN

- MSD's review of current tenants ongoing entitlement to HNZN social housing places

Partners – Building a competitive market for delivery of social housing

- Treasury's transfer of HNZN assets to CHPs

- MSD's direct purchase of additional social housing places from CHPs in Auckland

- HNZN's reconfiguration of its social housing portfolio

Homes – On the supply side

- Initiatives by agencies to increase the overall supply of housing, including 20% social and 20% affordable

- The MBIE-led residential development and redevelopment of surplus Crown-owned land
- Treasury's strategy for redevelopment of major HNZN areas of social housing
- HNZN's redevelopment of small, medium and large-scale areas of housing
- Treasury-led process to consider unsolicited proposals

Our concerns

We think that while project management at component or departmental levels is relatively good, that there is insufficient overall programme leadership, governance and management. We think that this under-investment in program management has resulted in an effective leadership vacuum at programme level. As a result, Ministers are not always being well advised on issues critical to overall programme delivery and they are not receiving the assurance that they require to have confidence in overall programme implementation.

Our conclusions matter for a number of important reasons, including that they have resulted in

- A decentralised 'bottom up' approach to overall programme planning with inadequate 'top down' consideration of how (and whether) the various programme components developed and managed across agencies are effectively contributing to the whole. This in turn contributes to a risk that particular agency-led components are not being adequately aligned or sequenced to deliver on the SHRP as a whole. Also that resources across agencies may not be allocated where most needed. For instance, we are concerned that the MSD led purchase / contracting component needs to be more advanced than it is and better resourced if it is to provide necessary direction and clarity to the market and supply side components of the SHRP. In saying this we acknowledge that MSD has come a long way in a short time.
- A lack of alignment of key priorities and their sequencing. For example, whilst the 65,000 IRRS target is clearly identified as the top priority, we see differing understanding of other key work-streams. An obvious result is the impact that this is having on the reviews of HNZN (the first of which commenced in September 2014)⁷. The purpose of these is to clarify HNZN's role going forward. However, the programme plan provided for our review notes that this is on hold⁸, ensuring continued uncertainty for HNZN despite the fact that it is the major entity responsible for the delivery of new social houses if the 65,000 IRRS target is to be achieved. Similarly, while government has indicated a focus on increasing the supply of housing in Auckland, the large-scale redevelopment strategy on HNZN land being undertaken by Treasury is currently a lower priority.
- Inadequate overall monitoring and reporting of programme implementation and delivery. Medium and longer term KPIs for SHRP as a whole are yet to be identified, leading to a strong focus on the short-term 65,000 IRRS places target – but without the tools to weigh the impact of short-term strategies designed to achieve this target against important medium term targets and milestones.

⁷ An initial due diligence review was undertaken by KPMG in 2014 into HNZN's operating model. A subsequent review was undertaken by Boston Consulting Group into HNZN's role and organisation structure.

⁸ We have since been advised by officials that work is underway to advise Ministers on the findings and recommendations of the Boston Consulting Group review

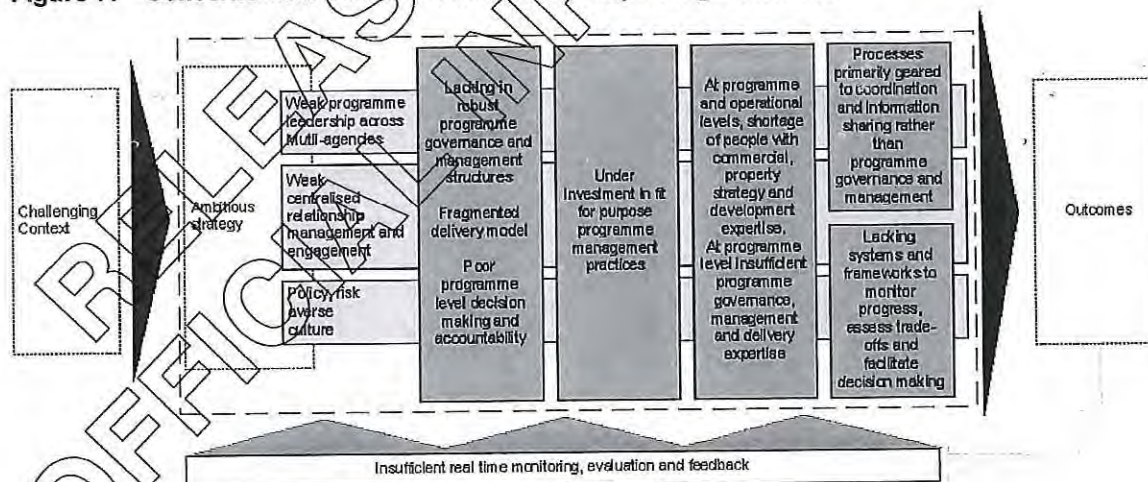
Furthermore, Ministers are not receiving regular and credible reports on progress. There is, for instance, no programme dashboard.

- Decisions, issues and judgments important to SHRP's effective implementation and delivery that are not being proactively and systematically identified and addressed at a whole of programme level. Instead they are primarily being addressed, sometimes implicitly and without adequate consideration of whole of programme implications, at particular work stream levels.
- Inadequate programme-level ministerial and stakeholder engagement and communications. External stakeholders report dealings with officials from across several government agencies, and a lack of centralised 'whole of programme' engagement. They report that this is leading to confusion as to the overall strategy and approach and in particular how they should best contribute to programme outcomes.
- A need to improve stakeholder and Ministerial confidence in the ability of officials to effectively implement SHRP. This to date has produced a dynamic whereby Ministers and their staff are dipping into the fine-grain detail of the programme to seek confidence and assurance in the face of shortcomings they discern in reporting and delivery.

Our general concerns are summarised in Figure 7 and discussed in the sections that follow. Later in this section we also comment on some more specific concerns relating to:

- 1 the delivery of 65,000 IRRS places by June 2018
- 2 the fragmented approaches across agencies towards bringing surplus Crown lands and under-utilised HNZC lands into residential development and redevelopment in Auckland
- 3 progress in establishing MSD as an intelligent and assertive purchaser of social housing places.

Figure 7: Concerns with SHRP's overall leadership and governance



General concerns

Weak programme-level leadership

There is no single person or agency that is accountable for overall programme delivery, including surfacing and advising Ministers on critical issues and judgements across the work of agencies, such as the sequencing work across development of the MSD purchaser role, assets transfers and HNZZ reconfiguration, and initiatives to encourage new supply. Instead there is a programme coordinator and DCE and GM groups, whose primary focus is on coordination and information sharing across agencies.

As part of the review, everyone was asked to point to who they regarded as being in charge of the SHRP. No particular individual or agency was identified. Instead we were told that the decision had been taken by officials to adopt a collective or shared approach to programme accountability and governance.

Inadequate programme governance and management

Whilst we have identified an improvement in SHRP governance and management in the past couple of months we believe it has some way to go.

- Programme leadership and governance
 - The main mechanism for providing programme-level leadership and governance is a Deputy Chief Executives Group that meets fortnightly. This group comprises DCEs and their stand-ins from MBIE, Treasury, Ministry of Social Development and Housing New Zealand Corporation. It has a revolving chair and is supported by a full-time programme coordinator plus 2 part-time project administrators.
 - In practice, the programme co-ordinator and the DCE Governance Group each see themselves in information sharing and co-ordination across agencies who are each accountable for the delivery of particular elements of the reform programme. This compounds the difficulty in understanding who is actually accountable for the delivery of the desired outcomes of the SHRP. In addition, whilst there is much work undertaken on individual work-streams, it has been difficult to identify what 'success actually looks like' in an end state situation.
- A terms of reference for SHRP has been developed which explains the structure of the DCE Governance Group, the GM's Operational Team and an officials group.
- There does not appear to be external, commercial property strategic and delivery expertise on the governance group or large-scale programme delivery experience, which we see as essential.
- Programme governance procedures
 - In some cases procedures appear to fall short of the more formal programme governance principles we might expect to anchor such a complex programme. Some examples we noted include:
 - Limited monthly reporting of SHRP presented to the DCE meeting. It is difficult to understand currently how the programme is progressing against key milestones.

- A rotating Chair
- Issues and judgments critical to successful delivery are not being proactively and systematically surfaced and resolved in a formal manner. It is unclear what the delegations and decision making process are for the various levels of meetings and groups. There appears to be discussion on topics but without the formal discipline of approval papers and minuted agreed outcomes.
- There is limited formal reporting to the Ministers on a regular basis to inform them of progress of SHRP, the trade-offs as well as other issues being identified. This has created a vacuum which has perhaps understandably led Ministers to spend effort on the fine detail, in an attempt to secure the reassurance they are entitled to with regard to the overall progress of SHRP.
- Fragmented delivery model
 - Within each work-stream there is considerable work underway. However, because the overall programme governance is not strong, it means that not everyone is clear on what others are doing.
 - For example MSD has recently employed two people in the Auckland office to work with the MBIE team to facilitate and broker opportunities for CHPs. This involves working with the developers to source new social houses in upcoming development projects. HNZA also undertakes similar functions as part of its 'New Build' programme. The result is two different parts of government working with the same developers to increase housing supply, but potentially bidding against each other and creating confusion in the market as to government's requirements and bottom lines.
 - A further example is in increasing the supply of new housing in Auckland on Crown and HNZA land. Currently MBIE is driving new developments on surplus Crown land, Treasury is formulating the strategy for large-scale redevelopment on HNZA land and HNZA is undertaking developments on small, medium and large-scale development projects. All of this activity involves dealing with the same external stakeholders and produces confusion as to what is happening and who holds the mandate. This situation has rich potential to stymie momentum.

Weak centralised relationship management and communications

There is insufficient programme-level stakeholder engagement or communications.

Feedback from external stakeholders – CHPs, developers, and other key groups – all referenced the four government entities involved and pointed to a lack of alignment with regard to the messaging directed at the market. They were unsure who was actually in charge, who had the overall mandate and who was responsible for making decisions. Clarity is key to building confidence and engagement from the private sector development and investment communities.

Underweight programme delivery culture

SHRP has evolved significantly over the past two years and it has involved learning and upskilling by different personnel and agencies. While the policy focus is a cornerstone of this programme (and there remains considerable work still to be done here), SHRP is now very much in operational delivery. This demands a different mind-set which must include not just reference to the government and policy

component but also wider to embrace all the agencies and stakeholders that need to be engaged if the end objectives are to be met. It is about developing a delivery focused culture fixed on achieving the objectives.

Under-investment in programme management practices

Programme level

- There are some key areas which we consider incomplete. These include overall programme planning, risk management, overarching stakeholder engagement and communications as well as alignment across key programme elements
- For example the current programme plan is attached as Appendix 6. It identifies 17 current projects. It is difficult from this programme plan to understand the interdependencies and the relative priority of each project. It also identifies the government component of the project only and not all the other stages and stakeholders required to achieve the outcome.
- A further example concerns announcement of this 65,000 target. We were told by officials that this target arose from a desire to include a quantifiable target in the Prime Ministers State of the Nation speech, and that the target chosen was based on a modelling assumption underpinning MSD's appropriation, rather than considered advice from officials.
- There is currently insufficient resource to manage the complex SHRP from an overall programme perspective.

Project level

- From observing some of the specific areas of projects at an operational level we have identified there are areas of strong project management. For example
 - the improvement in past months on the asset transfers is noticeable,
 - in MSD the work in respective areas around policy, reviewable tenancies and contracting is structured and disciplined
 - the delivery programme for HN2C development has momentum and tangible projects are coming through the pipeline
- The key issue however, is that important issues are being addressed, sometimes implicitly and without adequate consideration of whole of programme implications, at particular work stream levels. An example of this relates to the MSD purchasing strategy.

This was released in April 2015 with rent levels 'capped' based on location and housing typology. The logic of this within the work-stream is understandable to ensure control of expenditure. But as the results of the RFP300 in Auckland testified, there is little appetite to create new housing supply on the basis of below market rents. The RFP300 contracts that were executed actually produced a situation where a minimum of market rent was paid.

- The latest proposal to encourage investors to become involved in creating new social housing supply in Auckland is to offer above market rents. From a work stream perspective this is understandable, particularly as it supports the desire to create momentum in new housing supply. However these rents are likely set expectations that may be incompatible with government's overall strategy for social housing.

- Once again this can be relied upon to send confusing signals to the market place. The MSD purchasing strategy referred to in the current RFP documents is the version online released in April 2015 which refers to capped rents. However the deals that have been done to date are based on either market or above market rent.
- The wider programme issues about which we are unclear as to whether they have been identified and evaluated include:
 - Are we creating a precedent or expectation in the market place that new social housing in Auckland will be subsidised?
 - Has the research and market testing indicated that the only way to create new social housing supply is to significantly subsidise it?
 - Are we distorting the rental market in Auckland by paying higher than market rents for properties?
 - One of the core objectives of the SHRP was to create a contestable level playing field between CHPs and HNZN. Does this mean that MSD will pay HNZN and TRC 'above market' rents for new houses built in Auckland and if so, what are the implications of this? If they do not, how is a contestable level playing field created?
- The MSD purchasing strategy has an impact for HNZN by way of creating a different challenge. HNZN is the key delivery vehicle for new social housing to meet the IRRS 65,000 target by June 2018. HNZN has a requirement to act in a business-like manner and new developments typically are required to show a positive margin between value and cost and a positive NPV analysis. The MSD purchasing strategy of capping rents on new developments has an impact on HNZN's ability to create development projects that are feasible and that fit within current parameters. To date individual projects have been presented to MSD prior to being approved by the HNZN Board. However, clarity on the pricing parameters needs to be provided much earlier in the pipeline process to ensure momentum across the portfolio is maintained.
- This is a further example illustrating how issues arising within a particular work stream may not have been resolved across the wider programme. Key considerations include:
 - If the greater priority is for MSD to control the rental budget through the 'capped rent' strategy and push new developments into the low value areas then it is important to understand the impact on the HNZN pipeline.
 - If the greater priority is to create momentum in the HNZN delivery pipeline and build more social houses by June 2018, then agreeing to pay HNZN market rent instead of capping rents for new developments coming through the pipeline would create clarity. It could be agreed that when MSD finalises its purchasing strategy parameters, any new developments entered into the pipeline would then fit within it.
 - Alternatively, another option for consideration is to change the HNZN mandate so they are not required to act in a business-like manner.
 - These highlight some significant and inter-linking issues. To date we have not seen disclosed a process by which issues such as this are firstly identified, and then evaluated and decided.

Under-weight in some important areas of expertise

- At programme level, we did not:
 - find enough capability in large-scale programme governance and management
 - find enough property strategic capability to systematically and proactively analyse, call out and resolve programme-level issues and understand the impact across all objectives as well as the financial implications
 - find sufficient resource to coordinate and manage programme-level relationships and communications with external stakeholders
- At project level, we did not always find sufficient strategic property, development and commercial expertise to adequately inform policy and delivery outcomes.
 - For example Treasury is responsible for developing the strategy for the large-scale redevelopment of HNZN land in Auckland and this has been underway since the beginning of 2015. This strategy and the development of the long-term pipeline is highly specialised and is, in fact the key piece of work to unlock opportunity for housing supply in Auckland. Given the long-term impact both financially for government and for the City, we would expect to see a team established to develop this which brought together significant property strategy, development and property financial expertise. We are not aware of this expertise residing in Treasury. (We do note that CBRE in Auckland were engaged two months ago to undertake a preliminary background paper which we understand is due to be completed shortly.)
 - There has been significant improvement in the Asset Transfer work stream over the past six months. An element of this is a project steering group which is responsible for delivering the desired outcomes. We note however, whilst there are property consultants engaged to work on functional property condition issues, we are not aware of anyone on the Project Steering Group with expertise in executing large-scale property portfolio transactions in New Zealand.
 - While the MSD purchasing strategy is under development it would be beneficial to have input from the private property sector to guarantee the clearest possible understanding of the ramifications of the policy in the marketplace before it is released.
- We found some areas under-resourced. An example is in MSD. A critical cornerstone for the success of SHRP is for MSD to become an 'intelligent purchaser'. The underpinning of this is the purchasing strategy and a delineation of what is required not just in terms of social housing but other support services as well. This has been a new and evolving role for MSD and significant progress has been made to date with existing resources. Additional resource to this team would assist in expediting the completion of this critical framework document.

Inadequate programme-level frameworks

- As identified there is significant complexity in this programme. To assist in providing clarity across multiple agencies and multiple external stakeholders there are some key issues we have not seen usefully addressed. These include:
 - key frameworks or core principles – which outline across SHRP the underlying framework of how objectives, work streams and proposals interact; these should guide policy development, implementation and delivery

- programme-level criteria to evaluate the wide range of proposals and ensure the interdependencies and trade-offs are managed
- an articulation of what success looks like at key milestones over the next few years for the various work streams and for SHRP as a whole
- Key KPIs and milestones and identification of who is accountable at each stage.

Inadequate real-time monitoring and evaluation

While an evaluation framework has been developed by MBIE, this has yet to translate into programme-level KPIs and milestones, a programme dashboard or regular programme-level monitoring reports.

- There are limited regular reports at different levels of the programme, making it difficult to identify how SHRP is progressing and whether it is on track.
- The reporting to the Ministers appears to be largely reactive and does not include a regular monthly update on all aspects of SHRP.

Specific concerns

The delivery of 65,000 IRRS places by June 2018

This project has been designated as Critical Risk by the DCE Governance Group. The group has identified that there is not a robust plan to achieve the 65,000 places and there are data issues which in fact, reduced the IRRS numbers from 60,924 in June to 60,977.

It is apparent in the past few months that an overall reporting structure for the Target 65,000 has been introduced, titled "Forecasts of IRR places". A further report was also provided under the title "Achieving the 65,000 IRRS Places: Constraints and Risks". These reports show the target being reached by June 2018, but it is evident that the majority of the numbers fall under the designation speculative / tentative as shown in Table 1.

Table 1: Projected delivery of 65,000 IRRS places

	Additional numbers	IRRS cumulative total
IRRS at 30/6/15		60,924
Add 'Certain'	1,240	62,164
Add 'Tentative'	2,593	64,757
Add 'Speculative'	260	65,017

Taking the reporting provided and breaking this down by agency provides the current indicative status (Table 2)

Table 2: Summary of IRRS forecasts by agency

Initiative		IRRS Forecast Places by 6/18		
IRRS @ 30/6/15 60,924		Certain	Speculative	Total
HNZ (Net)		1,157	559	1,716
MBIE	SHU Funding	311	-	311
	Surplus Crown Land	-	260	260
MSD	Reviewable Tenancies	-	1,108	1,108
	RFP	83	326	409
	Further contracting	-	1,000	1,000
TSY	Modular housing	-	-	-
	Large scale redev	-	-	-
Net Additions		1,551	3,253	4,804
Indicated Total at June 2018		62,475	65,728	

One of the questions in the Terms of Reference was whether reported pipelines of social housing places to be delivered over the next 3 years, including from HNZA, are realistic, and what modifications to reported pipelines are needed to provide a 'best estimate' of actual future social housing places. Appendix 8 provides an example of a reporting framework for the IRRS 65,000 target and Appendix 9 provides a breakdown of the various programmes underway and the risks associated with their delivery.

Accurate reporting of key targets is a prerequisite to having confidence that the overall Social Housing Programme will be delivered and within the timeframes specified. It will also provide an 'early warning signal' should certain programme deliverables not be able to be met and allow alternative strategies to be adopted. The key is, therefore to build on this and provide more rigour and understanding of the information presented, including risk and the ability to deliver on the various programmes underway. This may also assist in clarifying where limited resource could be placed to achieve the best outcome.

The other key issue relates to what is the priority of delivery options to achieve the target and how the short versus long-term objectives are reconciled.

- The quickest way to add IRRS places is to increase the MSD programme for CHPs to purchase existing houses and escalate the reviewable tenancy programme.
- Buying existing housing currently at scale in a 'hot' Auckland property market has the ability to impact the market and create further pressure on prices. Furthermore, it does not support the overall objective of increasing new housing supply.
- The best opportunity to create new housing supply within the timeframe is the HNZA Special Housing Area Redevelopment Programme (SHARP3). There is a window of approximately 12 months to feed opportunities into the pipeline, so that they can be completed and delivered by June 2018.
- This must be balanced against the desire to establish a contestable social housing market and the aspiration for new social housing supply places to be provided by the CHPs.
- A further issue facing Auckland is increasing the overall supply of housing – particularly affordable housing and determining what is the trade-off of additional affordable places in order to

achieve an increase in the short term supply of IRRS places – or is the imperative that both to be achieved?

Fragmented approaches to land development

Currently Treasury, MSD, MBIE and HNZC are all involved in development in Auckland.

- MBIE is focusing on unlocking opportunities with the surplus Crown land.
- MSD is working with developers to find opportunities to broker deals with CHRs and investors on non-Crown land
- HNZC has its delivery programme underway which involves small, medium and large-scale development projects throughout the country including HLC and the development at Hobsonville
- Treasury is developing the large-scale redevelopment strategy for Auckland.
- Post 1 April 2016, the Tāmaki Redevelopment Company will be responsible for the housing developments at Tamaki.

We have formed a picture of four agencies all dealing with the same development community and external stakeholders but their messaging and parameters are different, and to a degree inconsistent. For example Auckland Council has identified that HNZC established a Memorandum of Understanding with the Council in October 2014 and has built an established engagement framework at all levels to aid in creating momentum in development as well as identifying joint projects between Pānuku Development Auckland and HNZC. Treasury have also been working with the Auckland Council on the large-scale redevelopment strategy for HNZC land – but Pānuku Development Auckland indicated these meetings to date have not included HNZC.

More generally the process of determining priorities and the most effective interface between social and affordable housing has proved hard to identify. For example the large-scale redevelopment strategy with regard to HNZC land being undertaken by Treasury, has been underway since the beginning of 2015 and is a key piece of work to unlock opportunity for housing supply in Auckland. Whilst the 65,000 IRRS target is the number one priority, there is immense pressure from all sectors to increase the volume of housing supply in Auckland and this is a key objective of government.

However an important strategy which can aid in achieving this is developing a long-term pipeline for Auckland on HNZC land. Achieving this requires assessment of the land and its readiness for development, and the development of corresponding plan and strategy to bring the land into development. We understand that this work is not a top priority from Treasury's perspective, indeed Treasury has identified that under the current plan, procurement alone will not be complete on the first project until December 2018. By the time master planning, resource consenting, and civil works are factored in, it is unlikely that construction of the first house will begin until 2020. Thus, the underlying question is – if a top priority objective is to increase the volume of housing supply then how can we achieve this more quickly?

Progress in establishing MSD as an intelligent and assertive purchaser of social housing places

While there has been significant work undertaken, MSD's purchase role and capability need to develop faster, and its approach to purchasing, contracting and market shaping needs to become more sophisticated and assertive. Additional resource is required to support this team.

More clarity, alignment and consistency is required across MSD's purchase intentions, the various development initiatives led by MBIE, HNZN and Treasury, and Treasury's own transfer programme – to shore up market support and commitment.

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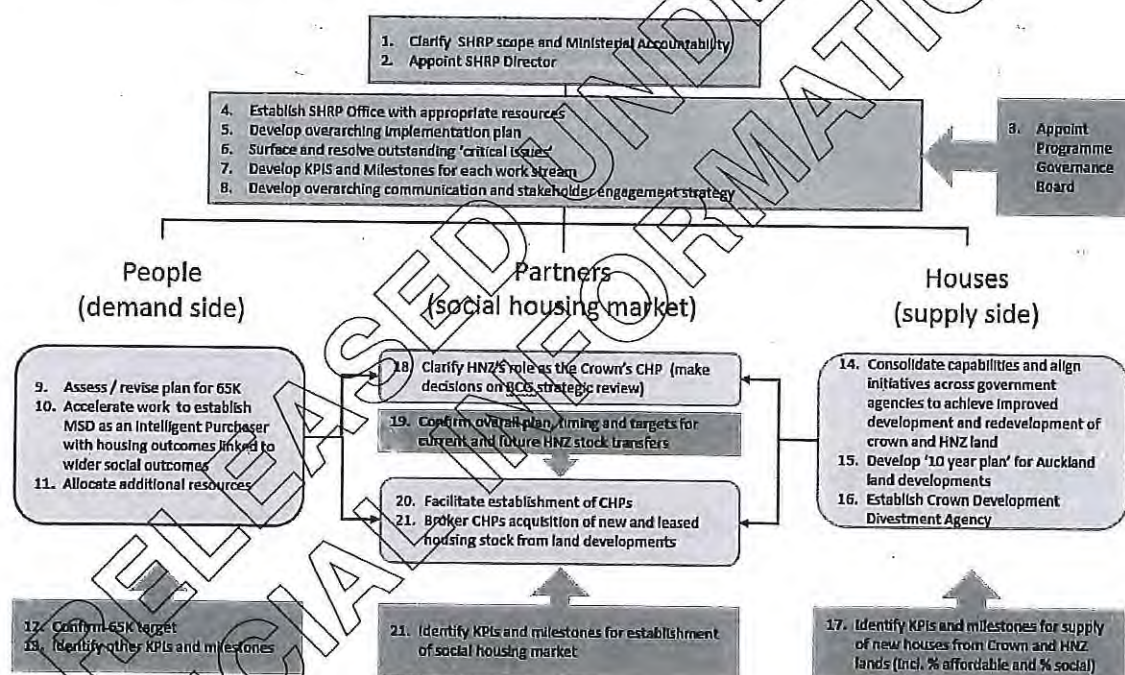
Part 3: Our proposals

Our proposals are based on our view that the Social Housing Reform Programme (SHRP) is a programme of related components or streams of work across agencies and that achievement of desired objectives and outcomes requires strong overarching leadership and disciplined programme management.

In this part of the report we present our proposals to improve overall programme leadership, governance and management as well as to strengthen and improve the delivery of particular components.

Figure 8 provides an overview of our proposals and the outcomes that we are aiming to achieve.

Figure 8: Overview of proposals and intended outcomes



In summary, our proposals aim to:

- 1 Strengthen programme leadership, governance and management by
 - a Clarifying accountability for programme delivery
 - b Strengthening programme leadership
 - c Introducing more robust programme governance, whole of programme planning and strategic analysis
 - d Better resourcing programme management and reporting

- e Improving whole-of-programme advice and scrutiny.
- 2 *On the demand side, more quickly establish MSD as an intelligent, capable and assertive purchaser of social housing by:*
 - a Providing additional resources to build capability and accelerating work to establish MSD as an intelligent purchaser of social housing
 - b Accelerating work to align MSD's purchase of social housing to its wider purchase services needed to improve outcomes for its clients.
 - c Clarifying MSD's role in and introducing a more robust approach to achieving the target of 65,000 Income Related Rent Subsidy places by June 2018 of which 2,200 additional places will be in Auckland and 1,108 tenants will be assisted to private sector accommodation
- 3 *On the supply side, better manage the development of surplus and under-utilised HNZC lands in Auckland and other areas where additional housing supply may be required, by*
 - a Consolidating the capabilities and aligning initiatives across government agencies to achieve better focussed and improved development and redevelopment of Crown and HNZC land. This includes transferring the responsibility to develop the strategic plan for large scale redevelopments on HNZC land to HNZC.
 - b Developing a 10-year plan and KPIs for new houses from Crown and HNZC owned lands in Auckland. This includes specifying the requirement for affordable and social houses on mixed tenure developments as well as reconfiguring the HNZC portfolio.
 - c Over the medium term, transferring capabilities from across government into a new specialist residential development and divestment entity
- 4 *On the market provision of social housing, create the conditions necessary for a sustainable social housing market, by*
 - a Clarifying HNZC's role as the 'Crown's CHP' including decisions on the location of land and property development related functions
 - b Completing the stock transfers with the HNZC portfolio moving from 67,500 to 60,000 by June 2017.
 - c Facilitating the entry of non-Crown CHPs including providing brokerage and facilitation support for CHPs acquisition of additional social housing places from new developments
 - d Develop KPIs for a contestable CHP market

Each of our proposals is discussed in more detail below.

Proposals to strengthen programme leadership and management

Our objective is to strengthen programme leadership and management through the establishment of a dedicated and adequately resourced programme management office. Its mandate and terms of reference would be developed to ensure the following:

- Clear Ministerial reporting and accountabilities for overall programme leadership, management and delivery
- Clarity, alignment and priority of objectives for everyone involved
- Programme-level capability to apply strong strategic analysis and rigour to opportunities and proposals which also identifies the impact of trade-offs
- Clear delegations and decision making process
- Disciplined reporting at all levels of the programme which will identify any issues along the way
- Co-ordinated communications plan for both internal and external stakeholders
- Outcome and solutions focused teams
- Ability to develop and build capability and expertise
- Clear understanding of the financial impacts
- Increase momentum of the SHRP
- Engender public support for these government policy initiatives
- That the key outcomes specified will be achieved in the timeframes.

We propose that strengthened programme management would be achieved through:

- 1 Clarifying Ministerial accountabilities for the overall implementation of the Social Housing Reform Programme, including related housing affordability and supply side initiatives. A programme office would support the accountable Minister or Ministers, through:
 - a regular programme reporting and dashboard
 - b support for regular structured ministerial meetings that would focus on programme progress key issues or trade-offs requiring Ministerial decisions
 - c strategic assessment, advice and evaluation of options for delivery of SHRP including the making of trade-offs between competing objectives and short and longer term priorities.
- 2 Establishing a Social Housing Programme Office, suitably resourced and accountable through its director or chief executive for overarching programme management and delivery. Key functions and responsibilities of this office would include those necessary to:
 - a Support overall programme leadership, governance and advice.
 - b Develop and maintain an overall programme plan including short and medium term KPIs⁹. This would include all the key programme components, timeframes and interdependencies. An example of a high level programme plan is included as Appendix 10.
 - c Monitor and report to Ministers on overall programme delivery.

⁹

- 1) Develop KPI's and Milestones for each work-stream
- 2) Develop, agree and report on key KPI's for each work stream
- 3) Determine what success looks like at various key stages of the programme and articulate this vision

Create a series of key reports at different levels of detail which clearly illustrate the current tracking and position of the SHRP.

- d Surface and work with agencies, stakeholders and Ministers to resolve outstanding issues critical to SHRP's successful implementation and delivery. This includes developing and agreeing core principles as well as the identification and evaluation of outstanding issues across SHRP. Examples of these are included in Appendix 11.
- e Ensure that there is consistency of approach across agencies when dealing with the CHPs, institutional investors and the development / build community.
- f Develop, maintain and provide operational support for overarching communication and stakeholder engagement plans and strategies.
- g Establish a residential development agency to co-ordinate and drive residential developments on Crown and Housing New Zealand lands.
- h Establish a divestment and acquisition agency to co-ordinate and drive sales of Crown assets, leasing initiatives and purchase of existing stock from the market place.

The office could either be established within an existing department, with accountability through that department's chief executive to a lead Minister or as a hosted departmental agency whereby the office would be headed by a chief executive directly accountable to a lead Minister.

We think that MSD is the best option for the Office's establishment or hosting, but we do have some concerns with this including that the function could get 'lost' or 'diluted' within the context of MSD's wider mandate and change programme, that the incentive in MSD might be to overly focus on the demand side of SHRP to the cost of market building and supply side initiatives, and that it might face weak incentives to call out issues relating to SHRP components that MSD is directly accountable for. Alternatively, the office could be established or hosted by a central agency, but this would be incompatible with where long-term ownership and accountability for delivery of SHRP should sit, which we think should be MSD.

- 3 Defining the scope of the SHRP Office's mandate to include supply side and affordable housing initiatives as well as those directly related to the purchase and provision of social housing. From both government policy and delivery perspectives, social housing and wider housing supply and affordability initiatives are closely related and should not be separated. For this reason we recommend that the mandate of the Office be extended to cover the wider land development housing supply initiatives, especially in Auckland – not just those related to social housing.
- 4 Appointing a credible person to lead the office. Regardless of the approach taken to its establishment, we think the choice of person to lead it is critical to its success or failure. We strongly recommend that an identifiable person should be held accountable for overall programme leadership and management. To be effective in the role the person must have credibility with Ministers and senior government officials as well external stakeholders and market participants.

It is recommended that the person appointed to lead SHRP would:

- a Through their past experience and achievements have high credibility and respect from Ministers, senior officials, external stakeholders and market participants. We think that this is necessary if strong leadership and momentum is to be achieved and to surface and resolve trade-offs and issues across work streams and between short and long term objectives
- b Have skills and experience and proven success in large-scale programme management and/or policy implementation and delivery

- c Have skills and experience in most or all of the following:
 - i strategic thinking and problem solving, preferably in a property or asset management context
 - ii proven track record of transformational change and being able to deliver on complex outcomes
 - iii a good understanding of government
 - iv governance experience
 - v property development expertise
 - vi leadership skills and the ability to build strong outcome focused cultures and teams.
- 5 Establishing a small board of appropriately experienced and skilled persons, which the director of the project management office would chair, to provide programme governance with the following characteristics.
 - a An effective governance structure with the mandate and skills needed to ensure robust governance and support to the director.
 - b Membership of 7-8 people including a mixture of public and private sector expertise which would formally meet on a monthly basis.
 - c Some of the key skills recommended include governance, strategic property, property development expertise, financial, community/tenant, stakeholder/political skills and strategic and operational delivery expertise as well as the ability to operate in a complex environment.
 - d Key attributes include – vision and leadership, sound commercial judgement, political, stakeholder and organisational awareness, knowledge of the various sector groups, cultural and strategic issues of the SHRP as well as an appreciation of the integral relationship between the housing programme activities and outcomes for vulnerable New Zealanders and New Zealanders as a whole.

Figure 9 shows the relationship of the proposed programme office to a lead Minister or Ministers. Depending on whether it was established as an office within an existing department or as a Department agency, its accountability would either be direct to a lead programme Minister or via the chief executive of the department in which it is established.

Figure 9: Relationship between proposed programme office and Minister/s

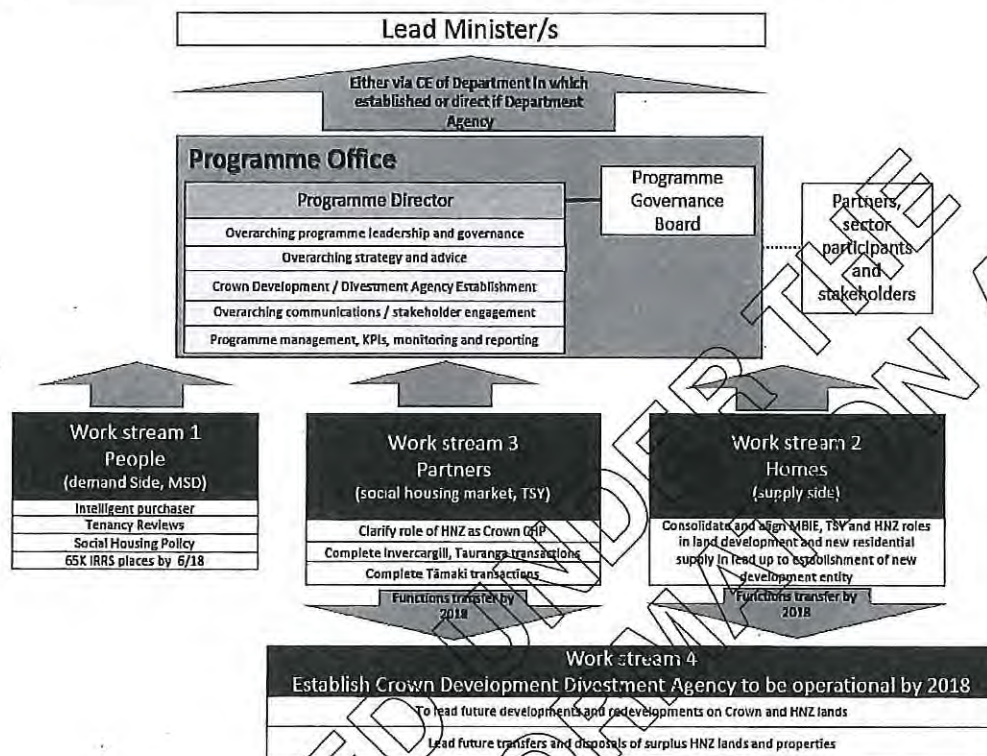


Figure 9 also indicates that the office would have relationships with other agencies, namely MSD, Treasury, MBIE and HNZC, who will each have particular accountabilities through their own chief executives to Ministers for the delivery of particular programme components. For programme management purposes, it is proposed that these agencies would remain directly accountable for the delivery of their components, but in delivering them would be required and held accountable by Ministers for working within the proposed programme management and governance structure.

Proposals to improve the 'people' or demand side work stream

Fundamental and central to achieving government's objectives and outcomes for social housing reform is the establishment of MSD as an assertive and intelligent purchaser of social housing, from either non-government Community Housing Providers or HNZC. For the reform to work, MSD must develop the capability to stand in the market and clearly signal its purchase intentions in order for community housing providers working in partnership with private capital and presidential property developers and HNZC to respond appropriately. In the words of the Prime Minister:

The first objective is to ensure that people who need housing support from the Government can get it. We are going to ensure that more people get into social housing over the next three years, whether that is run by Housing New Zealand or a community provider. The social housing budget provides for

around 62,000 income-related rent subsidies a year. We are committed to increasing that to around 65,000 subsidies by 2017/18, which will cost an extra \$40m a year. In particular, there will be an increase in social housing in Auckland and increase in Christchurch.¹⁰

Our objective is to get MSD to the position that it is able to capably fulfil this role as quickly as possible by 2017. Our proposals to achieve this are discussed below.

- 1 Accelerate work to establish MSD as an intelligent purchaser with housing outcomes linked to wider social outcomes
 - a Undertake a review to clearly articulate what an intelligent purchaser role and functions looks like and entails and determine from the current position what is required to build this capability by 2017. Determine what is required if the primary objective was to reach this position within the next 12 months and identify what resource is required to achieve it.
 - b Ensure the appropriate budget adjustment is made to reflect the priority of this
 - c In conjunction with this, review the contracting framework to ensure alignment and consistency.
 - d Develop the framework and the skills to be able to undertake an ongoing contractual monitoring role of CHPs and HNZN in a contestable level playing field
- 2 As a short-term priority, direct MSD to develop a comprehensive medium term plan and strategy for its purchase of social housing places. We see this as a key strategic document for agreement by Ministers. It would provide substantially more detail than MSD's currently published purchase intentions and would be a vehicle for the surfacing of assumptions and judgments related to the government's role in social housing purchase. It would cover MSD's purchase intentions for the 2016/ 2017 year and 2017/2018, 2018/2019, 2019/2020 and 2020/2021 out-years. This purchasing strategy should clearly indicate:
 - a Short and medium term priorities and purchasing intentions, in terms of numbers, location and configuration of required social housing places
 - b MSD's intentions regarding the better integration of social housing purchase with its purchase of other related services
 - c Prices, conditions and overall actual and out year estimates of costs for the purchase of social housing places

This plan should be developed to a level of detail that it can be relied upon by CHPs and their partners and HNZN for their planning, capital raising and management of their development pipelines and business strategies and their management. In developing the plan MSD should seek sector input to ensure its practicality.
- 3 As a matter of urgency, review the adequacy of MSD's current resourcing of its social housing functions with a view to adding additional resources if needed, including consideration of these points:
 - a The need for a designated Project Director for the IRRS Target 65,000.
 - b The composition of a project steering group to support this stream of work.

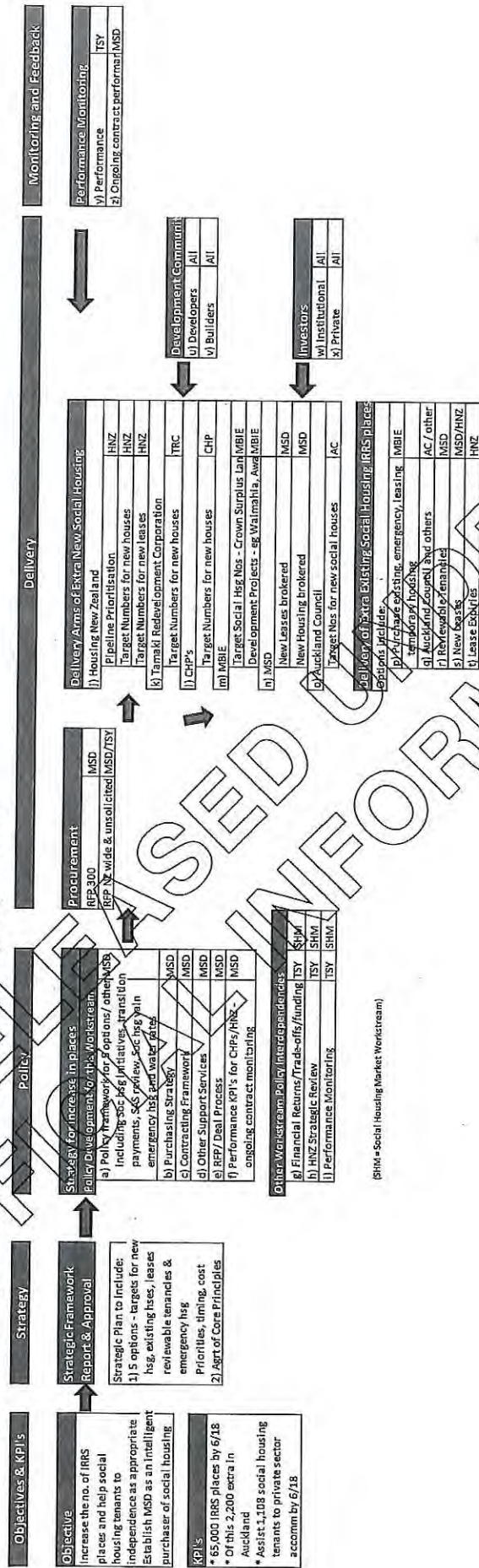
¹⁰ Quoted from the Prime Minister's 2015 State of the Nation Speech

- c The adequacy of input from the private property sector to guarantee the clearest possible understanding of the ramifications of the policy and contracting frameworks in the marketplace before it is released.
 - d The need for additional resource to be allocated to ensure the completion of the purchasing strategy as a comprehensive document covering both social housing and other support services is expedited.
 - e The adequacy of resources to review HNZN tenancies to ensure targets can be achieved.
 - f Due to the complex nature of this programme and the inter-connecting parts we recommend that people in various government agencies be provided the opportunity to spend some time with a CHP, a tenancy manager from HNZN and either the HNZN development team or a private developer to understand the wider ramifications and implementation perspectives of the programme.
- 4 Undertake a strategic assessment of the IRRS 65,000 target which includes Work stream Structure, Reporting, Project governance, Current status, Options underway, Alternative options, Financials, Prioritisation of key objectives, and key stakeholder communication. An example of potential headings for this strategic assessment report is included in Appendix 12.
- a Implement comprehensive reporting on delivery targets which clearly links the pipeline options from 'bottom up'
 - b Evaluate and prioritise and communicate the trade-offs of the shorter term IRRS Target 65,000 objectives versus the longer term objectives
 - c Clearly articulate what success looks like
 - d Develop a detailed plan to achieve the IRRS 65,000 target with clear milestones, accountabilities and reporting frameworks. An example of a framework is illustrated in Figure 10.
- 5 Determine other KPIs and milestones necessary to focus and monitor demand side performance.

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Figure 10: Social housing reform framework – work stream 1

Social Housing Reform Framework - Workstream 1 - RRS 65,000 Target by June 2018



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Proposals to improve the 'homes' or supply side work stream

As already discussed, there is a very close relationship between demand (and cost) of social housing and overall performance of housing markets. In markets in which supply constrained, the demand for social housing from persons unable to secure adequate housing in the market will increase as will the costs of purchasing additional social housing places. This is a particular issue in Auckland but also in a number of other markets.

For this reason housing affordability was included as an objective of the social housing programme. The Prime Minister's 2015 state of the nation speech referred to this objective as follows:

Our fourth objective is to help increase the supply of affordable housing for people to buy, especially in Auckland.

How we manage social housing can help with that. Housing New Zealand is the biggest residential landowner in the country and could free up more land for housing development. Housing New Zealand owns neighbouring sections, for example, where a few existing properties could be replaced with a lot more new homes, with some or all of them remaining as social housing.

On a larger scale, there are opportunities to redevelop and revitalise whole state housing suburbs. These redevelopments could result in a mix of Housing New Zealand properties, other social housing, affordable housing and higher cost homes..... Again we want to accelerate these processes, so small and large redevelopments of Housing New Zealand land and properties are undertaken with more urgency.

The Government is still considering how and where that might happen. A large redevelopment could involve existing properties being transferred out of Housing New Zealand ownership and into a special urban development entity.

We think it critical that a close relationship be maintained between demand and supply side initiatives, and that supply side initiatives should be fully included within the scope of the Social Housing Reform Programme.

Our objective on the supply side is to improve government's capability and shorten the period within which it is able to bring surplus Crown-owned and under-utilised HNZC estates into residential development, so as to ease supply side pressure and increase the new supply of homes for social housing. The following four proposals are intended to achieve this objective.

Over the short term

- 1 Consolidate capabilities and align initiatives across government agencies to achieve improved development and redevelopment of Crown and HNZC land.
 - Across the various government agencies involved in supply side initiatives, appoint a designated Project Director for the proposed Housing Supply work stream
 - Review options for a project steering group for this work stream
 - Undertake a shortened strategic assessment report identifying all the issues, interdependencies and trade-offs and make clear decisions based on desired outcomes and priorities including financials. An example of a framework identifying key stages, responsibilities and sequencing is illustrated in Figure 11.

- Co-ordinate the reporting of all current activities, identify KPIs for supply of new houses from Crown and HNZN lands and implement reporting at different levels of details based on the framework identified
 - For Auckland undertake a stocktake of all developments currently underway or in the pipeline with estimated dates of delivery
 - Develop robust reporting on timeframes for development delivery noting clearly the various stages of the pipeline process. Once in delivery the reporting to include budgeted versus actual key milestones
 - Clarify key areas of responsibility and stakeholder management with entities such as Auckland Council and the private sector so government presents a consistent front.
 - Identify and resolve any barriers to creating momentum that currently exist
 - Consider options to engender greater interest from the development community – for example centralise the development panels so if one company is on a panel for one government agency, this panel can be used by all agencies without organisations having to continually submit.
2. Resolve key policy issues or have a timeframe and plan identified for resolution at either work stream or programme level
- Evaluate and agree the role government wants to have in catalysing new housing supply
 - Evaluate and agree the financial parameters upon which the government wishes to operate in the market – balancing out on one hand the desire for a financial return with the risk of development and on the other hand achieving the social outcomes it requires.
 - Evaluate and agree the options available for development Models and establish agreed parameters as to how this may work
 - Determine the appropriate structure and entity for the development outcomes desired
 - As part of the strategic framework report investigate the appropriateness of whether government can play a greater leadership role in increasing momentum in the Auckland Housing Supply. A possible example of a framework is the concept of "Collective Impact" which involves the common theme that large scale social change comes from better cross-sector co-ordination rather than from the isolated intervention of individual organisations. See Appendix 13 for a high level preliminary discussion paper on this concept.
3. Develop a 10-year plan for Auckland land developments
- To create a 10-year plan for Auckland for both HNZN and Crown land with a focus on how to create momentum in housing supply with balancing core financial, risk and social outcomes as a matter of urgency
 - Transfer the responsibility of developing the large-scale development strategy in Auckland from Treasury to the Social Housing Programme Office after Treasury has presented the cabinet paper and obtained agreement on government priorities in February.

By 2018

- 4 Establish a Crown development / divestment agency to lead future residential development and HNZN divestments

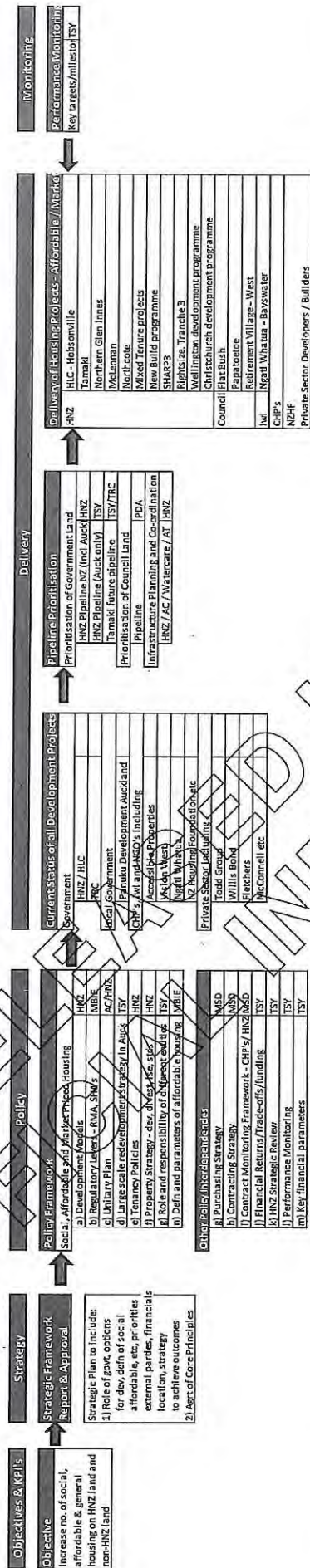
- This relates to the longer term strategy relating to development and divestment. A detailed discussion, options and recommendations are covered in the section titled 'Proposals to establish a Crown residential development / divestment agency' (page 59).

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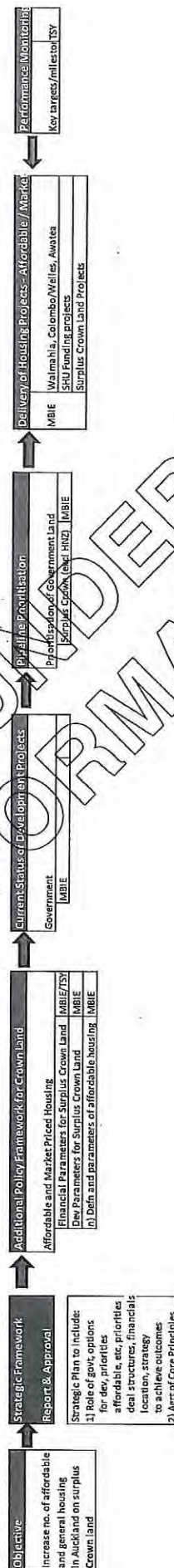
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Figure 11: Social housing reform framework—work stream 2

Social Housing Reform Framework - Workstream 2 - Supply of Housing



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Proposals to improve the social housing market work stream

Successful implementation of the SHRP requires establishment of a dynamic and sustainable market of social housing providers. The role of these competing providers is to acquire and provide social housing places and related wrap-around services in response to MSD signalling and purchase of social housing places, in order to better and more cost effectively meet the needs of those in need of social housing.

Over time it is intended that:

- HNZC and CHPs will collectively provide more social housing places in New Zealand than there are now – particularly in Auckland and Christchurch
- HNZC will continue to be by far the biggest owner of social housing in New Zealand and by 2017 we envisage it will provide around 60,000 properties (as opposed to 67,000 today)

There are currently three main initiatives underway to establish this market:

- Transfer of 2,800 properties from HNZC to Tamaki Redevelopment Corporation on 1 April 2016. This is out of scope for this review.
- Transfer of Tauranga and Invercargill properties

In addition,

- Officials including MSD are working to facilitate or broker CHPs' acquisition of a proportion of 'new builds' on Crown and non-Crown lands in Auckland
- Organisational reviews have also been undertaken, including the recent review by Boston Consulting Group, to inform decisions on HNZC's role and most suitable organisation structure in this new market

Our objective is to ensure a comprehensive and aligned package of strategies to effectively achieve the establishment of a dynamic and viable social housing market as quickly and as efficiently as possible. Our proposals to achieve this are described below.

- 1 Clarify HNZC's role in the contestable provision of social housing, as a matter of high priority, as the Crown's CHP, including consideration of:

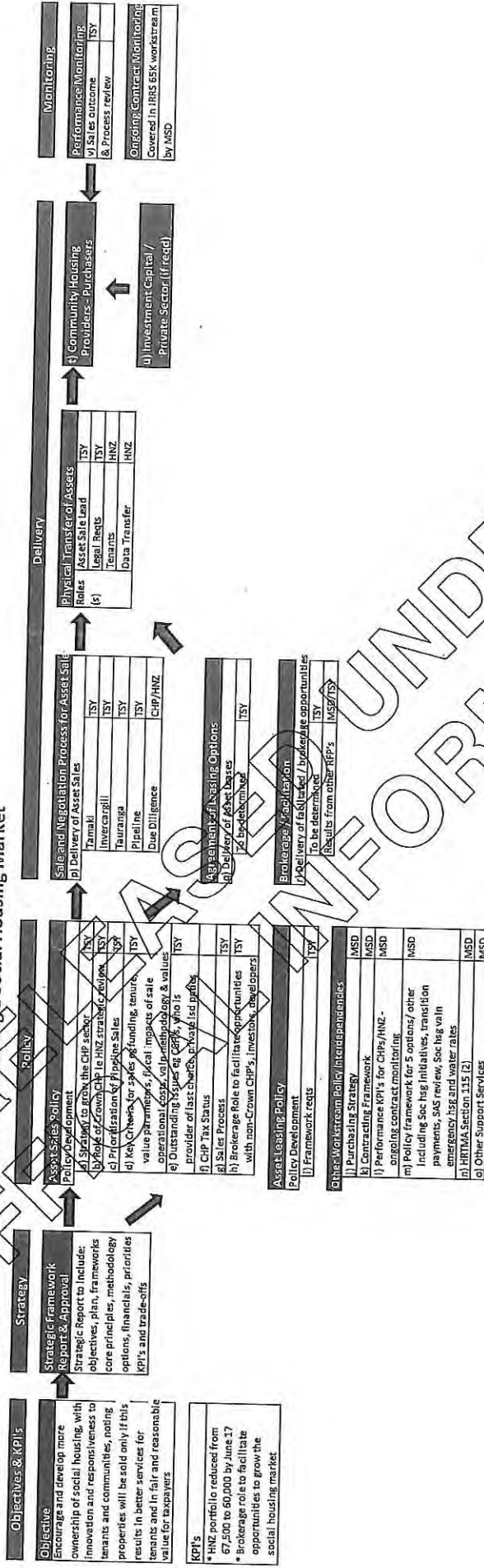
~~s 9(2)(f)(iv) Active consideration~~

- a HNZC's ongoing role, the basis on which it is to operate, and the extent to which it is required to operate in a competitively neutral manner in a contestable market as well as the trade-offs between the requirement to balance financial and social outcomes, such as for instance, whether it would be required to be a last provider of social housing.

- 2 Commission a strategic assessment outlining further options to grow the non-government CHP market including consideration of the following. An example of the framework for the work stream is illustrated in Figure 12.
 - a Desired outcomes, objectives and bottom lines
 - b Method / approach for assessing the net Crown balance sheet and related operational impact as well as the fiscal impacts of the transfers over 25 years
 - c Feasibility from a CHP perspective
- 3 Recommend that a property expert who has experience in large-scale New Zealand property portfolio transactions is included as an additional resource to the Property Steering Group.
- 4 Confirm overall plan, timing and targets for current and future HMZC stock transfers:
 - a confirm current plan with Tamaki, Invercargill and Tauranga and identify any outstanding issues requiring resolution
 - b undertake a strategic assessment of the future pipeline of sales with a range of options and criteria
 - c evaluate the impact of the purchasing strategy if a wider support services framework is included.

Figure 12: Social Housing Reform Framework – Work stream 3

Social Housing Reform Framework - Workstream 3 - Establishing a Social Housing Market



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- 5 Facilitate the establishment of CHPs.
 - a Widen this work stream to encompass all initiatives relating to the Establishment of the Social Housing market, not just asset transfers.
 - b Transfer the responsibility for the brokerage / facilitation role with CHPs to this work stream. This then provides a clear delineation and no conflict between MSD's role as an intelligent purchaser, and these initiatives focused on growing the social housing market.
 - c Ensure alignment of MSD and HNZN approaches and strategy to working with the developers to purchase housing on non-government land to ensure agencies are not bidding against each other.
 - d Review HNZN's current involvement in expanding its leasing programme to ensure consistency of approach. The current HNZN parameters are to pay market rent as opposed to the MSD leasing programme which can be above market rent for new supply in the Auckland market.
 - e Investigate and undertake a strategic assessment of other options to create a social housing market.
- 6 Identify KPIs for establishment of contestable CHPs market:
 - a develop the framework for what a contestable CHP market looks like, and the key stages to implement it.
 - b Develop reporting, milestones and KPIs to have clear outcomes and monitor progress.

Proposals to establish a Crown residential development / divestment agency

In this section we provide more detail and rationale for our earlier supply side proposal to establish a new Crown-owned development and divestment agency. This agency would exist to re-develop Crown- and under-utilised HNZN lands in order to increase housing supply in areas of shortage, especially Auckland, and to redevelop under-utilised HNZN estates. Our proposed agency would also manage future transfers of HNZN assets to non-government owned CHPs.

There are currently several government agencies – HNZN, MBIE, Treasury and MSD – all involved in residential development and divestment activities (see Appendix 15). Through our interviews with external stakeholders we have formed a picture of four agencies all dealing with the same development community and external stakeholders but uncoordinated and inconsistent in their messaging and parameters. We were told that the effect of this has been to create a degree of confusion and uncertainty in the market as to what government is seeking to achieve and how. Also that there is not the clarity necessary for commercial investors and developers to commit time and resources to participating in government initiated developments.

One of the key issues identified in this review is the importance of consolidating capabilities and aligning initiatives across government agencies to achieve improved development and redevelopment of Crown and HNZN land. The importance of this is not only in having a co-ordinated delivery function, but more importantly in having a clearly defined property development / refurbishment / divestment strategy for surplus Crown and HNZN owned land. This is necessary to ensure the desired social and

public good objectives are achieved but within a business-like framework to safeguard and utilise the property asset in a financially sensible manner.

We have given consideration as to how this might be achieved. In doing so, we considered and evaluated a range of options for better delivering residential development and divestment activities. We also took account of the government's desired objectives and the findings of the BCG organisation review of HNZN.

- In the words of the Prime Minister in January 2015 he stated that "on a larger scale, there are opportunities to redevelop and revitalise whole state housing suburbs. These redevelopments could result in a mix of Housing New Zealand properties, other social housing, affordable housing and higher cost homes..... Again we want to accelerate these processes, so small and large redevelopments of Housing New Zealand land and properties are undertaken with more urgency. The government is still considering how and where that might happen. A large redevelopment could involve existing properties being transferred out of Housing New Zealand ownership and into a special urban development entity."

• **s 9(2)(f)(iv) Active consideration**

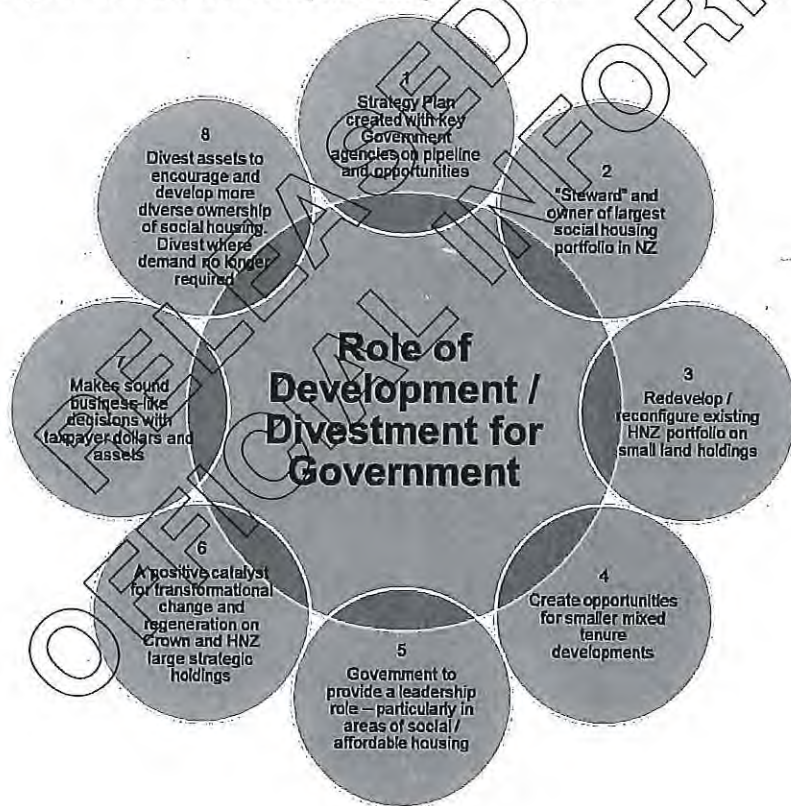
Matters considered

Our approach to developing options to improve on current approach to developing (and divesting) Crown and HNZN owned land assets involved our consideration of these matters.

- 1 *Core constraints and principles important to the government's roles as a social housing landlord, and its involvement in development and divestment activity.* We think that the following provide a useful basis for considering government roles. (Appendix 14 provides a detailed discussion on these principles)
 - a Government has signalled that the Crown will remain by far the biggest owner of social housing in New Zealand. As such, it will continue to be by far the largest social housing provider with a portfolio currently valued at \$20.8 billion, which HNZN is expected to continue to manage in a proactive, long-term focused, financially sound manner ensuring that it meets the changing requirements of its tenants and MSD.
 - b That HNZN will operate as a responsible "steward" of the Crown's housing portfolio where there are clear plans for:
 - i maintenance of current portfolio to appropriate standards
 - ii refurbishment of properties where appropriate
 - iii redevelopment of existing stock to replace an ageing portfolio – a key focus could be to reduce every year the average age of its portfolio, eg the objective by 2025 could be for the average age of the portfolio to be 25 years.
 - iv divestment of housing in areas of low demand at fair value to taxpayers

- c Appropriate use of taxpayer money and a business-like approach to redevelopment, sale and divestment, but balancing this with ensuring social outcomes are met. To this end the objectives for development projects should be at least cost-neutral.
 - d The Crown's role as a catalyst for development (rather than as developer or builder) in areas where it has significant land holdings and large-scale regeneration of areas involving social housing. This is to be undertaken with an underlying principle of building sustainable, strong and safe communities and defined requirements of affordable and social housing.
 - e The Crown to provide a leadership role in housing and contribute to increasing the volume of housing – particularly in areas of social and affordable housing.
 - f The Crown to operate in a business-like manner acting as 'an equal partner' in transactions and dealings with the private sector – that is, equal expertise in the property, negotiation and commercial skills.
 - g The Crown to make the most appropriate use of surplus Crown land ensuring social and affordable housing objectives are met.
- 2 *The roles of government in residential development / divestment.* We have identified eight potential roles for government in residential property development and divestment, as shown in Figure 13.

Figure 13: Role of development in government



- 3 *The importance of a strategic and centralised approach to the development and divestment of the Crown and HNZN's residential assets portfolio* – One of the key roles as the owner of a substantial property portfolio is the development of the strategic plan for the property assets and evaluation of the portfolio to create the pipeline for future development, refurbishment or divestment of assets. This is the crucial area to have centralised and co-ordinated. It is also important that a dedicated and specialist team is responsible for undertaking this. These decisions potentially have the ability to create or destroy significant asset value for government and are critical in being able to create a long-term development pipeline.
- 4 *Options for the delivery of the development outcomes on specific sites* – As mentioned above once the strategy and pipeline is clear the next stage is the delivery options. Appendix 16 details a variety of options relating to the scale and type of land holdings and delivery mechanisms available. These are summarised:
- a *Types of projects* – The types of projects range from small developments (<20 units), mixed tenure (>50 units), precinct planned (100-500 units) and regeneration projects (>500) as well as specialist and the new build programme.
 - b *Development models* – Along this spectrum is a range of development models from contract builders and design build, through to a range of development model partnerships with the private sector. With each of these the government and the private sector can take responsibility for different parts depending on size, scale, complexity, capital input, risk and return profiles.
 - c *Delivery mechanisms* – There is no 'one size fits all' and it is important that the structure also allows for a range of delivery mechanisms for specific projects including:
 - i Specialist entities for major regeneration projects such as HLC and TRC for Hobsonville and Tamaki respectively
 - ii Partnerships with large-scale developers such as Pomare and Northern Glen Innes
 - iii Masterplan and build capability with the smaller developers / builders such as McLaren
 - iv Mixed Tenure examples such as Tāmaki
 - v Specialist developments – such as apartments in Wellington
 - vi Design build and builder panels such as SHARP3
 - d *Different development entities split by scale of project* – One option is to have different entities undertaking projects based on size – for example HNZN could undertake small scale developments up to 20 units where it would retain 100% ownership. A separate specialist agency could undertake the mixed tenure and large-scale redevelopment. There are some key issues for consideration. These include:

The key when contemplating this option is in the definition of small scale and large scale. HNZN for example is undertaking developments under 20 units where for example it takes 3-5 contiguous sites and turns into 10-15 new units. By itself it is a small development, but it is part of a larger programme called SHARP3 which involves hundreds of new houses and hundreds of millions of dollars.

- ii This is similar to the Right-size programme – again the concept is to add a two-bedroom house on the back of an existing property, but the scale of SHRP adds significant complexity. Building a small number of units does not necessarily make it simpler.
 - iii In many areas of Auckland HNZC doesn't own large areas of contiguous greenfield sites. Therefore much of the redevelopment potential is on brownfields land. There are areas of large land holdings, eg Mt Roskill, Otara, Manurewa and the like, but much of it is in smaller non-contiguous blocks. This lends itself more to either project-specific entities for something like Mt Roskill, or large master-planned areas involving multiple developers for areas such as Onehunga.
 - iv There is a challenge of splitting entities by just the scale of the project which includes how the allocation would occur and the potential confusion created. This comes back to the overall strategic plan being clear and co-ordinated.
 - e The concept of an Urban Development Authority and what is happening elsewhere has been discussed in the recent New Zealand Productivity Commission September 2015 report. Further information is contained in Appendix 17.
 - f *Housing Development involves change* – and change can create a reaction and response from communities. A key consideration is the appropriate entity which can operate in an arms-length capacity to create momentum while managing the political context and ramifications.
 - g *Development and divestment together* – The key role is determining the plan for the property assets and the decisions that are made surrounding what is redeveloped, sold or acquired. This must be done in a co-ordinated fashion. There are specialist property skills associated with these functions, and various options about who undertakes what. Currently the large scale HNZC asset transfers are being undertaken by Treasury and BAU divestments by HNZC. This structure is appropriate in the medium term. The key question is which agency entity is best suited for the ongoing HNZC asset transfers post 2018. Is it more appropriate to combine into one specialist development / divestment entity with the appropriate expertise or continue as currently with the roles and responsibilities being split.
 - h *Summary* – The key to gaining momentum is in having the entire delivery programme co-ordinated and aligned with an overall strategic plan to ensure that it fits within the broader framework principles that are agreed. Such a plan is necessary to send clear signals to the market place to enable commercial participants to respond accordingly.
- 5 *Successful property development organisations* – When contemplating the appropriate structure it is important to understand the characteristics of a successful property development organisation.
- a A large successful property development organisation requires core skills which include:
 - i leadership
 - ii creativity – that is the entrepreneurial commercial skills to 'see and create' the opportunity
 - iii technical property skills – throughout all the stages from the strategic framework through to completion
 - iv processes and procedures – to operate with consistency and at scale to ensure projects can be delivered on time, to specification and on budget.

- b They create and build cultures which include the following characteristics:
 - i highly skilled commercial development team with an outcome results focused culture
 - ii a stable entity with a long term view of the development pipeline and a commitment to development momentum
 - iii strong focus on upskilling staff so they can have exposure to projects of different size and scale
 - iv able to reward staff at levels commensurate with ability and performance
 - v career path for growth and opportunities
 - vi ability to create highly skilled, specialist teams for projects
 - vii build strong, trusted, commercial partnering relationships with the industry – including consultants, builders and developers
 - viii creativity balanced with strong commercial acumen and expertise
 - ix working with informed clients whose needs are at the forefront
 - x disciplined processes and procedures that focus on delivery including project governance, procurement, clear standards and specifications with the ability to produce high quality outcomes
 - xi all the support services – such as Legal, Finance, Tax, and Procurement form a key part of the rigour required during the process as trusted advisors. These key advisors are well experienced in property development with a clear focus on problem solving and achieving outcomes.
 - c Property development in the best of times is challenging and difficult. The key issue arises is how does a government entity balance their objectives and goals within the confines of a political environment and still achieve the outcomes.
 - d Undertaking development in a government environment has further challenges which include the impact of operating in a three-year political cycle as well as the media scrutiny and Official Information Act enquiries that development brings. The consequence on culture can be to create a risk adverse focus, and people find it safer and easier not to make a decision. There can be a tendency in these environments to look for absolute certainty and guarantee before supporting a project. The reality is that in property and property development this never occurs.
 - e The importance of the structure adopted for government is to create the environment and the culture which will attract and retain the calibre of people required to achieve the outcomes.
- 6 *The need to attract and retain specialist property expertise* – Currently there are some very good people spread across the different agencies. The government is the largest residential land owner in New Zealand and regardless of the development / divestment entity structure adopted it needs to build skill and capability particularly in the strategic property and development space. The key issue is being able to attract and retain the calibre of staff who not only 'see' the opportunity but can develop the concept and lead large and complex projects – particularly in a mixed model with the private sector. These are long term projects which require development expertise at the highest level.

One of the key things required to achieve outcomes is to provide an environment where suitably qualified and experienced people want to work. This is driven by the type of projects people can get involved in, the calibre of the people in the project teams and the ability to make things happen.

It is also important for specialist project entities which are formulated for a specific project such as HLC for Hobsonville, that when the project end can be seen, key people, intellectual capital, and skills can be retained for other projects.

Options for development entities

We identified and considered six main options for a development entity that ranged from minimal change establishment of a new standalone Crown entity. Across options, the role of the agency is to act as an agent for the Crown or HNZN in bringing land into development or redevelopment. It is not anticipated that ownership of land holdings would be transferred to the proposed entity. Our options are summarised below and detailed further in Appendix 18.

- *Status quo* – whereby HNZN, MBIE, Treasury and MSD are involved in strategy and HNZN, HLC, TRC, MBIE and Treasury are involved in delivery. (It is noted that in all options the specialist project entities such as TRC and HLC remain, as they are project based.)
- *Option 1* – HNZN / MBIE lead. This fundamentally involves Treasury completing its priorities report relating to the long-term strategy for Auckland development and then stepping out of this in favour of HNZN.
- *Option 2* – MBIE steps out of all development in favour of HNZN.
- *Option 3* – HNZN steps out of all strategy and development in favour of MBIE.

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- *Option 5* – New Crown development / divestment agency established as the central co-ordinated role for longer term development and divestment.

- 1 *Options for divestment entities* – Four options have been considered for divestment entities, which range from the least change through to the most significant change. These are summarised below and detailed further in Appendix 19:

- a *Status quo* – HNZN, HLC, MBIE, Treasury are all involved in divestment.
- b *Option 1* – Treasury continues to lead large-scale asset transfers. MBIE and HNZN continue with BAU.
- c *Option 2* – The large-scale divestment activity transfers to MBIE with HNZN continuing with BAU.
- d *Option 3* – HNZN subsidiary responsible for ongoing assets transfers and BAU activity as per the BCG recommendation. MBIE continues with its own BAU.
- e *Option 4* – Crown divestment / development agency established as the central co-ordinated role for longer term development and divestment

- 2 *Evaluation* – A detailed evaluation of our options is included in Appendix 20. Table 3 summarises our findings and conclusion that a new Crown agency is the best option. To provide a basis of comparison each criteria has been ranked on a scale of 1–5, with 5 being the best.

Table 3: Evaluation of options

	Current	Option 1	Option 2	Option 3	Option 4	Option 5
Evaluation criteria based on core principles		HNZC/MBIE Led	HNZC led	MBIE led	HNZC subsidiary	Crown dev / divest agency
Ability of entity to develop at scale	2	3	4	3	5	5
Ability to attract and retain expertise	2	3	3	3	4	5
Consistent Interaction with private sector ie 'one voice'	2	3	4	4	4	5
Speed and cost of establishment	5	4	4	2	3	2
Cost neutral or better – financial outcomes	2	3	3	3	4	4
Competitive neutrality – ie HNZC with other CHPs	4	4	1	4	2	5
Total	17	20	19	19	22	26

Our recommendation is Option 5: Establishment of a Crown divestment / development agency

- This creates a specialist agency which creates a long-term solution for government for its strategic planning and direction as well as on-going asset transfers, divestments and catalysing developments. This creates clear accountability and an ability to provide clarity to the market place as to future pipeline and decision making.
- A specialist Crown agency with a clear long-term focus and clarity on projects can potentially attract, retain and develop the skill and calibre of expertise required.
- It can create development models appropriate for the specific projects and ensure that there is an opportunity, where appropriate to create commercial outcomes balanced with the social outcomes.
- Whilst it is acknowledged a Crown divestment/ development agency would take longer to establish than establishing a HNZC subsidiary, it avoids the other issue of still having at least two if not three government agencies involved.

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- This solution creates a clean structure for the SHRP post July 2018 which involves:
 - Social Housing Programme Office is disbanded
 - MSD stands in the market as the intelligent purchaser
 - HNZC continues as the Crown CHP
 - the Crown development / divestment agency is responsible for all strategy and ongoing development and divestment

Implementation of our proposals

Our proposed programme office and associated programme governance and management arrangements are intended to have a finite life.

By the end of 2018 the programme office should have completed its work. By this time, and if it has been successful, the institutional landscape associated with the SHRP will have substantively changed. These changes are summarised in Figure 14.

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Figure 14: Implementation timeline

What		By June 2016	By Dec 2016	By June 2017	By Dec 2017	By June 2018	July 18 onwards
SHPO		* SHPO established	SHPO operational				SHPO disbanded
		* CE appointed * Governance Board in place * Overarching strategy complete and KPI's in place * Reporting and strategic assessments complete * All key issues resolved	Improving monitoring and reporting				
People / Demand	Plan to accelerate MSD as purchaser			Work completed to build intelligent purchaser		MSD stands in the market as purchaser	
	65K assessed / modified Additional resources appointed Define other KPI's				Target 65000 reached		
Partners / Social Housing Market	Clarify HNZ role as Crown CHP		HNZ operates as Crown CHP			HNZ continues as Crown CHP	
	Complete Tamaki transfer		Complete Invercargill and Tauranga transfers				
	Strategic Assessment of Asset transfers		Pipeline plan for future transfers				Asset Transfers from this point through Crown Div Dev Agency
	Include Brokerage / Facilitation role in workflow				Brokerage role complete		
Houses / Supply	Existing Land Development initiatives and capabilities aligned and co-ordinated						
	Complete 10 year pipeline for Auckland Implement Option 1 - MBIE and HNZ to undertake development roles Decisions on Entity for Crown Development & Divestment (see further detail on options)			Existing Resources transferred & operational		Ongoing development for Crown through Crown Div Dev Agency	

By the end of 2018 we would expect to see that:

- the programme office has been disestablished
- any residual and ongoing programme-level strategic policy, communications and stakeholder engagement, monitoring and advisory functions are now embedded in MSD
- MSD operating as the lead agency and driving force for the ongoing implementation and delivery of the SHRP
- MSD operating as an assertive and intelligent purchaser of social housing from competing CHPs (including HNZC)
- HNZC operating as a Crown-owned community housing provider
- A dynamic and growing market of Community Housing Providers
- A new Crown-owned residential development and divestment agency providing strategic leadership for the residential development and redevelopment of surplus and under-utilised Crown and HNZC owned land in Auckland and elsewhere
- The initial transfer of HNZC assets to CHPs to have been completed, and the Treasury to now be focused on:
 - Ownership monitoring of HNZC and the new development and divestment agency
 - Business-as-usual Vote analysis and advice
- MBIE to no longer be in the business of Crown land development and now focused on its core roles in regulating the operation of the residential tenancy and CHP markets.