

Social Housing Reform Programme: Market Information and Feedback

22-26 June 2015

Consolidated Questions and Answers (All sessions)

The Government conducted Market Information and Feedback sessions with potential participants in the proposed transactions within its Social Housing Reform Programme (SHRP) in the week 22-26 June 2015. The sessions were in Wellington, Auckland, Tauranga, Invercargill and Christchurch.

This summary of the questions and answers at these sessions should be read in the context of the Discussion Document available [here](#) and the presentations slides available [here](#). Terms, concepts and timelines covered in those documents are not repeated in the following summary.

Responses have been expanded or clarified where needed to assist with understanding. Final decisions on initial transactions won't be made until consultation has concluded with iwi and hapū in these regions to identify particular interests under the Treaty of Waitangi that may be impacted by a potential transaction.

1 Transfer Process

1.1 **Q: Timeframes for feedback are tight. Is it possible to provide more time? It's particularly difficult for peak bodies to canvass their members for feedback in these timeframes.**

A: We acknowledge that the timeframes for feedback are tight – there will be further opportunities to provide feedback at the Market Sounding stage.

1.2 **Q: When and how will the feedback be provided back to the market?**

A: Q & A's will be published on the website and the outcome of feedback we receive as part of this process will be incorporated into the Information Memorandum at Market Sounding.

1.3 **Q: Will the RFP be for a bundle of properties and tenancies?**

A: Yes, properties will be bundled with MSD IRRS contracts which include the existing tenant.

1.4 **Q: This is an attenuated process with lots of stages. Is the government going to act in good faith and be transparent about the trade-offs? Is the process likely to stop?**

A: This is a standard two-stage transaction process that has been used by the Government in other procurements of infrastructure and services. This will be a transparent, predictable and fair process.

1.5 **Q: The procurement timeframe is long; this conversation started in May 2014. Is it possible to shorten this?**

A: Feedback so far on the timetable has been mixed – some people think we're going too fast, others too slow. These transactions are new for the Government and the market, so we do need to give potential participants time – and as much information as possible – to help them prepare to participate. We will consider any feedback provided on this point.

1.6 **Q: The timeline you proposed is short. Are you confident that the government will be able to adhere to that timeline?**

A: Yes, we think that the timeline is achievable recognising these transactions are new. However, we will consider your feedback on this point.

1.7 **Q: Will there be an opportunity to provide input to the template documents?**

A: The template documents include an overview of the key terms available at Market Sounding, term sheets available at EOI and draft contracts (for shortlisted bidders) available at RFP stage. There will be opportunities to provide feedback on these documents at each stage.

1.8 **Q: Will the procurement process cover property maintenance?**

A: In its assessment of RFP responses, one of the criteria the Government is intending to include is the bidder's ability to effectively remedy any deferred maintenance.

1.9 **Q: How do you define "transfers of scale"? Are you looking for one transaction per region? If so, how does this create a market?**

A: We have specifically asked for feedback on what size of transaction is optimal for market participants and why. Transacting small numbers of houses may be expensive, so we need to consider this when determining transaction size.

1.10 **Q: What is the minimum and maximum size of transaction the Government is contemplating?**

A: We want feedback on this. Our current thinking is that we will transact at scale, the upper end being the entire portfolios in each region and the lower end potentially being one or two hundred.

1.11 **Q: What is the upper limit of what the Government is considering it will sell?**

A: If there is demand, all HNZC stock in both Tauranga and Invercargill could potentially be sold or leased.

1.12 **Q: When will the next transactions be brought to market?**

A: The Government expects to announce the next potential transfers before completing the first tranche of transactions. Work is being done on considering potential regions for the next set of transactions.

1.13 **Q: Would you consider a transaction spread across multiple locations? A dispersed portfolio is better for investors.**

A: The initial round of transactions will not offer this option – but we may be able to do this for any subsequent transactions. We're open to hearing from the market on this.

1.14 **Q: How does growth and innovation take place? Could this be a planned process to acquire properties over 3 -5 years so we can grow our capacity and our portfolio at the same time?**

A: This process is laying the foundation for phased growth in the sector. These particular transactions are of scale to accelerate growth rather than to achieve incremental gain.

We are looking for feedback on the transaction size, so please tell us your views.

1.15 **Q: This is a very transactional process, with no real development opportunities. How will this grow the capability of community housing providers?**

A: We expect these transactions will help kick-start the market; however this is a new approach and only the first step in achieving all of our key objectives, including better outcomes for tenants.

Increasing the asset base and revenue stream of providers through these transactions will increase capacity and the potential to innovate, including the ability to reshape the portfolio through reconfiguration and/or redevelopment over time. CHPs will also have the ability to partner with other organisations to provide services. It is also important to note that other, specific development opportunities are underway concurrently, e.g. the Tamaki Regeneration Programme [which is separate to the initial transactions].

1.16 **Q: What will the evaluation criteria be, and when will the weightings be provided?**

A: During the EOI phase, the Government is likely to be looking to evaluate and assess the capability and approach of each bidder in relation to the criteria listed below (but excluding price).

In its assessment of RFP responses, the Government will be looking at criteria that are likely to include:

- tenancy and property management capability and approach,
- the ability of bidders to efficiently remedy any deferred maintenance,
- the ability of bidders to assume full operational control of the portfolio in a timely manner,
- community links that achieve better outcomes for tenants,
- commercial and financial capability, and
- price.

The final criteria and relevant weightings will be provided at EOI and RFP.

1.17 Q: How will price and tenant outcomes be weighted at the RFP stage?

A: The aim of the transaction process is to transfer properties to credible social housing providers that can both provide social housing and offer tenant and property management services on a sustainable basis. It is currently proposed that the provider will be evaluated and selected based on a weighted evaluation score covering both price and quality factors. These weightings have yet to be decided.

1.18 Q: Who will the evaluation panel be?

A: No decision has been taken on this yet, but we expect the panel will be made up of relevant Government officials and independent parties with specialist expertise. Ministers will not sit on the evaluation panel.

We expect the evaluation process to be transparent and we will provide comprehensive information at each stage in the process.

1.19 Q: Is it possible to add another round of market feedback before EOI?

A: There is a Market Sounding process scheduled to commence in August. We do not expect a further round of market feedback, given that providers will have the opportunity to give additional feedback at the Market Sounding.

1.20 Q: Has the Government thought about the sale of the land, and the lease of the improvements?

A: Yes, we're interested in the market's feedback on possible transaction structures.

1.21 Q: What sorts of leases are being considered?

A: We're considering two lease options, a simple lease of the land and buildings, and the lease of the land and the sale of the buildings. There are other options. We are interested in your feedback on these and other lease options you may be interested in.

1.22 **Q: What is a market in the context of Invercargill?**

A: It may not be feasible to have a traditional market with competition in each regional market due to the size of these markets. For example, there are approximately 370 Housing New Zealand houses potentially available for transfer in Invercargill and it is possible that a transfer of the whole portfolio may bring benefits that outweigh the need for competition. We are interested in your feedback.

1.23 **Q: Why are there so many contracts? Why are these not standardised?**

A: The principal contractual documents are:

- An Outcome Agreement, a contract between MSD and a provider for the provision of social housing places,
- A Transfer Agreement, a contract between HNZC and a provider for the sale or lease of properties,
- A Transitional Services Agreement, a contract between HNZC and a provider for the provision of services to support the transition of the management of the portfolio from HNZC to the provider, and
- A Tenancy Agreement, a contract between each tenant and a provider under the Residential Tenancies Act 1986.

These contracts are expected to form the base of subsequent transfer transactions and we expect them to become increasingly standardised in future transactions. This has proven to be the case on other Government programme procurements.

1.24 **Q: When will the detail of the contractual documents be available?**

A: At Market Sounding, an outline of the key terms in each contract will be provided. At EOI, term sheets will be provided. Full draft contracts will be provided at RFP.

1.25 **Q: Will there be the opportunity to select specific or the better properties in a portfolio?**

A: No.

1.26 **Q: Are community group houses included in the transactions?**

A: We have not included community group houses in the initial regional portfolios given their unique circumstances.

1.27 **Q: Are properties being sold aligned with areas where there will be future demand?**

A: MSD's Purchasing Intentions document outlines where MSD expects to be purchasing social housing places over the next 2-3 years.

Tauranga and Invercargill have been proposed as the initial regions for transfers of housing stock partly because they are areas where demand is expected to be relatively stable.

1.28 **Q: The Government is saying this programme will result in better outcomes for tenants, but isn't this about transferring the same outputs to different providers? How is your approach consistent with better outcomes?**

A: These transfers are the first step in achieving all of our key objectives including better outcomes for tenants. In initial transactions, providers will be required to demonstrate that they have the capability, including community links, to deliver better outcomes. Providers will also be required to meet agreed standards in regards to matters such as deferred maintenance and the provision of safe, warm and dry houses and tenancy services. Initial transfers will increase the range and capability of providers that deliver social housing in New Zealand.

2 Outcome Agreement

2.1 **Q: Are better outcomes part of the MSD contracts?**

A: This programme is laying the foundation for wrap-around services and better outcomes. Providers will be required to meet agreed standards in regards to matters such as deferred maintenance and the provision of safe, warm and dry houses and tenancy services.

2.2 **Q: How can we achieve better outcomes for tenants when the Government is not paying for wrap-around services/outcome-based contracting?**

A: The transfer of properties to CHPs is the first step in the development of a social housing market. It will take time to develop the capability, in both the market and the Government, to move to outcome-based contracting. Interested consortia may include a community provider already delivering wrap-around services.

2.3 **Q: What's the relationship between the purchasing intentions released by MSD and these transactions?**

A: The Purchasing Intentions sets out MSD's view of how the market is going to evolve. The initial regions (Invercargill and Tauranga) proposed for transactions have in part been chosen because MSD expects demand in both locations to be relatively stable.

2.4 **Q: What duration will capacity contracts be? And what will the ratio of spot to capacity contracts be?**

A: That will depend on the area and the type of property involved. Indicative information on duration and ratio of spot to capacity contracts in the regions for transfer will be provided at Market Sounding.

2.5 **Q: Will MSD be applying quality standards more broadly or just to these transactions?**

A: We expect longer term capacity contracts to be more prescriptive with regards to standards than MSD's current spot contracts.

2.6 **Q: Are you open to proposals for improvements to outcomes?**

A: All feedback/suggestions will be considered.

2.7 **Q: How will the MSD tenancy reviews affect these transfers?**

A: If a tenancy review results in a tenant no longer being eligible for IRR, CHPs will no longer be eligible for IRRS for a social housing place. A CHP will have two choices in these circumstances:

To keep them as a tenant, provided the CHP is still able to provide the same number of contracted social housing places, or

To end the tenancy and select a new or preferred tenant eligible for IRR off the social housing register to continue receiving IRRS.

2.8 **Q: Who holds the decision on the structure of MSD's contracting agreements? How are Ministers involved in this?**

A: The high-level parameters for tailored agreements (or capacity contracts) will be set by Ministerial direction. The details of each agreement will be subject to negotiation between providers and MSD.

2.9 **Q: When will the legislation be in place for MSD's contracting?**

A: This was passed on Budget night in May 2015.

2.10 **Q: Are CHPs able to select the tenants they want to house?**

A: Providers will be assuming existing tenancies. If a tenancy ends following the transfer, a provider will select an eligible tenant from the social housing register. This is the same process a CHP will use to select a new tenant for an IRRS tenancy under a spot contract.

2.11 **Q: What happens if there is no tenant to fill the house?**

A: Further details of the options for both spot and capacity contracted properties if there are no tenants will be provided at Market Sounding stage.

2.12 **Q: What are your expectations in regard to the term of the contract?**

A: The term of any capacity contract will be dependent on the demand for places in an individual area, and the type of houses in the portfolio.

3 Protections/ Opportunities for Redevelopment

3.1 **Q: How will protections on sales work?**

A: We are working through this to find the best balance between encouraging innovation with the need for continuity of supply. The Government has committed that social houses can't be sold unless it agrees and that tenants in transacted properties will continue to be housed for the duration of their need. More information on the type of protections proposed will be available at Market Sounding.

3.2 **Q: If housing is being sold that is not aligned to need (e.g. too many three bedroom properties and not enough one bedroom) is there an expectation that purchasers will redevelop these properties?**

A: MSD's Purchasing Intentions document will give you an indication of what the needs are around New Zealand. There may be some reconfiguration and small-scale redevelopment over time in response to social housing demand. Tenants in transacted properties will continue to be housed for the duration of their need.

3.3 **Q: Are you looking for innovation in terms of adding or removing properties from a purchased portfolio if different configurations or locations are required to meet need?**

A: Yes, further information will be provided at Market Sounding.

3.4 **Q: Will there be incentives to fill other gaps in the market in terms of how we redevelop properties – for example, a mix of social, affordable and market rent properties?**

A: This will depend on location and the type of housing demand in that region.

3.5 **Q: How are the protections to be balanced with the need for innovation – specifically the ability of a CHP to sell stock of the wrong type in the wrong location (that MSD won't want to purchase)?**

A: The Government is focused on ensuring that it does not stifle innovation as part of this process but rather promotes it. While protection of social housing places is required, the mechanism for doing this still needs to be worked through. It is intended that any protection mechanism will allow for the new provider to make adjustments in line with demand.

4 Information for Bidders

4.1 **Q: When will information on deferred maintenance on properties for sale be available?**

A: An assessment against a standard benchmark of the condition of each property prepared by independent professionals will be available to bidders at RFP stage.

4.2 **Q: When will we get a good understanding of the tenant make up?**

A: A specific list of what tenant information will be provided at each stage will be made available at Market Sounding. At Market Sounding we'll provide summary tenant information by region, at the EOI stage we'll provide summary information by transaction portfolio and at RFP we'll provide a detailed report on the tenant cohort within each portfolio. The privacy of individual tenants will be maintained.

4.3 **Q: Will we have tenant information so that CHPs can match their skills with the needs of tenants? Have you considered working with current providers on who is where so they can work out what they can bring to the table?**

A: See above. There will be further opportunities for feedback on the type of information required as we release more information through this process about the properties and the tenant cohort.

4.4 **Q: Will information on the tenants be provided?**

A: Yes, subject to privacy constraints. See above.

4.5 **Q: Can we see maps of where these houses are?**

A: At RFP, titles and detailed due diligence will be provided to shortlisted bidders. We are interested to hear what diligence information the market requires and when.

5 Tenants

5.1 **Q: Will tenants have to be transferred with the properties? Do they have the right to refuse to transfer to a new landlord?**

A: It is intended that tenanted properties will be transferred. Tenants can choose to move out of their property – but if they wish to be considered for another social housing property, MSD will need to reassess their circumstances to determine if they are eligible.

If they are eligible for a transfer, MSD may move the tenant to the social housing register to be considered for another property as it becomes available.

5.2 **Q: Will tenants be consulted in the process?**

A: We would welcome feedback on this and are considering how and when tenants might engage with the process. We will be working with Housing New Zealand to make sure that tenants in houses being transferred are kept informed about the transfer process as it progresses.

5.3 **Q: This process will put a significant amount of stress on people, which will flow down to their children. How are you incorporating the views of the tenant into this process?**

A: We are working with Housing New Zealand who will keep its tenants informed at each stage of the process. We are also working through how a tenant voice might be brought into this process.

6 Price

6.1 **Q: Is the Government expecting to make money out of these transactions?**

A: The focus is on getting better outcomes for tenants and increasing the diversity and capability of the social housing sector, but at a fair and reasonable value for taxpayers.

6.2 **Q: How will market value be calculated? Will you look at potential value or value of current improvements?**

The market will set the price through bids.

6.3 **Q: How do you expect the purchase price to be funded?**

A: A transaction could be funded through debt and equity. A CHP does not need to own the assets to deliver its service offering.

6.4 **Q: Is there a reserve price, or a price at which a transaction will not take place?**

A: The Government will evaluate bids taking into account the quality of the proposal with the need to balance the sustainability of a transaction and value for money for taxpayers.

6.5 **Q: When you value these houses on a cash flow basis, the value is significantly less than the value recorded in HNZA financial statements. Is the Government aware of that?**

A: Yes, the Government recognises that the current value of these properties on HNZA's accounts is not reflective of factors such as their ongoing value as social houses and deferred maintenance.

7 CHRA Registration

7.1 **Q: Can a CHP that is part of a consortium change over time?**

A: Yes, however the outgoing CHP would have to relinquish its contract for IRRS places with MSD and the incoming CHP would need a contract with MSD before it could receive IRRS.

7.2 **Q: If a CHP ceases to operate – for example if they fall over financially – can we swap them out for another CHP?**

A: We recognise that this is an issue for financiers and might also have impacts on tenants. We will be working on this issue as part of the next stage of refining the transaction process.

7.3 **Q: Can organisations register with MBIE as a CHP before they own a community housing property?**

A: Yes, you don't need to own a community housing property to be registered. You do need to be a legal entity in NZ and be able to demonstrate that you have the capability to be a social housing provider. MBIE will be providing further information on the CHP registration requirements at Market Sounding.

7.4 **Q: Do consortia have to be registered or just CHPs?**

A: Just CHPs – but evaluation criteria for bids will cover all consortia members.

7.5 **Q: When will we know whether our CHRA registration will be reviewed?**

A: Further information will be provided on the CHP registration requirements at Market Sounding. We may ask for further information from you if we need it at EOI stage. We'll confirm before RFP stage whether or not you need to re-register or if further information is required.

8 **Treaty Issues And Rights of First Refusal**

8.1 **Q: If you transact in other regions, how do you plan to engage with iwi around Treaty rights and obligations and Rights of First Refusal (RFRs)? We would prefer sooner rather than later.**

A: The Government is committed to ensuring compliance with statutory RFRs and to understanding any particular interests under the Treaty of Waitangi that may be affected by transactions. We will comply with all our statutory obligations and consult with iwi in any region we propose to transact in.

8.2 **Q: How many RFRs are there in Tauranga?**

A: Approximately 115.

8.3 **Q: Who holds the RFRs in Tauranga?**

A: Ngati Ranginui.

8.4 **Q: Will iwi be brought into the evaluation process to ensure their views are considered?**

A: The final detail of the evaluation process has not yet been designed.

9 **CHPs**

9.1 **Q: Are CHPs in a position to provide tenancy management services for a social housing portfolio of scale?**

A: We have requested and will consider feedback on scale as part of this process. There may be more than one CHP included in a consortium.

9.2 **Q: Where is the opportunity for small or niche CHPs?**

A: We want your feedback on this specific issue, the size of a transaction. Small or niche CHPs could participate in these transactions through working together to form a consortia for a transaction. There are also other opportunities in the wider Social Housing Reform Programme for small or niche CHPs to participate, such as MSD's RFP for 300 places in Auckland.

9.3 **Q: Is your intention that the process be led by CHPs or others in a consortium?**

A: If a consortium is formed it will need to include a CHP, but we are open to others leading the process – this is up to the consortium to decide.

9.4 **Q: Can a CHP that is part of a consortium change over time?**

A: Refer to Question 7.1.

9.5 **Q: If a CHP ceases to operate – for example if they fall over financially – can we access another CHP?**

A: As above. We are considering the mechanics to allow a CHP to be replaced. We welcome feedback on this issue.

9.6 **Q: How will this create balanced communities where people want to live?**

A: One of the challenges of having one large provider of social housing in NZ is that tenants have often been faced with a one-size-fits-all approach to managing social housing needs in different and diverse communities. Having multiple providers will enable diversity, specialisation and new approaches to better meet the needs of those who live in these communities.

Housing New Zealand

10.1 **Q: What is Housing New Zealand's ongoing role?**

A: Housing New Zealand will continue to be the biggest provider of social housing for the foreseeable future (the Government has indicated that Housing New Zealand will still hold around 60,000 properties by 2017). Housing New Zealand may provide transitional services following the transfer of properties.

Property condition

11.1 **Q: What is the standard that the houses will be required to be kept to?**

A: This will be outlined in the Outcome Agreement. That document is currently under development, but will be focused on houses being warm, dry and safe.

11.2 Q: How will we know what the condition of the houses is?

A: The Government will undertake a condition assessment of each house with reference to the standard in the Outcome Agreement, which will be made available at RFP stage.

11.3 Q: What is deferred maintenance?

A: Deferred maintenance is the work required to bring the house up to the standard in the Outcome Agreement.

Additional detail for the following questions was provided by HNZC:

11.4 Q: Does HNZC have a standard?

A: Yes. Under the Housing Corporation, Building, Resource Management and Residential Tenancies Acts, and Building Code, Housing New Zealand is required to ensure the portfolio is maintained. Housing New Zealand also has compliance and amenity standards that are additional to the requirements of the building regulatory framework, with a particular focus on items such as thermal curtains, insulation and heating.

11.5 Q: Does HNZC meet that standard?

A: At any point in time, most properties will meet the standard. Properties that fall below the minimum standard receive remedial maintenance and/or repairs to restore their condition to the appropriate lettable standard. HNZC standards are also continually reviewed against new construction methods and materials to take advantage of economies of scale and sustainable solutions.