

# The Treasury

## Briefing to the Incoming Minister of Housing: Monitoring Housing New Zealand Corporation and Tamaki Redevelopment Company [2013]

20 March 2013

### Release Document

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**[1]** 9(2)(a) - to protect the privacy of natural persons, including deceased people

**[2]** 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

**[3]** 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions.

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

**Treasury Report:** Briefing to the Incoming Minister of Housing:  
Monitoring Housing New Zealand Corporation  
and Tamaki Redevelopment Company

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<b>Date:</b>	1 February 2013	<b>Report No:</b>	T2013/95
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**Action Sought**

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	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	<b>Note</b> the contents of this report.	N/A
Associate Minister of Housing (Hon Paula Bennett)	<b>Note</b> the contents of this report.	N/A
Minister of Housing (Hon Dr Nick Smith)	<b>Note</b> the contents of this report.  <b>Agree</b> to meet with Treasury officials about your expectations for monitoring of HNZC and TRC.	N/A

**Contact for Telephone Discussion** (if required)

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
[3]	Analyst, Health and Housing	[3]	✓
Ruth Isaac	Manager, Health & Housing	04 917 6174 (wk)	[1]

**Actions for the Minister's Office Staff** (if required)

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Return the signed report to Treasury.

**Enclosure:** Yes ([Signed Memorandum of Understanding between Tsy and MBIE on Housing New Zealand and Tamaki monitoring:2555787](#))

## **Treasury Report: Briefing to the Incoming Minister of Housing: Monitoring Housing New Zealand Corporation and Tamaki Redevelopment Company**

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### **Executive Summary**

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Treasury has recently taken on the role of monitoring Housing New Zealand Corporation (HNZC) and the Tāmaki Redevelopment Company (TRC). We report directly to the Minister of Finance and Minister of Housing as the Ministers with responsibility for these entities.

The Minister of Finance has asked that Treasury take a more 'active' role in monitoring the housing entities. You will receive further advice on this in due course. In the early stages our focus has been on building open and collaborative relationships with the housing entities and the Ministry of Business, Innovation and Employment (MBIE) who retains responsibility for housing policy advice. We are also working on understanding the entities' business and performance, as well as developing an annual monitoring plan.

### **Housing New Zealand Corporation**

There are some particular challenges ahead for the Government and HNZC.

- The Social Housing Reform Programme (SHRP) could result in significant change for the shape and direction of HNZC. The reform envisages "a less dominant role for HNZC, where non-government social housing providers enter the market, and/or existing providers expand their operations, and HNZC makes more efficient use of capital"[2]
- The location and size of HNZC's stock is not well matched to demand. HNZC has developed a 10 year Asset Management Strategy (AMS) to improve the quality of the stock, make better use of its land holdings and configure its stock to better meet future demand.
- HNZC's Canterbury housing stock requires significant repair and upgrade following the earthquakes and there are opportunities for HNZC's activities to assist with the wider residential rebuild.
- There is an underlying question about the sustainability of the HNZC model, and the adequacy of the level of return given the entity's social and commercial objectives.

### **Tāmaki Redevelopment Company**

TRC is a newly established entity charged with the regeneration of the Tāmaki area in Auckland. [2]

However, this is a large and complex project with the potential for a high level of Crown investment and a large number of risks. The Crown and the Auckland Council are both shareholders in the TRC which is listed on Schedule 4 of the Public Finance Act.

TRC's work is set out in two stages. Initially it is responsible for providing shareholders with a Strategic Framework and Business Case for regeneration. Stage 2 is the physical regeneration of the area which will only occur with Cabinet and Auckland Council approval. MBIE is responsible for leading the Government's policy input to the TRC's work and advice to Government.

## Recommended Action

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We recommend that you:

- a **note** that Treasury monitors Housing New Zealand Corporation (HNZC) and the Tāmaki Redevelopment Company (TRC) on behalf of the Minister of Finance and Minister of Housing and that Treasury reports to you directly on matters concerning the monitoring of these entities (including leading, on your behalf, the relationships with the Board)
- b **note** that Treasury will work closely and openly with the Ministry of Business, Innovation and Employment on housing issues
- c **agree** to meet with the Treasury to discuss your expectations and requirements of the Treasury in relation to its role as monitor of HNZC and TRC, and

*Agree/Disagree*

- d **note** that Appendix 1 includes a list of upcoming deliverables and suggested meetings that you may wish to follow up.

Ruth Isaac  
**Manager, Health & Housing**

Hon Bill English  
**Minister of Finance**

Hon Dr Nick Smith  
**Minister of Housing**

# Treasury Report: Briefing to the Incoming Minister of Housing: Monitoring Housing New Zealand Corporation and Tamaki Redevelopment Company

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## Purpose of Report

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1. From 1 December 2012 the Treasury took over the monitoring responsibilities for Housing New Zealand Corporation (HNZC) and the Tāmaki Redevelopment Company (TRC). As part of the shift in function to Treasury, the Minister of Finance requested that Treasury undertake a more 'active' role in monitoring the Crown's ownership interest in these entities.
2. This report outlines how Treasury intends to undertake the monitoring function, relevant background information on the entities, and high-level matters of interest relating to the Crown's ownership of HNZC and TRC. There will be more detailed issues related to HNZC that you may be interested in and we can follow these up with you.
3. Your primary relationship in the Housing Portfolio will be with the Ministry of Business, Innovation and Employment (MBIE), which is providing a briefing on the other parts of the portfolio. We are working collaboratively with MBIE as part of the officials group on the Social Housing Reform Programme (SHRP) and are co-leading with MBIE on housing affordability.
4. We are keen to meet with you to discuss how we can best meet your needs as one of the Responsible Ministers for HNZC and TRC. A list of upcoming deliverables and suggested meetings is attached as Appendix 1.

## How we work

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5. We intend to be open and transparent in the relationships that relate to the monitoring function. To this end we:
  - have established a Memorandum of Understanding (MOU) with MBIE which sets out the roles and responsibilities of both agencies with respect to HNZC and TRC. It sets out that the relationship will be based on good faith and collaboration<sup>1</sup>
  - have established an open and positive relationship with senior leaders at HNZC, including providing HNZC with the opportunity to comment on our advice to Ministers
  - intend to initiate a relationship with the Board of HNZC, which has not previously been a feature of the monitoring relationship, and
  - are in the process of developing relationships with the new Board of TRC and the Auckland Council, which is the other shareholder in TRC.

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<sup>1</sup> The MoU is attached as Appendix 4.

6. We have established a virtual team that spans advice on housing sector issues and monitoring of the housing entities. This means that Treasury advice on policy and monitoring is the responsibility of one manager (Ruth Isaac, Manager, Health and Housing) and a single deputy secretary (Cath Atkins, Deputy Secretary, Strategy, Change and Performance).<sup>2</sup> Decisions as part of the SHRP have the potential to significantly affect HNZC and TRC and we consider it important that advice on TRC and HNZC is consistent with SHRP decisions. This is discussed in more detail below.
7. You are responsible for appointments to the HNZC Board, and most of the members of the TRC Board (in conjunction with the Auckland Council). Treasury's Appointments and Governance team will administer the requisite processes on your behalf (along with another 54 boards across 9 other Ministerial portfolios).
8. While it is the Board of HNZC's responsibility to induct the Chief Executive, the Corporate Centre has agreed to provide an introduction to the State Sector for Mr Sowry and intend to use this introduction as the basis for a supportive ongoing relationship.

### **Working with you**

9. You are the Responsible Minister for HNZC and TRC, although the Minister of Finance also has a formal role in relation to both of these entities. As the monitoring agency we report directly to you and the Minister of Finance on the performance and strategy of both entities. We also retain our role in advising the Minister of Finance. This means that we will also directly advise the Minister of Finance on non-monitoring related housing matters (for example, Budget related matters). Forwarding this information to you will be at the discretion of the Minister of Finance.
10. With the former Minister we were in the process of establishing regular meetings between the Minister of Housing, the Minister of Finance, and Treasury to discuss matters relating to the monitoring of HNZC. If you agree, we would like to set up a similar arrangement with you.
11. In the past the Minister of Housing has held monthly meetings with the HNZC Board Chair, and the Chief Executive and the Treasury or MBIE has also attended these meetings. We understand that one of these meetings has been scheduled with the Minister of Finance and the chair of HNZC's Board on 12 February.

### **Monitoring HNZC**

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12. HNZC's role is to give effect to the Crown's social objectives by providing housing, and services related to housing, in a business-like manner. It provides rental accommodation to people whose circumstances mean that other forms of tenure are not affordable, adequate, suitable, accessible or sustainable. Its main functions are asset management and tenant management. This Government has asked HNZC to focus on these core functions and target people with the greatest housing need for the duration of their need.

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<sup>2</sup> Contact details are attached in Appendix 3.

13. We are developing our annual monitoring plan for HNZC and TRC. To assist with this we have sought external expertise to ensure that our monitoring approach is consistent with best practice. We aim to provide you with a monitoring plan in March. The Minister of Finance is looking for more active monitoring of HNZC which would see us working in partnership with the entity in order to support decision making of Ministers and the Board. Getting greater clarity about the 3-5 year strategic direction for the entity is a priority.
14. At this stage the more 'active' approach is likely to involve a greater focus on:
- a monitoring relationship that draws on a sound understanding of Ministers' concerns and government objectives
  - a sound understanding of HNZC's business
  - an approach that centres around the Board, as it has accountability for the conduct and performance of the entity
  - robust management of the performance management cycle, better enabling Ministers to influence and input, and have an informed view of progress
  - practical advice on what levers Ministers can employ to improve and maintain agency performance
  - drawing off private sector expertise to enhance the monitoring operation and carry out specific tasks
  - being engaged in oversight of the entity's balance sheet and capital management in the context of an effective wider Crown balance sheet management strategy, and
  - ensuring top quality Boards are selected, developed and retained.
15. We are still in the process of getting a detailed understanding of HNZC's business and its performance. Our initial view is that HNZC is a reasonable performer in its core roles. There are, however, a number of areas where the Government will be working with HNZC to improve performance, including:
- determining the appropriate level of return for HNZC and its future sustainability given its commercial and social objectives
  - management of its redevelopment projects, such as Northern Glenn Innes, which will be an increasing feature of HNZC's operations as it increases the speed of reconfiguration of its portfolio, and
  - increasing efficiency and effectiveness in terms of asset utilisation and tenant allocation.
16. A list of upcoming deliverables is attached as Appendix 1. Notable upcoming deliverables are our work with HNZC to revise its key performance indicators to ensure that they are informative and useful for improving HNZC's performance in the ways that matter most. [2]
- More
- detail on SHRP is included below.

## HNZC Board

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17. The composition of the HNZC Board as at 24 January 2013 is as follows:

Name	Position	Start date	Term end date
Alan Jackson	Chair	17 December 2010	16 December 2013
Adrienne Young-Cooper*	Deputy Chair	21 January 2010	20 January 2013
Whai Dewes	Member	27 June 2011	26 June 2014
Amos Forrester^	Member	21 January 2010	20 January 2013
Susan Paterson	Member	17 December 2010	16 December 2013
Enid Ratahi-Pryor	Member	27 June 2012	26 June 2015
Vacancy (ex-Jeff Staniland)			

[2]

18. There is an active appointment process underway to identify two (or three) new appointees to the HNZC Board. Interviews were completed with the Chair, Deputy Chair and COMU on 23 January 2012. You will receive a report on the outcome of this process shortly and, assuming you agree, a recommendation to proceed to APH Cabinet Committee as soon as possible (either 12 or 19 February). You will receive a separate briefing on this shortly. Further information is contained in Appendix 2.

### HNZC Board fees

19. We understand there was some consideration of HNZC Board fees in mid-2012, but that no decisions to change them were made. With the recent review of the Cabinet Fees framework agreed by Cabinet we propose to review the fees again, and a report on options in this regard will be provided to you separately. We understand the Minister of Finance is interested in the outcome of this process. Currently, the HNZC fees are based on \$24,000 per year per director.

## Key topics: HNZC

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### HNZC in the context of Social Housing Reform

20. HNZC is currently the dominant provider of social housing in New Zealand. The SHRP envisages “a less dominant role for HNZC, where non-government social housing providers enter the market, and/or existing providers expand their operations, and HNZC makes more efficient use of capital” [2]

21. [2]

22. [2]

23. Deciding on the appropriate future for HNZN will involve Ministers balancing a number of competing objectives including:

- supporting the development of a non-Government social housing sector
- releasing land for the provision of affordable housing
- increasing HNZN's efficiency and putting it onto a more financially sustainable footing
- minimising the impact of changes to social housing on the Crown's accounts (including understanding the implications for the Crown Balance Sheet) and fiscal strategy, and
- ensuring those with highest housing need are housed.

24. [2]

This will need to be recognised in setting the strategy and performance expectations for the entity.

*Income-Related Rent Subsidy (IRRS)*

25. Under current policy, the Government pays HNZN the Income Related Rent Subsidy (IRRS), which is designed to:

- ensure that HNZN tenants in need pay no more than 25 percent of their income in rent, and
- offset the gap between market rentals and the tenant contribution.

26. Non-government social housing providers and their tenants do not get equivalent government support.<sup>4</sup> One medium-term objective of the SHRP is that "financial assistance (to tenants and providers) [is] neutral towards provider ownership." [2]

One particular model being explored is a contestable funding pool.

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<sup>4</sup> Tenants may be eligible for an Accommodation Supplement payment from Work and Income, however this usually results in a lesser level of subsidy relative to state tenants in roughly similar circumstances. Some providers charge less than market rent to make housing affordable but do not receive the top-up subsidy that HNZN receives.

[2]

## **Asset Management**

28. HNZC owns approximately 66,000 properties and leases a further 3,500 from the private sector. The value of the portfolio is \$15.1 billion. The housing stock is spread throughout the country, but is concentrated in Auckland and Northland (approximately 47 percent of the portfolio).
29. Currently, there are too few houses in high demand areas and many houses of the wrong size. There are also too many houses in most low demand areas. Forecasts confirm that demand will continue to grow in Auckland and reduce in the rest of the country, to varying extents. At present:
  - 50 percent of houses are in the right place, the right size and meet HNZC's quality standards
  - 25 percent of houses are the right type and in the right place but don't meet HNZC's standards
  - 16 percent of houses are in the right place but are not the right type and don't meet HNZC's standards, and
  - 9 percent of houses are not in the right place, the right type, and don't meet HNZC's standards.
30. HNZC has recently re-drafted its 10 year Asset Management Strategy (AMS). The goals of the AMS are to:
  - increase the rate of churn to at least 1 in 50 per annum (to renew the portfolio over time to reduce repair and maintenance costs and also improve alignment of the assets with need)
  - carry out the AMS within a ten year funds retention and reinvestment funding envelope (the AMS is funded using depreciation, revenues from the sale of property, write downs, existing Crown appropriations, and insurance proceeds from the Canterbury earthquake claim)
  - better align the location of the housing portfolio with regional demand
  - improve the match of asset types to applicant demand to 90 percent
  - reduce the concentration of state housing so that no community will have more than 15 percent state housing presence (high concentrations of state housing in some areas are associated with social deprivation and concentrations of low-income households in deprived areas are associated with poor social outcomes)

- increase the number of assets where the Property Quality Index rating aligns to the Corporation's future intentions for the property, and
  - reduce the cost of building by up to 25 percent.
31. The AMS is a bold and ambitious plan. It focuses on improving the quality of HNZC's social housing portfolio and envisions that state housing will be part of healthy, sustainable, and mixed communities. Over time the AMS anticipates a slight decline in the overall size of HNZC's portfolio. The AMS was drafted ahead of progress being made on the SHRP. [2]

. HNZC is proceeding with the AMS but this is likely to need revising following further decisions as part of SHRP and the future of HNZC (refer below for more detail).

### **Canterbury Investment Plan**

32. HNZC owns approximately 6000 properties in Canterbury. Of these 215 have been classified as being in the red zone (a mixture across Christchurch and Kaiapoi) and 5,559 are in the green zone. The majority of green zone properties have some damage. Approximately 11 percent have structural damage and 86 percent have non-structural damage.
33. The Canterbury Investment Plan (CIP) is a 4-stage repair and development programme with a 10 year timeframe. It can be summarised as:
- Stage 1: Repair of 212 dwellings that were vacant and could be economically repaired – this has been completed
  - Stage 2: Minor redevelopment of up to five demonstration redevelopment sites and a range of infill sites with existing land use permissions that will deliver between 200 and 385 new dwellings
  - Stage 3a: Five year repair and upgrade programme of 5000 properties
  - Stage 3b: Technology and methodology trials to inform HNZC on design and construction technologies that are viable and cost effective, and
  - Stage 4: Major reconfiguration of HNZC's properties involving intensification of housing with a budget of \$548 million.
34. HNZC's current plans for Canterbury are largely driven by its business needs i.e. to repair and rebuild damaged properties and reconfigure its stock in line with the objectives of its broader AMS. HNZC's plan has some benefits to the wider Canterbury recovery including private housing through mixed tenure development, demonstration of building methods using technology and methodology trials, and demonstration of higher density housing.
35. [2]

[2]

36. [2]

37. Outside of this process we are still assessing HNZC's organisational risks but note that HNZC has been through, and is continuing to experience, a lot of change. These changes include the rebuild following the Canterbury earthquakes, new software and operating changes from the Enterprise Transformation Project, the appointment of a new Chief Executive, and implementation of government policy changes, such as a focus on housing those with the highest need.

## Tāmaki Redevelopment Company (TRC)

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38. The TRC was established in 2012 as the entity charged with urban regeneration of Tāmaki, an area in Auckland. The area has a high proportion of state housing (56 percent) with HNZC owning approximately 2,870 properties in the area but relatively low density housing. The community has high levels of deprivation, low levels of educational achievement, low labour force participation, low incomes, high unemployment, and high dependency on social security benefits.

39. Under the Heads of Agreement signed between the Crown and the Auckland Council, the TRC's activities span a range of high-level objectives for the area. These objectives will all be important in successfully regenerating the area but Ministers and the Council may want to consider the relative weighting of these objectives when setting out their expectations for the TRC. The objectives are:

- Social: supporting Tāmaki residents and their families to get the skills, knowledge, and employment opportunities needed to progress in their lives.
- Economic: strengthening the local economy and unlocking the potential of the Tāmaki area to enable a prosperous community and deliver better value for money to the Crown (with a focus on increasing the return on investment and realising the potential value from state and council-owned land).
- Spatial: creating safe and connected neighbourhoods that support the social and economic development of Tāmaki and its community.
- Housing resources: optimising the use of land and existing housing stock to effectively support and deliver social and economic results, including progressing private housing development and better public housing options in Tāmaki.

40. The TRC's specific mandate is to:

- lead and integrate a programme of activities to transform Tāmaki
- procure and/or influence physical and spatial development (e.g. housing, infrastructure, amenities), and
- facilitate the alignment and the design and delivery of place-based social and economic programmes to lift prosperity and well-being in Tāmaki.

41. The TRC's tasks have been set up as a two stage process. In the initial stage its purpose is to develop a Strategic Framework to achieve the regeneration objectives described above. It will also prepare a Business Case for implementing the Strategic Framework. At the end of stage 1 Cabinet will decide, on the basis of the Business Case and Strategic Framework, whether to proceed with physical regeneration in stage 2. The Auckland Council will need to run a similar process. At this point the Crown and Auckland Council will negotiate about whether and how to proceed with regeneration. Further advice is being prepared by MBIE and Treasury on the engagement process with TRC and clarifying expectations for 2013.

### Shareholding and governance

42. The TRC is a company listed on Schedule 4 of the Public Finance Act 1989. The Crown, represented by the Minister of Finance and Minister of Housing, and the Auckland Council are shareholders of the TRC. The shareholding reflects initial equity contributions to the TRC with the Crown holding 59 percent of shares and the Auckland Council holding 41 percent.
43. The relationship between the Crown and the Auckland Council with respect to the establishment of the TRC and their respective contributions is governed by a Heads of Agreement. This sets out how the Crown and the Auckland Council will work together with respect to the TRC. It also sets out the expectations of the TRC and the process for shareholders' approval processes for advancing to stage 2.
44. The Board was appointed in December 2012 and recently held its first meeting. The Board consists of one director appointed solely by the Crown and one director appointed by the Council. The other Board members are jointly appointed by both the shareholders, as is the Chair. The current Board is chaired by Martin Udale who was involved in advising Ministers in the establishment of TRC.
45. The composition of the TRC Board as at 24 January 2013 is as follows:

Name	Position	Start date	Term end date
Martin Udale*	Chair	20 December 2012	19 June 2016
Brian Donnelly*	Deputy Chair	20 December 2012	19 June 2016
Anne Candy	Council appointee	20 December 2012	19 June 2015
Eru Lyndon	Director	20 December 2012	19 June 2016
Susan Macken	Director	20 December 2012	19 June 2016
Soana Pamaka	Director	20 December 2012	19 June 2015
John Sax	Crown appointee	20 December 2012	19 June 2015

[2]

46. It is not expected you will be required to consider the Board make up in the near future. However, it is possible that you may need to consider the appointment of an 'alternate' director (to cover any absence of the Crown appointed director who is required for quorum), and we will report shortly if this is the case.

### Monitoring of TRC

47. Given the relatively recent establishment of TRC and appointment of the Board we are in the initial stages of setting up a monitoring relationship with TRC. As part of the monitoring relationship we are also establishing a closer relationship with the Auckland Council to avoid unnecessary compliance burdens on TRC.

48. We are also establishing a monitoring regime for TRC. TRC is unique in being the first company of its type with less than 100 percent Crown ownership. This presents some challenges as monitoring will need to be co-ordinated with the Auckland Council.
49. One of the first monitoring-related tasks involves a Letter of Expectations (LOE) for the TRC Board. The LOE will be an opportunity for shareholders to establish a relationship with TRC, be clear about shareholders' expectations and the short-term outcomes they are seeking. The LOE for TRC is to be agreed between you and the Mayor of Auckland ahead of the Statement of Intent (SOI) being produced. Additionally, the SOI that is produced will also need the input and agreement of the Auckland Council. This is a unique process that will require careful management.

### **Key issues**

50. The Tāmaki Transformation Programme is an ambitious, complex and unique project. A project of this nature has not been attempted in New Zealand before, although there are many examples of similar projects that have been undertaken in other countries.  
[3]
  
51. [3]  

The Crown's input will need strong leadership and clear direction and this will involve both MBIE and Treasury working closely with the TRC. We are working with MBIE on how to manage this in a way that provides the necessary co-ordination and leadership for the project. MBIE has the lead responsibility for providing advice on the Programme.
  
52. [2]
  
  
53. Given the recent appointment of the Board and the fact it is a relatively new entity we have not yet assessed in detail the specific organisational risks. We will report to you on this in due course.

## Appendix 1: Upcoming deliverables and suggested meetings

What	When	Minister's action	Who initiates the process
HNZC Board appointments	February 2013	Sign off APH paper	Treasury
TRC Letter of Expectations	February 2013	Provide feedback, consult with Mayor of Auckland, and send letter.	Treasury
Meet with TRC Board Chair, Martin Udale	18 February 2013, 4.30pm	Relationship meeting	Minister Smith's office
Meet with HNZC Board Chair, Alan Jackson	12 February 2013	Relationship meeting (note in the past these have been held monthly)	Minister Smith's office
[2]	February 2013 (possibly at 12 February meeting)	[2]	Minister English and Minister Smith's offices
HNZC Quarter 2 report	March 2013	Sign off and follow up with HNZC Board Chair	Treasury
Annual monitoring plan and revised KPIs	March 2013	Agree to monitoring plan	Treasury
HNZC Letter of Expectations	May 2013	Consult with Minister of Finance, provide feedback, and send letter	Treasury
HNZC SOI	May 2013	Consult with Minister of Finance and provide feedback	HNZC and Treasury
TRC SOI	April 2013	Consult with Minister of Finance and provide feedback	Treasury and TRC
[2]	TBC – April to June 2013		Treasury
TRC draft Strategic Framework for consultation	July 2013	Feedback to TRC	TRC, Treasury, MBIE
[2]	[2]		[2]
TRC Strategic Framework and Business Case (final)	September 2013	Seek Cabinet approval	TRC, Treasury, MBIE

## **Appendix 2: Further detail on HNZC appointments process**

The terms of Jeff Staniland, Amos Forrester and Adrienne Young Cooper expired on 21 January 2012. Mr Forrester will depart the Board on 31 January 2013. Ms Young-Cooper continues to serve until formal decisions on reappointments are made.

Jeff Staniland did not seek reappointment at the end of his first term. He was the only South Island based director, and chaired the Corporation's risk committee (as the only qualified 'finance' director).

[2]

With the retirement of Mr Staniland and Mr Forrester there are two vacancies on the Board. Hon Mr Heatley has run a process to identify candidates combining strong financial qualifications (seen as essential as no other directors have it), a knowledge of Pacific Peoples and their communities, and at least one South Island based appointee.

From a wide range of candidates considered, 5 were shortlisted for interview, and interviews were completed with the Chair, Deputy Chair and COMU on Wednesday 23 January 2012. You will receive a report on the outcome of this process shortly and, assuming you agree, a recommendation to proceed to APH committee as soon as possible (either 12 or 19 February).

**Appendix 3: Treasury contact list**

[2]

**Appendix 4: Memorandum of Understanding**

**MEMORANDUM OF UNDERSTANDING BETWEEN THE TREASURY AND THE MINISTRY OF BUSINESS INNOVATION AND EMPLOYMENT**

**DATED:** 3 December 2012

**BETWEEN:** Treasury

**AND:** Ministry of Business Innovation and Employment (MBIE)

**CONCERNING: Performance Monitoring of Housing New Zealand Corporation (HNZC) and Tamaki Redevelopment Company (TRC).**

Cabinet has decided to transfer the responsibility for monitoring the performance of HNZC and TRC from MBIE to Treasury, effective from 1 December 2012 (CAB Min (12) 33/4 refers).

Central to this arrangement is the adoption of a new approach for monitoring by Treasury that will establish strong, cooperative relationships between the different sections of Treasury and MBIE. Monitoring will be a more active function than just reporting on entity activity. It will also involve advice and support for problem solving.

MBIE and Treasury have entered into this Memorandum of Understanding (MoU) to ensure the effective co-ordination of policy and monitoring for HNZC and TRC. It is understood by both parties that TRC is a special type of entity, having two distinct owners (with the Crown as majority shareholder), as well as a different applicable legislative framework.

This MoU outlines each party's responsibilities for advising the Minister of Housing, as responsible Minister, and the Minister of Finance on the performance of HNZC and TRC. This MoU recognises and takes account of all aspects of the accountability, monitoring (both ownership and services delivery/operational) and the policy framework associated with housing.

This MoU acknowledges the primacy of statutory duties and roles of the Minister of Housing (as the responsible Minister for Housing) and the Minister of Finance under the Crown Entities Act 2004 and the Housing Corporation Act 1974.

Key principles underpinning this MoU and the performance monitoring arrangements are:

- The responsible Minister is accountable for overseeing the Crown's interest in the entity, and is supported in this role by delegated monitoring and policy advisory agencies.

- The Minister of Finance has responsibility for the overall Crown balance sheet, which HNZC has a significant impact on.
- The monitoring relationship is between the responsible Minister, the Minister of Finance, and the Treasury.
- In assisting the responsible Minister in carrying out their role, Treasury is the responsible Minister's agent and is accountable for providing advice on performance and in supporting Ministers in holding boards to account for service delivery and other statutory duties.
- Effective working relationships are established between the respective agencies, the Board of HNZC, the Board of TRC and with the respective Ministerial offices.
- The Board is accountable for the conduct and performance of the entity.
- Treasury is responsible for all performance monitoring and Board relationships and appointments.
- MBIE is responsible for the housing policy framework.
- Roles of the respective agencies are understood and activities are not duplicated or missed between agencies.
- Reporting requirements are not duplicated for HNZC and compliance costs are minimised, in accordance with 'Better Public Services' principles.
- Dealings between Treasury and MBIE will be collaborative and conducted in good faith. There should be 'no surprises' between Treasury and MBIE (and HNZC and TRC where appropriate) regarding the nature of advice being provided. This applies to both lead advice and alternative or supporting advice (but excludes Budget Secret advice per the prevailing Budget Secret convention).
- As a general principle, each agency will willingly share information in a timely manner and ensure Ministers are kept fully informed of material matters. In respect of information sharing, Treasury and MBIE will have due regard to the needs of Ministers, and the interests, roles and responsibilities of the respective agencies, in keeping with the principles of good faith and 'no surprises'.

The two parties to this MoU acknowledge that policy levers, service delivery and financial performance influence each other and so the agencies have shared and overlapping interests in performance monitoring and policy (albeit that they may lead on different matters).

The two parties to this MoU also acknowledge that, from time to time, it will be necessary to respond to issues that cannot be fully anticipated at the time of drafting. Both parties are committed to demonstrating goodwill and flexibility and recognise that

this MoU provides a basis for collaboration rather than a prescriptive and exhaustive set of rules.

The parties will meet six-monthly to discuss the functioning of this agreement (this does not preclude ad hoc meetings if there are issues to resolve), and take into account the views of the State Services Commission (SSC) and HNZC.

## **MBIE'S KEY RESPONSIBILITIES**

MBIE will:

- Have the lead role on providing housing policy advice to the Minister of Housing; specifically the policy HNZC and TRC are required to implement, including evaluating and advising on how well HNZC and TRC deliver their policy objectives. MBIE will also be responsible for providing advice on the legislation governing the operations of HNZC.
- Continue to consult the Treasury on policy issues. The Treasury may give alternative policy advice to the Minister of Housing and the Minister of Finance on a 'no surprises' basis, as outlined in the underlying MoU principles.

## **TREASURY'S KEY RESPONSIBILITIES**

Treasury will have the lead role for:

- Acting as the responsible Minister's agent in monitoring the Crown's ownership and service delivery interests in HNZC and TRC, including all matters related to their financial, service delivery, and operational performance. This monitoring includes (but is not limited to) ensuring that HNZC's and TRC's strategic directions are aligned with the interests of government and fit within the statutory framework; monitoring against an appropriate accountability and performance reporting framework and managing the performance cycle; providing assurance on the capability of HNZC and TRC, and advice on the quality of the Boards' systems for managing risk.
- Monitoring, analysing, and advising on the implications of policy and operational decisions for the Crown's overall balance sheet.
- Relationship management with the HNZC and TRC Boards (although it is recognised that MBIE will also want to develop its relationship with these Boards), and for appointments and board performance evaluation. Both agencies commit to ensuring effective coordination with the Boards and to avoid a perception by HNZC or TRC of multiple reporting arrangements.

Treasury will also:

- Continue to provide alternative or supporting advice to the Minister of Finance on housing issues, including matters relevant to the Budget process and funding issues, in its role as the Government's lead economic and fiscal advisor.

In undertaking the above key responsibilities, both agencies will take particular care to pool relevant and reliable information from which to provide rich and seamless advice to Ministers.

Annex 1 provides an indicative list of specific responsibilities of MBIE and the Treasury, to aid clarity. However, it is not possible to anticipate all possible circumstances, so the following principles will apply:

- Generally, responsibility for a function or piece of advice should be determined by whether the key issue is primarily ownership or policy-related.
- Where responsibility is unclear or the issue is mixed, early engagement will take place between MBIE and the Treasury to determine who should 'hold the pen' or whether joint responsibility should apply.
- Full and timely consultation with the other party should take place if the other party's interests are affected. Where practical, a minimum of one week should be allowed for consultation. Relevant papers should be provided to each of MBIE and the Treasury.
- The parties will endeavour to provide advice on a particular matter in one report. However, where the parties' views on analysis or advice differ, they retain the right to either input separate sections within a single report or to produce separate reports, if there is good reason to do so. In either case both Ministers will receive the advice.

## **HNZC BOARD'S KEY RESPONSIBILITIES**

It should be noted that the board of HNZC is accountable for ensuring that HNZC acts in a manner consistent with its statutory objectives and functions. The Board is responsible for meeting Ministerial Expectations (as set out in the annual Letter of Expectations), as well as the expectations outlined in the current Statement of Intent and any service and purchase agreement. It is also accountable for ensuring that HNZC performs its functions efficiently and effectively, and in a manner consistent with the spirit of service to the public.

## **SECTION 1: DIRECTION SETTING AND REPORTING**

### **Managing the performance cycle: (including Letter of Expectations, Statement of Intent (SoI), and Service Agreement etc)**

Treasury has lead responsibility for working with the Minister of Housing and the Minister of Finance in advising on HNZC's Letter of Expectations. Treasury also has the lead responsibility for working with HNZC and TRC in relation to the service

agreement (where one is in place). Treasury will provide MBIE with copies of drafts of these documents so that both organisations can comment before the documents are finalised.

Treasury will forward the finalised SoIs to MBIE immediately after receipt.

MBIE is responsible for providing the Minister of Housing with policy advice on HNZC's and TRC's future directions, in consultation with the Treasury.

### **Quarterly reporting**

This is a critical part of the performance cycle. Treasury will lead processes for analysis, advice and support for problem-solving.

Treasury will forward a copy of each HNZC and TRC quarterly report to MBIE immediately on receipt from HNZC and TRC, and provide a copy of any associated analysis. Treasury will lead feedback to HNZC and TRC on any deficiencies in information or reporting. It will also manage interactions with the Boards to address any performance issues identified.

### **Annual reports**

Treasury will forward copies of HNZC's and TRC's draft Annual Report to MBIE immediately after receipt. Treasury will consult with MBIE in preparing their commentary on HNZC's and TRC's Annual Report.

### **Other reporting**

Treasury will undertake ad hoc reporting to the Minister of Housing and the Minister of Finance as necessary, and will consult with MBIE as for quarterly reporting.

## **SECTION 2: COMMUNICATIONS**

### **Ministerial correspondence generated by HNZC**

MBIE has lead responsibility for drafting all responses and Ministerial briefings generated in response to a HNZC or TRC letter to Ministers (Minister of Housing and Minister of Finance), except where these relate specifically to ownership issues. Treasury and MBIE should aim to reach an agreed position on all such responses and Ministerial briefings, and this position should be reflected in the report to Ministers.

### **General briefings and reports to Ministers**

General briefings and reports may include select committee responses, Parliamentary questions, Official Information Act requests, and/or briefings prior to the Minister's meetings with HNZC and TRC representatives.

Treasury will take the lead on drafting all general briefings and reports relating to advice on ownership issues (and will consult MBIE during drafting). MBIE will take the lead on drafting all general briefings and reports relating to advice on policy-oriented briefings and reports, or where there could be an impact on an upcoming budget round (and will consult Treasury during drafting).

Each party, in formulating a response, will take into account the views of the other. The two agencies should aim to reach an agreed position on all such briefings and reports and this should be reflected in the documents. The sharing of information for briefings will be guided by the underpinning MoU principles above.

Where MBIE and Treasury have differing views they retain the right to forward individual reports and briefings to the Minister of Housing and the Minister of Finance, or make specific comments in joint reports. Such documents should make it clear that the other organisation has been consulted, and whether it supports the views outlined.

### **SECTION 3: GOVERNANCE**

#### **Board appointments**

Treasury will take lead responsibility in acting as the Minister of Housing's and the Minister of Finance's agent for the appointment process and governance support function in respect of the HNZC and TRC Boards. This role includes advising on board skill mix, candidate selection, administration of the process, post-appointment activities (remuneration, training, performance assessment etc) and termination. Treasury advice and support will occur in consultation with MBIE.

### **SECTION 4: INFORMATION SHARING**

The parties to this MoU will act in good faith to ensure that each party is aware of, and has access to, information relevant to the party in discharging its responsibilities under this MoU. Where relevant, this may involve input by one party into the nature of products and advice provided by contracted external parties.

#### **Budget Secrecy**

All of the above activities are subject to standard Budget Secrecy conventions.

### **SECTION 5: ESCALATION PROCEDURE AND PERIOD OF AGREEMENT**

If a dispute arises in relation to this MoU that cannot be resolved promptly the parties agree to initiate discussions between senior management. If those discussions do not resolve the matter within a reasonable period, the matter will be escalated to the Chief Executives of the parties for resolution. If the Chief Executives cannot resolve the matter within a reasonable period, they will consult with the SSC for dispute resolution. The SSC will use their best judgement to help facilitate the two parties in reaching resolution. Only in rare circumstances will the matter will be escalated to the Minister of Housing and the Minister of Finance for resolution.

#### **Legislation Assistance**

Given MBIE's lead role in relation to the policy framework, including legislation, MBIE agrees to ensure that MBIE's legal team are reasonably available to Treasury for consultation in relation to relevant legislative provisions.

**Review**

Either of the parties to this MoU may call for a review of the MoU at any time in the event that:

- There are any material changes to HNZN's and/or TRC's operations or strategy.
- One or both of the parties agree that the MoU is not working as intended.

The written agreement of all parties is required before the terms of this MoU may be varied.

The parties will conduct a review of this MoU six months after implementation, in consultation with HNZN and the SSC, to identify any changes or improvements that may be required.

SSC will monitor implementation in general, and is required to report back to Ministers after the new arrangements have been in place for 18 months.

**Key Contacts**

The first points of contact in relation to this MOU are:

\_\_\_\_\_  
Catherine Atkins  
Deputy Secretary, Strategy, Change and Performance  
Treasury

Date:\_\_\_\_\_

\_\_\_\_\_  
Andrew Crisp  
Deputy Chief Executive, Infrastructure and Resource Markets  
Ministry of Business, Innovation and Employment

Date:\_\_\_\_\_

## ANNEX 1: INDICATIVE LIST OF RESPONSIBILITIES

<b>Treasury lead</b>
Engagement with Ministers on Letter of Expectations
Engagement with HNZC (and TRC) on SOI, business plan, service agreements
Quarterly (etc) performance reporting to Ministers
Financial and operational performance monitoring to Ministers
Dividend policy
Board appointments (including advising on board skill mix, candidate selection, administration of the process, post-appointment activities {remuneration, training, performance assessment etc} and terminations)
Primary relationship with the Board
CAPEX on housing and non-housing assets (given impact on Crown balance sheet)
Advice on framework for valuation of major assets
Asset management strategy and associated risk assessment
Advice on Crown balance sheet issues
Operating efficiency monitoring
OIA/Ministerial on ownership issues
Tamaki Redevelopment Company monitoring and appointments
Institutional changes and transfers (eg separate companies, subsidiaries)
Hobsonville performance as subsidiary of HNZC
WCC Grant
Supporting advice on budget matters
Advice to the Minister of Finance on housing issues, including matters relevant to the Budget and funding
Alternative or supporting advice on housing policy (including TRC)

<b>MBIE lead</b>
<b>MBIE – Policy Advice</b>
Advice on housing policy (including Tamaki Redevelopment and Hobsonville)
Advice on legislation and regulatory settings affecting HNZC and TRC and their operations
Advice on policy directions to be reflected in Ministerial Letter of Expectations to HNZC and TRC
Assessment and advice on HNZC and TRC achievement of policy outcomes and objectives
Advice on social housing system issues and system performance, including housing needs, funding and housing stock matters.
OIAs, PQs and Ministerial on policy settings and their implementation/application
Housing 4 Year Plan
Preparation of bids/initiatives for the annual Budget round
Disbursement of appropriations