



## Office of Hon Bill English

Deputy Prime Minister  
Minister of Finance  
Minister Responsible for HNZC

19 FEB 2015

Dr Allan Freeth  
Chair  
Housing New Zealand Corporation  
PO Box 2628  
WELLINGTON 6140

Dear Dr Freeth

It was a pleasure meeting the Housing New Zealand Corporation (HNZC) board. I would like to reiterate and add to the points I made in our discussion.

Cabinet has recently reviewed the Government's social housing reform programme and affirmed its ambitions to proceed with far reaching changes to the social housing system. It has set a series of objectives and commitments to guide the reform process over the next few years (noting that there will be a review in 12 months time at which stage some commitments may be updated).

The Government's objectives are:

- a. Ensure that people who need housing support can access it and receive social services that meet their needs.
- b. Ensure that social housing is of the right size, configuration and quality, and in the right areas, for those households which need it.
- c. Help social housing tenants to independence, as appropriate.
- d. Encourage and develop a more diverse ownership of social housing, with more innovation and responsiveness to tenants and communities.
- e. Help increase the supply of affordable housing, especially in Auckland.

Its commitments are that over the next few years:

- a. HNZC and Community Housing Providers will collectively provide more social housing places in NZ than there are now – particularly in Auckland and Christchurch.
- b. HNZC will continue to be by far the biggest owner of social housing in New Zealand and by 2017 we envisage it will provide<sup>1</sup> around 60,000 properties.

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<sup>1</sup> Provide includes own and lease

- c. Properties will be sold only if this results in better services for tenants and fair and reasonable value for taxpayers.
- d. Tenants in properties that are sold will continue to be housed for the duration of their need.
- e. The Government will spend more on income-related rent subsidies and ensure that Housing New Zealand Corporation has enough capital to build new social housing and redevelop its existing properties.

As is clear from these commitments, HNZC will be the foremost provider of social housing for many years to come. Therefore, achieving the Government's objectives is closely tied to HNZC's performance.

There are some particular features of the new arrangements that will be relevant to the way Housing New Zealand carries out its business.

Given its scale, and while MSD contracting capability develops, HNZC will be the primary supplier of social housing and will need to continue to provide houses in areas of demand where there are currently no other providers. However, MSD is not obliged to purchase social housing places<sup>2</sup> it does not need from you or where a superior alternative is available. There are signs of availability of significant new supply from other providers, including councils and community providers supported by the Social Housing Fund. As a consequence, where HNZC stock is mismatched to demand for social housing places, you will see over time a reduction in occupancy of your houses which will affect short term financial performance. I expect HNZC will respond to this by accelerating the shift in the location and typology of its housing stock to better meet demand. The Government intends to publish a purchasing strategy in April 2015 which will be specific about MSD's purchasing intentions. MSD will be consulting with providers (including HNZC) on what should be included in the strategy in early 2015.

My officials are working with you on the strategic review of HNZC. This review will inform consideration of HNZC's asset management strategy. I expect that HNZC will be partners in this review, including by providing full access to the necessary information and staff. I also expect you to engage with me so that I can be confident your plans are consistent with the Government's objectives and commitments in regard to social housing reform. Nonetheless, I expect HNZC will lift its rate of activity on its business as usual asset activities.

I expect to see:

- Ramp up activity in the divestment programme - more sales of houses in areas of excess capacity
- Redevelopments - faster redevelopment in areas of high-demand, in response to expected demand from the purchaser. I expect you to work to accelerate your development pipeline through more concurrent activity, and to add new transactions to that pipeline.

I must emphasise this acceleration and expansion of the business as usual divestment and redevelopment pipeline should not result in transactions proceeding that are not in the Government's overall economic interest. There is scope for transactions to be partially

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<sup>2</sup> A social housing place is where the tenant pays an income related rent and the landlord is eligible to receive the Income Related Rent Subsidy

justified based on their contribution to the Government's wider economic and social objectives, but these need to be clearly identified and quantified. In addition the alternative commercial "highest and best use" scenario needs to be clearly identified and explained – so we are clear what the opportunity cost of proceeding is. For clarification, it's my expectation that values utilised in feasibility studies will be market value based.

I am open to HNZN facilitating larger-scale redevelopments, for instance by being a catalyst for re-generation and mixed tenure developments, where this is justified by a business case with net economic and social benefits and is consistent with the Government's wider objectives. Clearly with redevelopments of scale I want to be kept closely informed on progress at all stages, and then be formally consulted before final decisions are made. It is important that HNZN and the Transaction Unit (formerly the Establishment Unit) continue to effectively work together and share information and forward plans to ensure there is not duplication of effort and that there is clarity in the way all parts of the government are engaging with the market. This will be especially important for larger developments.

My expectations around the acceleration and expansion of the redevelopment pipeline, need to be seen in the context of the long lead times for bringing these to market, especially for larger developments. Given my expectation for increased activity by HNZN, it is important we work to proactively identify any barriers in governance, regulation, legislation, organisation structure or any other barrier that might prevent achieving that higher level of activity. Reflecting discussions that we have had I am considering a range of tools, including the potential to introduce legislation if that will assist HNZN achieve its development outcomes or support greater activity.

I believe transparency, frankness and respect in our interaction will be conducive to achieving greater activity. I recognise the value to you of certainty in respect of your asset management strategy, and in particular the reputational and monetary costs of cancelling market engagements. However, I do not propose to provide you with more certainty than is possible at this stage as the Government develops its social housing policies in a number of areas. Instead I propose to continue discussion with you in three areas:

1. Consideration of the Asset Management Strategy following the outcome of the strategic review.
2. To work with you to develop expectations around your development pipeline and so I can develop a deeper understanding of HNZN's decision making framework, including how it takes into account wider social and economic factors.
3. Asset activities, setting expectations about what level of activity is achievable and desirable.

I will be monitoring progress by speaking to you, the Board and management, as well as contractors and developers working with HNZN. My staff and I will, where possible, inform you in advance on all significant announcements and events. I expect where possible you will do the same.

I welcome recent reports from officials of HNZN's cooperation. I expect this cooperation will continue through to the conclusion of the strategic review, the consideration of the Asset Management Strategy in view of its findings, and beyond. I understand that my officials are working with you to determine how HNZN could, in some instances, provide tenancy and property management services on houses transferred to other social housing providers for reasonable compensation.

It is also my expectation that you will refresh your Statement of Intent following the completion of the strategic review.

If any aspect of our discussion or this letter is unclear I welcome the opportunity for clarification. I look forward to a constructive working relationship with you.

Yours sincerely

**Signed Hon Bill English**

Hon Bill English  
**Minister Responsible for Housing New Zealand Corporation**