

Chair
Cabinet Social Policy Committee

SOCIAL HOUSING PAPER A: NEXT PHASE OF REFORM TO PURCHASING HOUSING ASSISTANCE

Proposal

- 1 This paper is the first of a suite of papers which update Ministers about progress on the elements of the Government's social housing reform programme for which the Ministry of Social Development (MSD) is responsible. It should be read with:
 - *Paper B: Report Back on Implementation of the Transfer of Social Housing Functions*
 - *Paper C: Income Related Rent Subsidy Funding Model*
 - *Paper D: MSD's Initial Approach to Purchasing and Contestable Trial.*
- 2 This paper is in two parts. Part One provides background and an overview of this suite of papers. Part Two seeks agreement to work to progress the next phase of social housing reform, now that these activities are centralised in MSD.

Executive summary

- 3 The Government has undertaken a significant programme of reform of New Zealand's social housing sector. This programme is wide ranging, large in scale, and is moving quickly. This suite of papers seeks the next set of decisions to continue to transform the provision of social housing assistance in New Zealand.
- 4 MSD is on track to deliver the needs assessment for social housing from 14 April 2014, a significant milestone in the overall reform of social housing in New Zealand. This delivers an independent needs assessor to support a multi-provider social housing sector, and begins the process of integrating social housing support with wider social support to households.
- 5 With these building blocks in place, the job now is to embark on the final and most significant work to reform social housing assistance. This work will fully realise the benefits of MSD's new roles as the assessor of housing need and as a purchaser of housing services within the social housing market. Attachment 1 sets out a proposal for a medium-term work programme, with objectives, outcome statements, and a plan for further work. Key objectives are:
 - **efficiency** – getting more value for money by building transparency and contestability in the market, and strengthening allocative efficiency through the design of subsidies
 - **demand management** - actively managing demand by targeting people in the greatest need with assistance that reflects their level of need, and consistently focusing on independence as the end goal for individuals and families
 - **client experience** - build tailored services, with choice for people where appropriate
 - **supply** – working with and supporting other agencies to promote new forms of affordable supply.

- 6 To work towards these objectives, I propose four related streams of work, led by MSD which will work closely with the Ministry of Business, Innovation and Employment (MBIE), and the Treasury, with key deliverables rolling out towards 2016. These are:
- *Stream One: better housing subsidies to support people in social and affordable housing*
 - progress client segmentation models for housing, and incorporate this into MSD's investment approach
 - develop a new housing assistance demand and supply model building on existing work to support social housing reforms
 - develop subsidy options that support clients to move through the social and affordable housing continuum, including a smoother transition between Income Related Rents (IRR) and Accommodation Supplement (AS), for consideration in early 2015.
 - *Stream Two: stronger purchasing signals for the housing market*
 - provide advice on delivering a contestable purchasing trial, with oversight and assistance from a group of prominent social housing and market regulation experts (see Paper D)
 - develop a more detailed price benchmarking model
 - use these to determine the risk and pricing model required to house complex clients
 - develop an option for an outcomes-based funding model for a client cohort (e.g. older people or disabled people) in 2015.
 - *Stream Three: integrating housing assistance with other MSD services*
 - review the existing Social Allocation System criteria in order to develop options for a new housing needs assessment model, for consideration in mid-2015
 - develop a trial of a new housing and employment programme to test the provision of packages that aim to both help people into employment and to exit social housing, for consideration in early 2015
 - develop concepts for individual and time limited support packages which bundle MSD and potentially other funding sources, with work taking place in 2015.
 - *Stream Four: providing clients with incentives to make better choices*
 - use client segmentation results to determine how clients can exercise choice, and design options for a portable subsidy that can be directed to clients rather than providers, for consideration in late 2015
 - develop options for a choice-based letting program, for consideration in late 2015.
- 7 It takes time to deliver results from reform with this potential scale. Once policy settings are agreed, some elements are likely to require funding and legislation, particularly any changes to financial assistance. I propose to adopt a 'launch and learn' approach, which tests elements as they are developed.
- 8 Success is dependent on work being led by MBIE and the Treasury to improve the supply of affordable housing, and MSD will ensure that its work aligns and supports this.
- 9 This work programme will transform housing assistance in New Zealand. It builds on what the Government has achieved so far, but pushes much further. It is a major programme of reform, with deliverables and implementation phased over three years. I seek Cabinet's endorsement of the work programme set out in this paper. I propose to report back to Cabinet with updates

on the progress with the workstreams in November 2014, and with a substantive report back seeking decisions on major reform to the system in June 2015.

Part One: Overview of the current social housing work programme

- 10 For decades New Zealand's social housing sector has been dominated by a single state provider, with few incentives for non-government providers to enter the market, or for people to seek independence from state housing¹. We want to grow the provision of community social housing, recognising its ability to provide wrap-around services and transition people to independence.
- 11 The Government has already delivered on a significant programme of reform for social housing. This suite of papers confirms that MSD is on track to begin delivering the needs assessment for social housing from 14 April. It also seeks decisions that take the next steps toward establishing MSD as a smart purchaser of social housing services, and establishing the rules for the funding of the sector through the Income Related Rent Subsidy (IRRS).
- 12 These decisions continue to build on the Government's recent moves to better target social housing to those with the greatest need, for the duration of that need. This work includes agreement to rollout reviewable tenancies, and changing the needs assessment criteria for social housing to prioritise families at risk of rheumatic fever in parts of the country where rates are high.
- 13 The Government's social housing reform programme also sits comfortably alongside efforts to increase the supply of affordable housing particularly in Auckland and Christchurch, and with efforts to refocus Housing New Zealand Corporation (HNZC) on its core business and to reconfigure its housing stock.
- 14 We now have many, but not all, of the critical building blocks in place to begin to shape the social housing sector, to get the outcomes we are looking for, and transform housing assistance in New Zealand. This suite of papers asks for the next set of decisions to continue fundamental and major transformation to the provision of social housing in New Zealand. Part Two of this paper seeks agreement to the next steps for further reform.

Overview of this suite of social housing papers

Paper B: Report Back on Implementation of the Transfer of Social Housing Functions

- 15 This provides the report back on progress with the implementation of the needs assessment requested by Cabinet. The implementation is progressing according to plan and is on track for successful implementation on 14 April. Successful implementation of the transfer is a prerequisite for the next steps in social housing reform.
- 16 Paper B also updates Cabinet with progress on the development of the Housing Support Package of products and services to assist people toward housing independence. This package is an important element of MSD's service offering, which will open up other housing choices for clients on the waitlist and alternatives for those seeking to apply for social housing. The package is also an important first step in testing incentives to move social housing clients into independence.

¹ Local government is the second largest provider of social housing in New Zealand, but proposals in this paper focus on the role of central government in the sector.

Paper C: Income Related Rent Subsidy Funding Model

- 17 This paper seeks decisions on the funding model for the IRRS. These decisions are intended to enable contestability between providers by allowing Community Housing Providers (CHPs) to access the IRRS on an equal footing with HNZC, and to improve fiscal control over the appropriation, a critical first step for MSD to become an active purchaser. It seeks to combine the IRRS appropriation for HNZC with the appropriation for CHPs, to cap the resulting single appropriation, and to have Cabinet endorse the level at which the cap is set.

Paper D: MSD's Initial Approach to Purchasing and Contestable Trial.

- 18 This seeks Cabinet agreement to MSD's immediate approach to purchasing social housing tenancies, changes that will start signalling demand for social housing and improving signals to the market, and improving outcomes for clients. It outlines steps to deliver a contestable purchasing trial, which is aimed at better managing both price and utilisation of properties.

Part Two: Future work programme

- 19 Following the reforms we have implemented to date, New Zealand is now one of the few jurisdictions in the world that will have many of the primary levers needed to reform housing assistance together in the one agency: income support payments; social housing assistance and purchasing tenancies; strategies to support independence for young people, working age people and older people; as well as for high needs groups such as those experiencing family violence and disabled people.
- 20 MSD also has a new role as a purchaser of social housing tenancies, and this provides unique opportunities to guide and shape the social housing market over time. Along with the Accommodation Supplement, MSD now has responsibility for recurrent demand side subsidies across the affordable housing market. This will highlight the differences between them, and presents an opportunity to take a fundamental look at how best to provide financial assistance for housing.
- 21 We have made real progress and built a strong platform. More work is needed to fully realise the aim of a smarter approach to delivering housing assistance to low income and vulnerable New Zealanders. This section lays out the further work required to achieve the objectives Cabinet has previously set for social housing in its end state [these are set out in Attachment 2]. It builds on what the Government has achieved so far, but pushes much further:
- seeking to fully understand the varying needs of vulnerable groups of people
 - providing clear signals to the market
 - fostering innovation and new approaches
 - supporting diverse supply of housing, in order to meet diverse needs
 - providing choice and more decisions on trade-offs with clients themselves.
- 22 It is a major programme of reform, with deliverables and implementation phased over several years. Change in the housing sector will take time. Even when policy settings and incentives are right, there are set up costs and a time lag for providers to enter the market or deliver supply in different locations and of the type required. Some changes will require funding and legislative change before they can be implemented.
- 23 Attachment 1 sets out the objectives, outcome statements, and plan for the work. The next sections summarise the four proposed streams of work and key deliverables I expect over the next three years.

- 24 While there are precedents for some of this work, much of it will be new and novel for MSD, for New Zealand, and internationally. Sector buy-in is critical, and housing providers and external experts will be closely involved as work progresses. I propose that MSD work together with the Treasury and MBIE on the core work programme, and that MSD works closely with MBIE on initiatives to expand affordable rental supply.
- 25 I propose a 'launch and learn' approach. MSD will work to quickly trial key elements of potential reform, and learn from those trials before recommending policy change. This will support timely progress and manages the uncertainty of rolling out untested new approaches.
- 26 It is also critical that MSD develop a set of indicators that will measure future success in social housing reform and ensure changes are achieving the objectives the Government has set. This will be supported by evaluation already underway of existing reforms.

Stream One: Better housing subsidies to support people in social and affordable housing

- 27 New Zealand provides financial assistance to low income people to assist with the costs of housing through two primary payments: IRRS for people in state (and from 14 April, some CHP) housing, and the Accommodation Supplement (AS) for people in the private housing market. These two types of assistance are problematic, in particular, because outcomes for people in the same circumstances can differ significantly depending on which payment someone receives.
- 28 I propose to take a close look at how these subsidies interface with the market we want to develop, and the outcomes we want to buy for our clients. The immediate priority will be to consider ways to smooth clients' transitions between IRR and AS. The core deliverables proposed for the next 12 months are:
- progressing a **new model of client segmentation for housing and incorporating it into the investment approach**. This work has begun, with MSD exploring the inclusion of IRRS in the valuation of the benefit system, and will continue to develop the segmentation model in the next two to three months this year
 - developing a **new housing assistance demand and supply model** in 2014 built on existing work and based on the client segmentation developed. This model will look at the demand from different client segments, the supply of social and affordable housing options, and the substitutable supply in the private rental market to inform MSD's purchasing model in the future
 - developing **subsidy options that support clients to move through the social and affordable housing continuum**, including a smoother transition between IRR and AS. The options will be informed by bringing housing assistance in to MSD's investment approach. Options will be considered by early 2015.
- 29 Change in this area is significant, and will have financial and legislative implications. If agreed, the earliest a new model could tentatively be implemented would be from June 2016. Proposals will consider opportunities to test key elements in the interim.

Stream Two: stronger purchasing signals for the housing market

- 30 MSD's role as a purchaser of social housing provides opportunities to better leverage the government's fiscal investment by: sending clear signals to the market; using contestability to discover and reduce the real price of housing interventions; improving utilisation of properties and efficiency; and delivering better outcomes for clients.
- 31 To deliver on this stream of work MSD will:

- report back in July 2014 on delivering a **contestable purchasing trial**, with oversight and assistance from a group of prominent social housing and market regulation experts (Paper D)
 - develop a more detailed **price benchmarking model** in 2014 by working with HNZC, CHPs, local government providers, and the private sector to fully understand the different components of purchasing assistance and the relative strengths of each sector. This may also involve benchmarking with similar providers internationally
 - through the trial and price benchmarking model above, determine the **risk and pricing contract required to house complex clients** in late 2014
 - develop an option for an **outcomes-based funding model for a client cohort** (e.g. older people or disabled people) in 2015 with a potential Expression of Interest and trial of this approach with CHPs and the private sector.
- 32 The will lead to advice on a **housing market purchasing strategy** in 2015, to send clear signals to the market about the outcomes MSD will purchase over the next three to five years.

Stream Three: integrating housing assistance with other MSD services

- 33 International evidence suggests that the road to independence for clients out of social housing and towards the private housing market is through skills development and workforce engagement for clients wherever possible.² Many of the clients in need of housing assistance are also recipients of other MSD services, primarily income support and employment assistance, and this was a key driver of the decision to transfer social housing functions.
- 34 Paper B sets out the benefits of this approach from 14 April this year. The transfer has opened up the possibility of combining HNZC and MSD information about clients, and integrating social housing expenditure into the investment approach.
- 35 Further work to integrate housing assistance with other MSD services will include:
- reviewing the existing Social Allocation System criteria in order to develop options for a **new housing needs assessment model**. This will ensure that we use the information above to re-target the assistance to those the government determines need help, including being clear about any unidentified unmet need. Work will commence this year with a revised model and options paper for government decision in mid-2015
 - developing a **trial of a new housing and employment program** to test the provision of bundled housing and employment supports that help people into employment and then exit social housing. This would involve community or private sector providers developing an innovative models to deliver outcomes, with options to Cabinet in early 2015
 - developing concepts for **individual and time limited support packages** which bundle MSD and potentially other funding sources such as mental health or disability to foster innovation amongst providers and build towards client choice and clearer market signals on the whole costs and funding for a client. This would be developed in 2015.

Stream Four: providing incentives for clients to make better choices

- 36 If we get the design of the previous four streams right, there is room to enable clients to make better choices for themselves, within the constraints of the subsidy provided.

² 'What drives housing careers? An examination of the role of the labour market, social and economic determinants', Australian Housing and Urban Research Institute, 2004.

- 37 This signals the potential for a lesser role for government and providers in directly matching tenants with houses and a greater role for tenants to make that choice wherever possible. This could result in a portable subsidy and choice based letting driven by the clients themselves from a wide range of providers. To progress this work:
- MSD will begin using its client segmentation to determine how clients can be supported to exercise choice, and testing which groups this could begin with. Alongside this MSD will develop **options for a portable subsidy that can be directed to clients rather than providers**. Options could be considered in late 2015
 - MSD will develop **options for a choice-based letting program** where social housing properties are advertised with eligible clients applying for those properties similar to how the private rental market already operates. This could work together with the new subsidy design outlined in Stream 1 and with the portable subsidy outlined above. While it would not need to be operated by MSD, it would be an obligation on providers funded through government, with options considered in late 2015.

Interdependent work: MBIE and the Treasury housing supply work programme

- 38 Social housing is a relatively small part of the overall housing market. Nine out of ten low income New Zealanders live in the private housing market, with the private rental market housing more than twice the number of low income households than social housing³. The supply of affordable housing in the lower end of the private rental market is a key part of the social housing story. Development in and growth of this market enables social housing clients to transition toward independence.
- 39 MBIE and the Treasury are leading a broad cross agency work programme to improve housing supply and build well-functioning construction and housing markets. This work includes addressing the following factors in response to the Productivity Commission Inquiry into Housing Affordability:
- land supply restrictions (including establishing a number of Housing Accords)
 - paying for infrastructure development
 - productivity in the construction sector
 - costs and delays in regulatory processes.
- 40 Improvements in housing supply and affordability driven off the MBIE and Treasury work programme will enable Government to achieve the objectives of the social housing reform programme more quickly. MSD will work closely with these agencies in supporting the housing supply and affordability work programme as it takes on the role of purchaser of housing assistance and builds the future reform options. Key drivers for MSD and MBIE are:
- improving outcomes for the clients who are living in the private rental sector and receiving financial assistance for their housing;
 - improving the operation of AS and the interaction of this subsidy with supply outcomes
 - increasing affordable rental supply to support improvements in the targeting of social housing and implementation of reviewable tenancies.
- 41 MSD will also work closely with MBIE to ensure that efforts to redesign housing subsidies and provide stronger purchasing signals to the market support an increase in supply of affordable housing in the private rental and community housing markets.

³ Statistics New Zealand data.

Consultation

42 This paper has been prepared by the Ministry of Social Development. The Ministries of Business, Innovation and Employment, Health, Women's Affairs, Pacific Island Affairs, and the Treasury have been consulted on this paper. The Department of Prime Minister and Cabinet, Housing New Zealand Corporation, and Te Puni Kokiri have been informed of the contents of this suite of papers.

Financial implications

43 The social housing decisions taken to date involve a significant financial investment. Much of this is being funded in the 2014 Budget process within the Minister for Social Development's funding allocation. Cabinet previously committed \$9.545 million in operating and \$1.991 in capital funding to cover initial setup costs in the 2013/14 financial year.

44 The housing-related fiscal costs in Budget 2014 are shown in the table below. There are four social housing initiatives in the Vote Social Development 2014 Budget package:

- implementation funding for the social housing needs assessment transfer
- funding for new products and services to support people into private housing
- reviewable tenancies staffing and IT
- an IT platform to support market contestability.

Initiative	\$ millions					Four year total
	2013/14	2014/15	2015/16	2016/17	2017/18 and outyears	
Implementation funding for needs assessment transfer	-	33.096	16.782	15.409	15.409	80.696
Products and Services	-	1.000	1.800	2.600	2.600	8.000
Reviewable tenancies	-	2.382	1.106	1.768	1.709	6.965
Market contestability	-	7.500	-	-	-	7.500
Total social housing	0.000	43.978	19.688	19.777	19.718	103.161

45 The future work programme will have financial implications. In particular, any changes aimed at smoothing clients' transitions between IRR and AS will have financial implications.

46 The launch and learn approach will also have costs associated, as a range of approaches are tested, but is designed to be efficient over the longer-term as we roll out approaches that are shown to be effective.

Human rights implications

47 The proposals in this suite of papers are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Legislative implications

48 There are no immediate legislative implications arising from this suite of papers.

49 Elements of the future work programme proposed will require changes to legislation if agreed. In particular, any changes to AS and IRRS will require legislative change to implement.

Regulatory impact and compliance cost statement

50 A regulatory impact analysis is not required as no regulatory changes are proposed.

Gender implications

51 There are no gender implications arising from this paper.

Disability perspective

52 At 30 June 2013 there were 14,598 primary social housing tenants with disabilities. Improvements to the provision of social housing should impact positively on disabled people requiring accessible housing.

53 Further integrating social housing assistance with other MSD support, proposed in Stream Three, is consistent with the principles of Enabling Good Lives [SOC Min (13) 15/6 refers]. Similarly, any trials of outcomes-based funding for disabled people, as proposed in Stream Two, would be able to build on this approach of delivering integrated cross-agency support, as in the Enabling Good Lives demonstration. The Enabling Good Lives approach aims to ensure supports for disabled people are easy to use, coordinated and tailored to their individual needs and goals.

Publicity

54 The decisions in Paper B and C in this suite will become public as part of the 2014 Budget process. Joint Housing Ministers will jointly manage other publicity relating to the social housing work programme.

Recommendations

55 It is recommended that the Committee:

1 **note** that this paper seeks Cabinet agreement to the further work required to achieve the objectives Cabinet has set for social housing in its end state, and provides an overview of three other papers relating to the Government's social housing reform programme

2 **note** that Cabinet has previously laid out its core objectives for the overall social and affordable housing work programme [SOC Min (12) 128], as being to:

2.1 improve the services and assistance provided to those identified as being in housing need

2.2 facilitate greater access to social housing by creating a market where:

2.2.1 the social housing sector is responsive and can adapt to changes in market conditions and demand

2.2.2 there are incentives to transition to independence from housing support

2.2.3 there is a diverse supply of social and affordable housing and providers to meet diverse needs.

- 2.3 social housing is delivered in a way which stimulates the supply of social and affordable housing
- 2.4 fully recognise the costs of the social housing system and increase the Government's visibility of these costs and ability to make informed decisions.
- 3 **agree** to the following streams of work, to be led by the Ministry of Social Development, working closely with the Ministry of Business, Innovation, and Employment and the Treasury:
- 3.1 better housing subsidies to support people in social and affordable housing
- 3.2 stronger purchasing signals for the housing market
- 3.3 integrating housing assistance with other Ministry of Social Development services
- 3.4 providing clients with incentives to make better choices.
- 4 **invite** the Minister for Social Development to provide an update on the outputs and findings of the four work streams to date in November 2014
- 5 **invite** the Minister for Social Development to report to Cabinet in February 2015 on a potential trial of a new housing and employment programme and work and learning centres, and on any short-term financial implications of the work for Budget 2015
- 6 **invite** the Minister for Social Development to provide a detailed report back to Cabinet in June 2015 on options for the implementation of a new social housing model based on the work set out in recommendation 3
- 7 **note** that this work programme will comprise a combination of:
- 7.1 new policy development
- 7.2 detailed modelling of the outcomes for the proposed policies
- 7.3 trials of different approaches with providers and clients to learn what works best.
- 8 **note** that the costs associated with the decisions in this suite of papers are being considered in the 2014 Budget process.

Hon Paula Bennett
Minister for Social
Development

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Attachment 2: Previous Cabinet decisions on reform objectives

Cabinet has previously agreed that its core objectives for the overall social and affordable housing work programme are to:

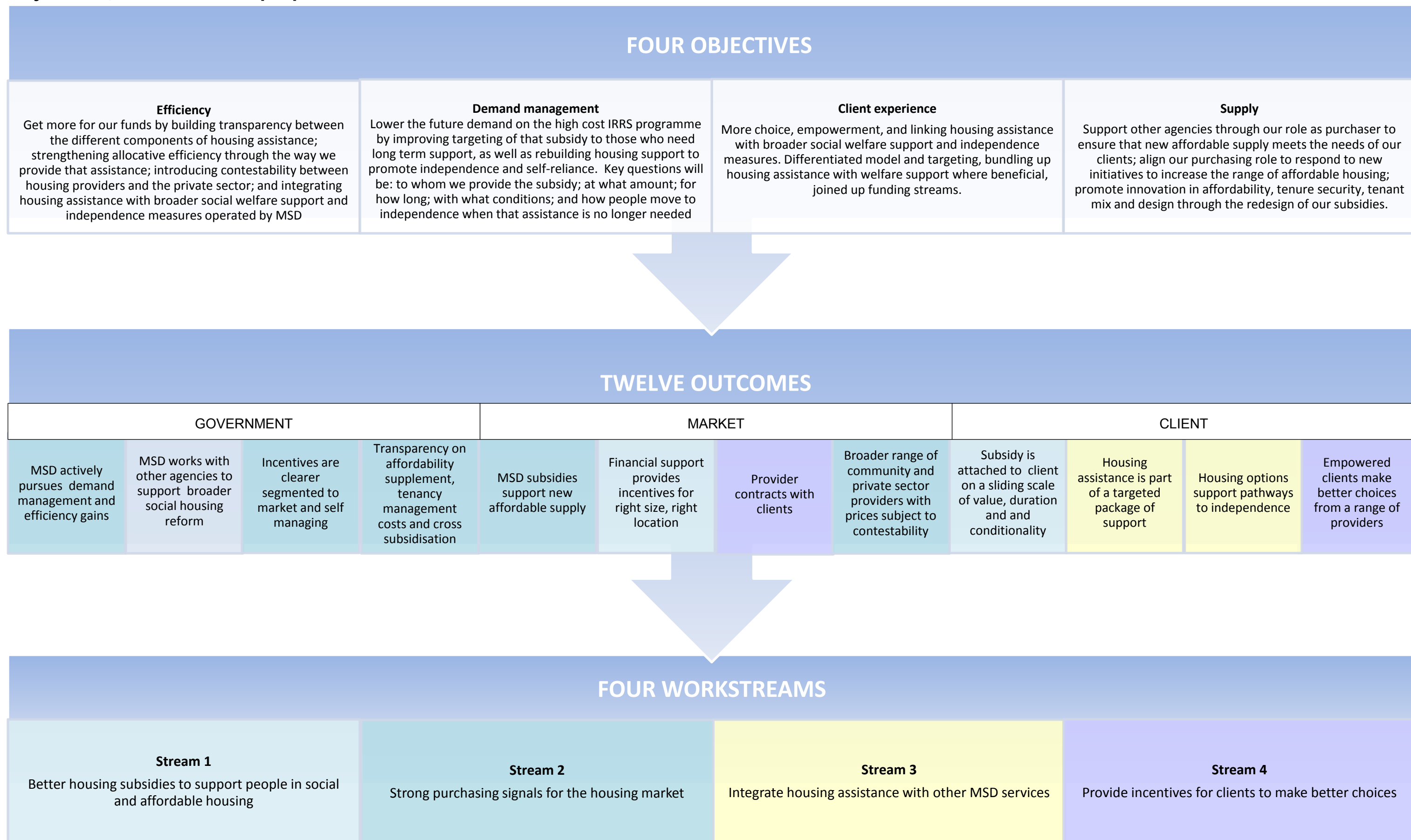
- improve the services and assistance provided to those identified as being in housing need
- facilitate greater access to social housing by creating a market where:
 - the social housing sector is responsive and can adapt to changes in market conditions and demand
 - there are incentives to transition to independence from housing support
 - there is a diverse supply of social and affordable housing and providers
 - social housing is delivered in a way which stimulates the supply of social and affordable housing
- fully recognise the costs of the social housing system and increase the Government's visibility of these costs and ability to make informed decisions [SOC Min (12) 128 refers].

Cabinet has subsequently confirmed that the key aims of the transfer and extension of the Income Related Rent Subsidy to Community Housing Providers is to ensure that:

- more people are housed appropriately for the duration of their housing need
- more people have their housing needs met through promoting social and housing mobility, improving health, safety, and employment outcomes; and helping those who are able to move towards independence
- there is an increase in the number and diversity of social housing providers [CAB Min (13) 39/7 refers].

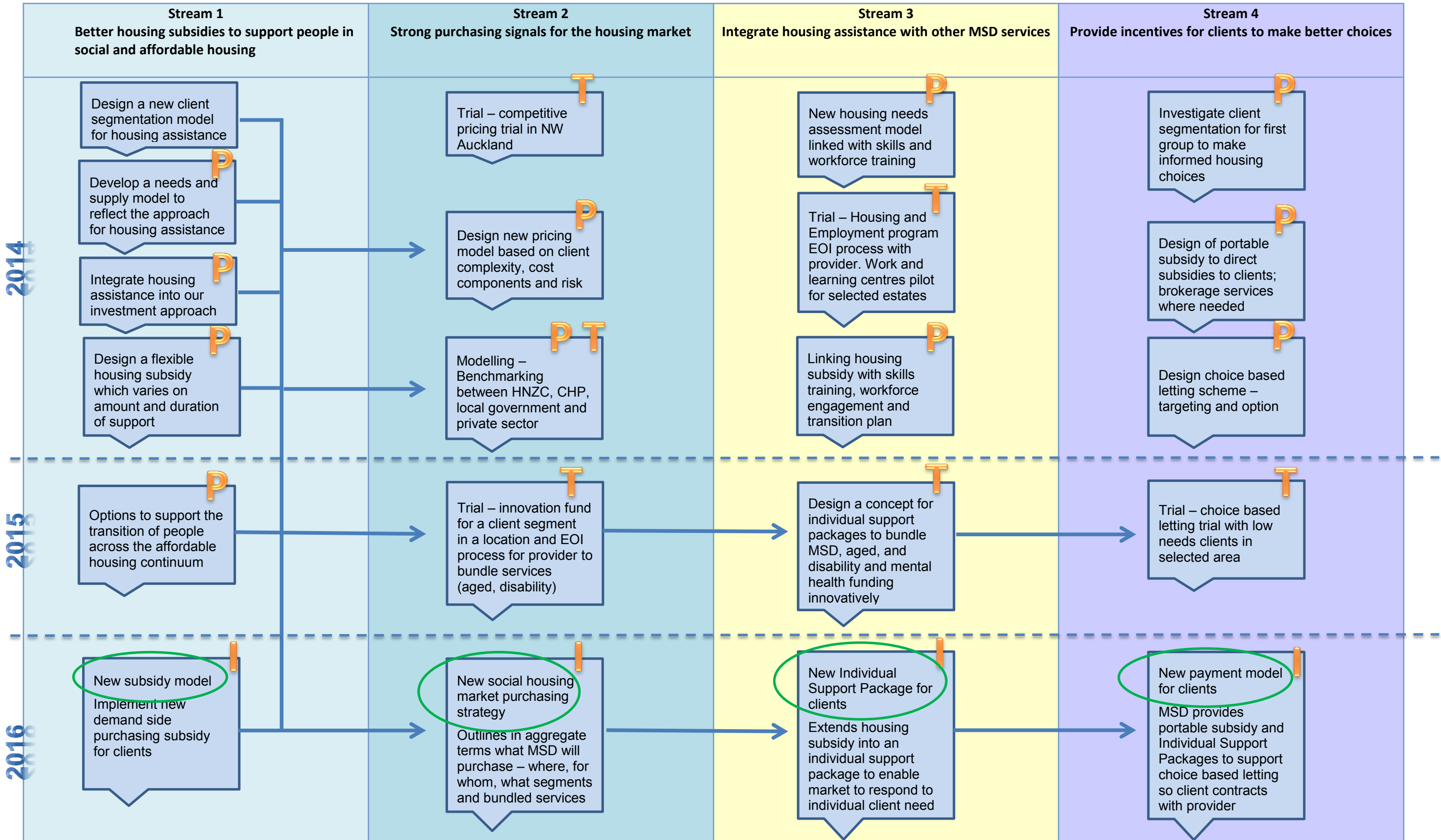
HOUSING PURCHASING AND ASSISTANCE REFORM – NEXT STEPS

Objectives, outcomes and proposed work streams



HOUSING PURCHASING AND ASSISTANCE REFORM – NEXT STEPS

Key initiatives for workstreams



P – Policy T – Trial I - Implementation