Napier City Council

Review of Community Housing Delivery

March 2018

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Contents

Executive Summary

Morrison Low was commissioned to review the delivery of Community Housing by Napier City Council held within the Community Housing Portfolio, in accordance with the requirements of section 17A of the Local Government Act 2002. This review does not cover other Council housing assets. The review was based on a review of the key documents and a workshop with the Council.

Assessment of current service

Napier City Council has 376 units in 12 villages. The majority of the housing is for low income older persons (60 years and over). There are 72 units available for low income renters. Council delivers asset and tenancy management services with in-house resources. The low income tenants receive basic tenancy management services. The retirement villages have tenancy co-ordinators who carry out regular welfare checks on tenants as well as providing tenancy management services.

The service has required minimal support from rates. The stock is well-maintained but is out-dated. Required upgrade and substantive maintenance is not provided for within current budgets or rent income levels.

The demand for the housing is high, with waiting lists and low turnover. Demand for affordable rentals for older persons is predicted to increase with the growing older population. There is a lack of alternative providers.

Delivery options

The main service delivery options considered were the status quo, asset optimisation (enhanced status quo), a shared service arrangement with Hastings District Council and a partnership with a community housing provider, either by Trustor by limited partnership.

Delivery by a new Napier City Council Controlled Organisation(CCO) , shared services through a joint CCO with Hastings District Council, long-term lease and the sale of assets have been discounted as options.

The status quo is financially unsustainable based on current policies and while shared services would reduce costs it would not deal with the fundamental issue of the need to fund redevelopment and refurbishment. Council wished to retain governance and control over delivery of the service and complete sale and long-term lease were therefore discounted.

Consultation requirements

The Council's Significance and Engagement Policy identifies retirement housing as a strategic asset. Therefore the compliance with the policy is required before any decision around transfer of ownership or control is undertaken.

It proposed that this consultation be done as part of the Long Term Plan consultation early in 2018.

Recommendations

It is recommended that the Council further consider the two shortlisted options, enhanced status quo and delivery through a partnership with a community housing provider, to confirm their preferred approach.

Introduction

Morrison Low was commissioned to review the delivery of community housing for the Napier City Council in accordance with Section 17A of the Local Government Act 2002. The review was based on a review of key documents, a council workshop and analysis of delivery options (including possible partnerships) and Ministry of Social Development purchasing intentions in Napier City.

This report evaluates a range of options for delivery of this service. The intention is to identify shortlisted option(s) that after further analysis will enable a preferred option to be identified.

Section 17A

Section 17A Delivery of Services of the Local Government Act 2002 (LGA) requires that councils undertake a formal review of how they deliver their services. Subsection 1 of section 17A of the Act states: *"A local authority must review the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services and performance of regulatory functions."*

The Act goes on to specify that a review must be undertaken in the following circumstances (paraphrased):

- When a significant change to the level of service is proposed
- Within two years of a contract or binding agreement expiring (relating to the delivery of that service, regulatory function or infrastructure)
- At any other time, but no later than six years following the last review

The Act also identifies exceptions for when a review is not required, which are as follows:

- Where that service is governed by contract, legislation or a binding agreement that cannot be reasonably altered within the following two years, or
- If the benefits of undertaking a review do not justify the costs incurred in undertaking a review

Where a review is required to be undertaken, as a minimum, the review must consider the following:

- Governance and funding by council alone or in a 'joint committee' of one or more councils
- Service delivery by:
  - Council; or
  - a CCO owned by Council or jointly owned with another shareholder; or
  - another council; or
  - another person or agency (noting that a "person" could be a contractor corporate and "agency" could be some form of joint arrangement with say NZTA)

For completeness, Section 17A of the Act is set out in full in Appendix 1.

This report sets out a high level assessment of the options for delivery of community housing by the Napier City Council going forward.

Review Methodology

The following steps have been completed in undertaking this Section 17A review:

- Review of the documented current social housing delivery arrangements
- Identification of delivery options
- Assessment of options against agreed principles and outcomes sought
- Workshop with the councillors to review and test options
- Preferred options identified for consultation

Background

This review considers the options for delivery of community housing within the Community Housing Portfolio. It does not cover other housing assets held by Council.

What is social housing?

Social housing is housing where the rental is subsidised. The delivery of social housing has a number of components which can be bundled or delivered separately. These include

1. day to day asset maintenance and management
2. intensive tenancy management, including connecting to necessary social services
3. asset refurbishment and redevelopment
4. land development and building the housing stock.

Napier City council's tenancy management differs from the social housing delivery purchased from central government. Their expectations are at a higher level.

Current situation

Legal requirement

There is no legislative requirement for Council to provide social housing, nor is there a restriction on Council being involved in the delivery of social housing.

Council housing stock

Napier City Council has 376 units in 12 villages. These comprise nine retirement villages (304 units) and three low cost rental villages (72 units). Both cater to New Zealand residents with a genuine housing need, on a low income with few assets. To access the retirement villages you must also be over 60.

The housing assets were created through a combination of government low interest loans and bequests.

Remaining life - low income rentals[1]

Property	Date Built	Remaining Life from 2015
Carlyle Place	1983/84	50 years
Nelson Place	1980/81	50 years
Wellesley Place	1980/81	30 years

Remaining life - retirement rentals

Property	Date Built	Remaining Life from 2015
Rangi Marie Village	1963	35 years
Centennial Village	1972	30 years
Otatara Village	1958	28 years
Arthur Richards Village	1980	45 years
Coventry Avenue	1976	44 years
Henry Charles Village	1961/62	22 years
Hastings Munroe Village	1961/62	18 years
Oriel Village	1969	30 years
Greenmeadows East Village	1980	46 years

The stock is old but well maintained, however not all units are fit for purpose. The majority are small and are not suitable for disabled tenants. Considerable additional capital will need to be found in the near future for retrofitting and major maintenance, including upgrading to meet earthquake standards.

The villages themselves are old-fashioned in design and some do not effectively and efficiently use the site.

Demand

There is high and continuing demand for council housing. There are waiting lists for access to the housing. Occupancy sits at 97%, and turnover is low.

Tenancy Turnover		
Year	**Rental (Social) %**	**Retirement %**
2013	8	26
2014	19	22
2015	13	11
2016	7	15
2017 (to September)	6	8

An independent detailed analysis of projected demand for the Council's retirement and rental housing over the Long Term Plan period of 2015-25 estimated that *"community demand for Council's social housing provision is forecast to increase from the current level of 375 dwelling flats to 390 by 2015 and a further 470 by Year 2025. ….. retirement housing demand is projected to increase by approximately 65 and rental housing by approximately 15 flats."*[2]

[1] Napier City Council "Activity Management Plan 2015/25 – Retirement and Rental Housing" – December 2014
[2] Napier City Council "Activity Management Plan 2015/25 – Retirement and Rental Housing" – December 2014

The choice for older people on lower incomes is more limited. There are few other retirement rental providers. The only other major provider is the Masonic Trust with 90 pensioner units in Napier, Hastings and Havelock North.[3]

Rents

The rent on the retirement flats is currently set at 23.5% of weekly superannuation plus single-person living allowance.

The rent on the low income rentals is 92%of the current market rent set in 2003/04. This has been reviewed annually since 2004/05 and increased in line with the consumer price index.

Service levels

The Council directly delivers tenancy and asset management.

Tenancy management differs between the types of villages. The low income tenants receive basic tenancy management services. The retirement villages have tenancy co-ordinators who carry out regular welfare checks on tenants as well as providing tenancy management services.

Council financials

The 2015-25 Long Term Plan showed that community housing has required minimal support from rates.

The actual financial results for the last five years show a small operating surplus as cost has been less than budgeted. Costs have remained stable and income has increased as rents are indexed, and occupancy has been high. Capital expenditure has been less than depreciation. The net funding position for the five years is a positive $2.3m.

The asset management and long term plans have provided for capital renewals but not for upgrades or new stock. Substantial maintenance requirements that will be needed in the medium term have been identified. This exceeds the projected income from rents.

Some of the villages are on high value land there is potential to unlock capital for reinvestment in the housing portfolio or other council spending.

[3] HPUDS Retirement Sector Housing Demand Forecasts – June 2016

Issues to Consider

Role of local government

Local government has traditionally provided housing for older persons, and nine councils also provide housing for low income renters. Some councils subsidise the housing from rates, but most are self-funded.

A number of councils have been reconsidering their role in the provision of social housing. These reviews have looked to reduce ratepayer investment and improve outcomes for tenants, and if possible build and improve the stock. These reviews were influenced by the government policy at the time. The majority of councils have opted to retain the housing for older persons as a service provided by council. Of those who have not,

- four councils have transferred ownership to Community Housing Providers(CHPs) (with one council consulting on a sale to a CHP)
- three councils have entered into partnerships with CHPs
- seven have contracted the service out
- three use a CCO to deliver the service.

Appendix two provides a detailed description of councils' provision of social housing.

Does the Council see a need for further council provision?

The Council is not required to provide housing; however Napier City Council has a long history of providing affordable retirement and rental housing. This housing fills a gap in the market and the gap is expected to grow. Demand is high and predicted to grow in the medium term. The numbers of people over 55 on the National Social Housing Register has gone from 697 in September 2015 to 1270 in September 2017.

The Council has no formal Social Housing Strategy. The Council has shown an on-going commitment to the provision of social housing through the Long Term Plan process. In providing for social housing the Council has sought to minimise rates contribution and to have the service self-funded.

This commitment was confirmed at a Council workshop as part of the 2018-2028 Long Term Plan process.

The Council could continue to provide housing for older persons and low income renters or could instead focus only on affordable older persons housing. Low income renters are more able to access other housing such as Housing New Zealand Corporation Stock. There are fewer alternative providers of affordable older persons housing.

Quality and capacity of housing stock

Some of the current stock, while well maintained, is coming to the end of its useful life and is not fit for purpose. It is small and not able to be used by people with disabilities. This reflects the age of the stock. This stock would need considerable redevelopment or replacement.

There are a large number of improvements that should be done but are not funded. These were to be prioritised as funding become available. They include

- energy conservation – insulation and ventilation
- internal access and accessibility
- social comforts and needs (includes renewals to bathrooms and building protection with additional wet area ventilation)
- increasing the bedroom size and or living area in some villages
- improving the external environment (improving pathing, paving, accessways, carparks, lighting, fencing etc)
- smoke alarms.

The redevelopment, building of new stock and any major maintenance has not been provided for in the Ten Year Plan.

Modern housing for older persons is designed to provide for aging in place. It uses universal design (lifetime design/Lifemark) features. This provides for open plan living with wide (wheelchair accessible) internal doorways to all rooms and wet area bathrooms. Kitchens provide for appliances and easily accessible cupboards. They are more insulated and are larger than old pensioner housing. Provision for car parking and mobility scooter storage is also recommended.

There is a forecasted need for more housing for the elderly and other social housing. To meet this need, Council could increase the numbers of houses it owns. This could be in both the low income rental market and/or the older person's rental market. Current budgets do not provide for an increase in the number of houses.

Improvement in the quality of the stock and increase in the number of units will require a change in policy and a commitment to providing significant capital funding.

Location of stock

Some of the stock is on valuable sites that could be better used by other owners. It also provides Council with the opportunity to unlock the value of the land for reinvestment in the Council housing portfolio or other council projects.

Tenancy services

The Council provides only landlord tenancy management services for low income renters. Social housing providers provide more support to tenants linking them to social services, and have a more intensive level of tenancy management.

The current level of service provided to occupants of the retirement villages is high. There is scope for efficiency gains in the way these services are provided that should be considered for the status quo and enhanced status quo options.

Community housing providers have a number of advantages over the Council in providing tenancy management services. They are experienced in offering these services. They have worked with vulnerable groups such as older persons and the disabled for many years and offer a wider range of services that better support tenants. This includes connecting tenants to dedicated support services that they have long-term relationships, such as budget advisory services, health providers and such.

Government policy

The National Government was looking to increase the number of social housing providers. They introduced a number of changes to support this policy. The key changes were that

- the Ministry of Social Development now assess housing needs and eligibility and manages the social housing register
- registered community housing providers can assess Income Related Rent Subsidies (IRRS)
- councils cannot become registered community housing providers
- councils no longer have access to capital grants.

The new government has indicated that there would be a review of this policy. While there is still some uncertainty as to where this will land, signals are that there will be more opportunity for councils to access funding for operating and capital spend, particularly for older persons housing. The Council will need to be ready to take up these opportunities.

Opportunity to access income related rent subsidy

Under current law, only registered CHPs can access IRRS. Local authorities and council-controlled organisations (CCOs) cannot register as CHPs. A subsidiary of a local authority or council organisation may apply if it is operating at arm's length. The subsidiary must be genuinely operating independently from the Council and have a separate governance structure.[4]

The Government has indicated that it may change these restrictions.

What is IRRS?

IRRS is part of the Government's financial support for social housing. Eligible tenants[5] pay only 25% of gross income in rent, and providers are paid directly the difference between an agreed market rate rent for their properties and the rent that the social housing tenants pay.[6] This means the provider receives an agreed market rental for the property.

The Ministry of Social Development (MSD) purchases, contracts and pays IRRS. There are two forms of contract with MSD; short-term spot contracts and long-term capacity contracts. Only short-term spot contracts are available in Napier. A short-term spot contract covers the duration of a specific tenancy. These contracts have set terms, but vary in duration.

Benefits of IRRS

As IRRS is paid directly to the housing provider it creates cash flow for the community housing provider and has the taxpayer rather than the housing provider paying the subsidy on the rent. This makes for higher income and greater certainty of payment. It makes social housing more affordable for the housing provider without increasing the financial burden on the tenant.

[4] Ministry of Business Innovation and Employment website

[5] To access IRRS social housing applicants need to be assessed by MSD under its Housing Needs Criteria. Tenants are drawn from the social housing register

[6] Ministry of Social Development *Social Housing Purchasing Strategy Dec 2016 Update*

To get on the social housing register you must have a housing need. If you are already housed you are defined as not having a current housing need. This means that IRRS will not be paid for existing Council tenants. This policy is also being reviewed by the Government.

Niche providers targeting certain tenant types can access IRRS, so long as the tenant has applied for social housing through MSD and meets the criteria. Housing providers are able to house other people under their own criteria at any time; but cannot claim IRRS.[7]

A provider with specific service capability (who could be contracted to specific arrangements), such as Lifemark places for people with disabilities, could select only tenants that match the properties.

What is a community housing provider?

Community housing providers are community based, not-for-profit organisations focused solely on meeting the needs of a wide range of low and moderate income groups. They are better placed to provide all tenants with access to wraparound services and new tenants with access to income related rent subsidies (IRRS). Any profits are reinvested back into providing services and housing, with the goal of delivering long-term housing affordability.

Requirements for registration as a community housing provider

To be registered as a community housing provider, an entity must have, as one of its objectives, the provision of social rental housing and/or affordable rental housing. It must also show that it

- is well governed
- understands and can manage the strategic risks and opportunities of social housing
- has the financial plans to deliver the services viably (including repairs and maintenance and capital upgrades)
- can undertake quality tenancy , property and asset management.

These are tested through the registration process and independently monitored regularly.[8]

Even if councils are able to register or to access the subsidy directly, they are likely to have to meet similar conditions.

MSD purchasing strategy

To create certainty in the market, MSD now provides one year out forecasts of its IRRS purchasing intentions on a regional basis. MSD has announced its purchasing intentions for additional IRRS places as at 30 September 2016. It intended to purchase an additional 125 places in Napier City and has indicated that it will likely increase further the number of IRRS payments for 1, 2 and 3 bedroom units in the future. This is based on the projected housing needs.[9]

7 Ministry of Social Development website
8 Community Housing Regulatory Authority *Performance Standards and Guidelines*
9 Ministry of Social Development *Social Housing Purchasing Strategy Dec 2016 Update*

Potential that community housing provider will partner

A number of councils have sold stock to, or entered into arrangements with, CHPs.

There are a number of community housing providers operating in the Hawkes Bay that may be interested in partnering with council. These include:

- Whatever it takes Trust (local)– very early discussions suggest they are interested in increasing their stock
- Te Taiwhenua O Heretauga (local) – very early discussions suggest they are interested in increasing their stock
- Kahungunu Executive ki te Wairoa Charitable Trust (Wairoa based)
- Windows Trust (Lower Hutt based)
- Habitat for Humanity
- Waiohiki Community Trust (local papkainga provider)

It is difficult to know what the level of interest in the Napier City Council housing stock would be. The true level of interest can only be properly tested through the market.

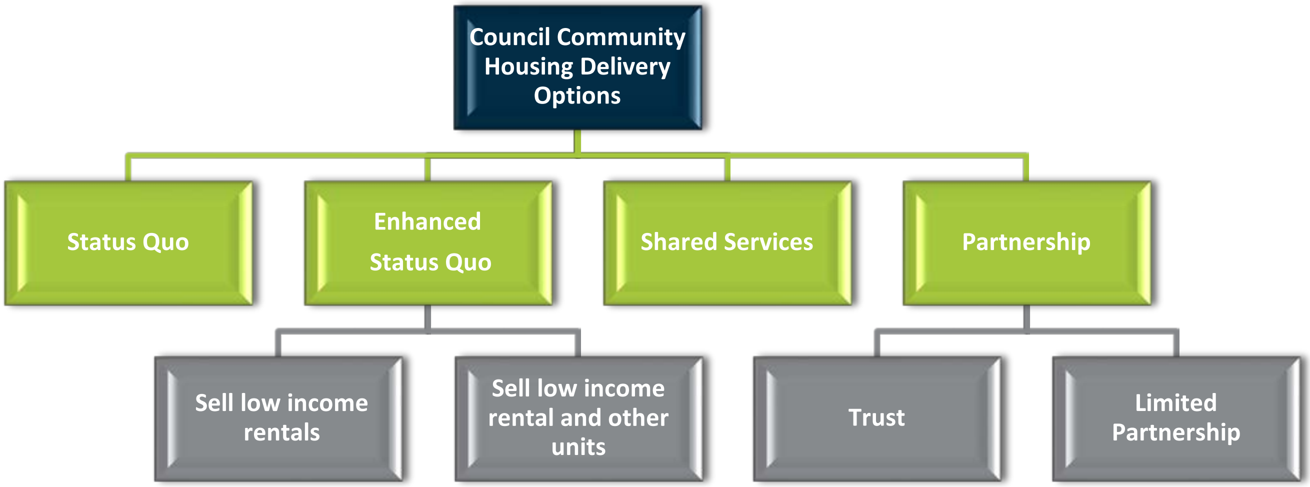
Principles

The principles to consider in discussing the options were agreed at a Council workshop. They are:

- Ensure there is housing for future needs
- Housing fit for purpose
- Tenancy services appropriate for tenant needs
- Little or no cost to ratepayers
- Best use of Council assets/capital
- As little disruption to tenants as possible
- Compatible with Wider City Vision

Options for Community Housing Delivery

The following options are available for the delivery of community housing.



The main service delivery options for consideration are:

In-house

1 Status quo

2 Enhanced Status Quo (stock optimisation)

Joint Governance

3 A shared service arrangement with Hastings District Council

4 Retain ownership but partner with a community housing provider

   a. by Trust

   b. by Limited Partnership

Delivery by a new Napier City Council CCO has been discounted as an option because it would provide no benefits for additional cost.

Full sale of the retirement villages on the open market and exit from the delivery of the housing for older persons has also been discounted as an option because of the impact on tenants and the community and a Council desire to retain some control and governance over the community housing service. It is unlikely that there would be another provider of affordable rental housing for older persons.

Appendix 2 is a summary table of the options analysis.

1. Status quo

Community housing services provided

The Council would continue to deliver the service, and the current council housing portfolio would be retained. The operation, management and maintenance of the stock would be provided by Council in the same way as it is now. Any asset refurbishment, redevelopment or building of stock would be managed by Council.

Tenancy services would be minimal for low income renters, and additional services would be provided to those in the retirement villages. The level of service provided to tenants in retirement villages is relatively high. Efficiency gains could be made including frequency and type of contact.

Future needs

This option will not allow for additional stock to be built to meet predicted growing demand for affordable rents for older persons.

The supply of social housing for low income renters may be met by growth in HNZC stock and the increase in other social housing providers but the timeframes are uncertain.

Housing fit for purpose

This option does not allow for improvements in the quality of the stock. The required redevelopments required to ensure that stock is fit for purpose is not provided for in current plans or budgets.

The current stock does not meet modern housing standards particularly in relation to space and facilities, and only provides adequate accessibility for the housing of people with disabilities in some units.

Tenancy services

Tenants have greater security of tenure than in private rentals.

The delivery of tenancy service would remain unchanged but efficiency gains would be made. This would not provide more intensive tenancy management for low income renters or specialist services for older person renters.

Tenants are likely to pay less if they are housed under the IRRS scheme.

Cost to ratepayers – financial sustainability

The service would continue to be self-funding, with minimal ratepayer contribution as per current policy.

Operating costs would remain the same and renewal requirements would remain unchanged, so in the short term would not require investment from ratepayers. However, identified discretionary maintenance and refurbishment will need to be funded. Therefore the service is likely to become financially unsustainable within the period of the Long Term Plan.

This could be overcome by increasing the rents. The level of increase required to fund the maintenance and refurbishment could make it unaffordable for tenants. This would need to be more fully tested through detailed costings. It would not fund the redevelopment required to future proof the housing.

Currently Council cannot access IRRS or capital grants to offset these costs or improve cash flow but this may change under the new government. It is likely that this will come with some conditions which are as yet unknown but could mean any added income would be offset by increased costs due to additional service requirements.

Best use of Council assets

This option does not allow for Council to best use high value assets or unlock any capital.

Disruption to tenants

There would be minimal disruption to tenants.

Impact on City Vision

This does not allow for an improvement in the use of the land or the development of more vibrant villages.

Conclusion

This option is not a viable sustainable option as there is no funding provision to improve stock or redevelop sites and therefore provide fit for purpose housing for all tenants. Some funding could be provided through rent increases but this could make the housing unaffordable for tenants and is unlikely to be adequate to fund major redevelopment.

There are a number of villages where land is underutilised.

It is recommended that the status quo is not considered further.

2. Enhanced status quo – stock optimisation

The Council would continue to provide day to day maintenance and asset management, intensive tenancy services and manage asset refurbishment, redevelopment and building of new stock. To enable improvement to stock, the redevelopment of some sites and the building of new houses some stock would be sold. The sale could be on the open market or to social housing providers.

The Council could also choose to retain the day to day maintenance and asset management but contract out tenancy services to a community housing provider. This would allow these services to be provided by specialist agencies that could better connect tenants with social services.

There are two sub-options: sale of all low income rentals and exiting this market, and sale of low income rentals and some retirement villages depending on the value of the land and the quality of the stock.

a. Sell/lease the low cost rentals and keep all of the retirement villages

This decision would mean that the Council exit the provision of low cost rentals. Valuations suggest that this could raise around $13.7m on the open market.

The stock could be sold/leased to a community housing provider but this would result in less money being raised. There are also few providers operating in the Hawkes Bay, however new providers are coming on stream. It is understood local providers are seeking stock. It would also mean that if redevelopment of the site for other uses was the best option for the land, it would not happen.

b. Also sell some older retirement villages

Under this sub-option the Council would sell some of the retirement villages based on their suitability for housing for older persons (given quality and design of stock) or value. This would provide capital to fund improvements in, or redevelopment of, remaining villages. This could include building additional units on other sites where land is readily available or to create new units on other lower value land in the city.

Some of the stock is in high value areas and sale of these villages would unlock capital for improving the rest of the portfolio and/or increasing the overall stock. This could raise an additional $3.35m bringing the total amount to $17m.

Future needs

This option would provide the funding required to increase the numbers of houses available for low income older renters by leveraging the sale of high value stock to build new stock on less valuable sites. It would signal a commitment to meeting future demand for housing older renters.

The ability to improve the stock to meet modern standards would future-proof the housing and allow for 'aging in place'.

Housing fit for purpose

It would allow the quality of the remaining stock and the villages to be improved. More modern units would be built to replace outdated ones and facilities would be more in line with modern requirements.

Tenancy services

Tenants have greater security of tenure than in private rentals.

The delivery of tenancy service would remain unchanged but efficiency gains would be made including frequency and type of contact. This would not provide more intensive tenancy management for low income renters or specialist services for older person renters. One option would be for the Council to retain asset management, and contract out tenancy services to a community housing provider to allow for more access to wrap around services.

Tenants are likely to pay less if they are housed under the IRRS scheme.

Cost to ratepayers – financial sustainability

The service would remain self-funding.

Capital upgrades and redevelopments would be funded from sale rather than from rates or borrowing.

Operating and renewals cost would be lower in the short-term. Depreciation costs would be higher with higher value stock.

There will be higher tenancy management costs in the short term as tenants would need to be relocated.

There would be project management costs.

Currently Council cannot access IRRS or capital grants to offset these costs or improve cash flow, but this may change under the new government. It is likely that this will come with some conditions which are as yet unknown but are likely to be the same as those imposed on other registered community housing providers.

Best use of Council assets

This option would allow the Council to better use the assets than at present. Vacant land can be used more effectively and the sites better used to deliver future proofed housing.

Disruption to tenants

The tenants of the 72 low income rentals would have to find alternative housing unless sold as sitting tenants

Until the new stock came on line there would be a reduction of the number of houses available for housing the elderly.

Current tenants would need to be moved and rehoused. This would need to be carefully considered and managed.

Risks and issues

The Carlyle site has endowment issues which would need to be resolved before a sale could proceed.

Conclusion

This option provides Council with an opportunity to fund the necessary upgrades and to go further, providing fit for the future housing and villages without imposing financial burden on ratepayers. Council would continue to play an important role in providing housing within the City.

The role of the Council is more important in providing housing for older people than for low income people as there are limited other options, and demand will continue to grow.

This option is recommended for further consideration. If the decision to procced with this option is made then further work on the type and design of the housing, location and which villages would be affected would need to be done.

3. Shared services

Both Napier City Council and Hastings District Council deliver community housing services. These services could be delivered as shared services with joint tenancy management and asset management delivery.

Hastings District Council provides subsidised rental accommodation to people over 55 on low incomes. Applicants must be able to live independently. They have nine villages, with 220 units. The joining of both portfolios would create a portfolio of approximately 600 units. This may be a more cost effective size for delivery or for seeking partners.

Hastings District Council has completed its S17A analysis of delivery of pensioner housing. The options being considered by Council do not include shared services with Napier.

Both Napier and Hastings face the same challenges - aging stock and the need for capital investment that cannot be funded from the rental income stream. While sharing the delivery services could provide an opportunity to reduce costs it does not deal with the fundamental issue of delivery of fit for purpose housing and vibrant future proofed villages.

Conclusion

This option is not recommended at present.

Shared service delivery may provide an opportunity for operational efficiencies but this option has been discounted by Hastings District Council at this time.

Should both councils agree as part of the current reviews to entering into a partnership with a community housing provider then doing this jointly should be considered.

4. Partnership with a community housing provider

The Council could enter into a partnership with a community housing provider. This new entity would seek registration as a community housing provider (CHP).[10] The Council would retain ownership of the asset.

Council would retain a governance role through the partnership structures.

The new entity would undertake day to day tenancy and asset management. To enable improvement of the stock and modernisation of the villages the new entity would be able to sell and redevelop the assets.

The potential partnership options include a trust and a limited partnership. The procurement process can be used to confirm which one is preferred by the potential partners.

Future needs

This option would provide the funding required to increase the numbers of houses available for low income, older renters by leveraging the sale of high value stock to build new stock on less valuable sites. This would be possible by leveraging the assets and through the increased revenue from Government grants and IRRS.

It would signal a commitment to meeting future demand for housing older renters.

Housing fit for purpose

It would allow the quality of the remaining stock and the villages to be improved. More modern units would be built to replace outdated ones and facilities would be more in line with modern requirements.

Tenancy services

It would have the benefit of creating an entity whose sole purpose would be the provision of social housing. This means that the level of service provision for tenants will be improved. The Council's partner would need to have established links to wraparound services and be an experienced social housing landlord.

Tenants will receive a similar or greater subsidy than Council currently provides through the IRRS.

Cost to ratepayers – financial sustainability

This option will reduce considerably or eliminate the ratepayer burden in the long-term. There will be costs incurred by Council in the procurement and transfer process.

[10] As a new entity with its own governance arrangements, risk management process and financial plans it would need to seek registration in its own right. Partnering with a CHP would make this quicker and easier.

By partnering with a CHP, the partnership would be able to access IRRS. This will improve the cash flow available for asset maintenance and improvement. This will take some time as it will require tenancies to turnover and for new tenancies to be drawn from the social housing list. (The Government is considering waiving this requirement).

As a CHP the new entity would also be able to access any government grants.

Financial viability may be even stronger if the partner is a housing provider with other housing assets that can absorb a large proportion of the set up and support costs. They may also be able to leverage their existing assets to fund redevelopment and refurbishment.

Best use of Council assets

This would allow the Council to better use the assets than at present. Vacant land can be used more effectively and the sites better used to deliver future proofed housing.

Disruption to tenants

Tenants may be unsettled by the change. Good consultation and communication would be important in managing the transition.

Until the new stock came on line there would be a reduction of the number of houses available.

Current tenants would need to be moved and rehoused. This would need to be carefully considered and managed.

Risks and issues

The Council could retain influence through a place on the governance structure, the decision on who to partner with and the procurement process.

The biggest risk is in finding the right partner who is able to deliver a viable service. The only way to test this risk is to go to the market.

The viability is sensitive to the rate of access to the IRSS. It may take some time for the IRSS income stream to come on line, and not all current tenants will be eligible.

There may be concern within the community that the stock is being 'privatised' and, as a consequence, any change would need to be carefully communicated.

Partnership options

There are two options for partnership - a trust and a limited partnership. A summary of each option is set out below. More detailed advice on each option can be provided if a decision to proceed to the next steps is made.

Trust

Under this option, a new Trust would be formed with the Council appointing the minority of the trustees. A Community Housing provider would be a key partner.

The Trust would lease the houses from the Council at little or no cost.

A Trust is a good option where the activity is charitable and the earnings are to be retained in the entity.

Tax issues would be overcome by making the Trust charitable, with all surpluses being fed back into the entity. This would also be the only way to ensure on-going asset maintenance and growth.

The ability to leverage the assets increases the likelihood of growth in the numbers of units over time. Leasehold may not be adequate to achieve this.

There is complexity is setting up and working with the Trust arrangement. It is complex to manage changes in a Trust if circumstances change.

Christchurch City Council has leased its housing stock to the Ōtautahi Community Housing Trust. The Trust was established by Christchurch City Council in 2016. The objective was to move to a more financially sustainable model for its social housing portfolio of 2300 units, improve the quality of its housing and the satisfaction of its tenants, and allow for new developments responding to social housing needs in Christchurch.

It is a charitable trust, where any surplus money will be reinvested back into social housing to improve the service provided to tenants and the wider community.

Seven trustees make up the Ōtautahi Community Housing Trust - three Council trustees and four independent trustees. The independent trustees are from four organisations - the Rata Foundation, the Christchurch Methodist Mission, the Canterbury District Health Board and Age Concern Canterbury. This was because no one organisation was considered able to manage the size and complexity of the housing stock.

The Trust is responsible for tenancy management, rent-setting and the day-to-day maintenance of units, while major repairs, renewals and the development of new social housing are carried out by Christchurch City Council.

The setup of the Trust and transfer of responsibilities took some time to complete. The Council decision to consult was made in May 2014. Expressions of interest were first sought in April 2015 and the final transfer took place in October 2016.

Limited partnership

A Limited Partnership offers benefits over a traditional partnership arrangement by providing its Limited Partners (i.e. Council and the CHP) with the protection of limited liability. A Limited Partnership must also have at least one General Partner that is not afforded such protection, and is responsible for the management of the Limited Partnership.

A new entity (the General Partner) would be created to be the social housing provider. This entity will carry out the day to day functions of the business. The Limited Partnership would be jointly owned by the Council (as minority shareholder) and a community housing provider (as majority shareholder) with Board representation reflecting this.

The Council would retain the housing assets and this would be its contribution to the partnership. The CHP would bring its expertise.

This form of partnership separates the assets of the partnership from those of the partners. This reduces the risk on the Council.

As a limited partnership the entity itself would not be taxed as it has 'pass-through' tax status. The partners would be taxed as applicable – that is the CHP and the Council.

As a partnership, any income gets automatically split and this may lead to some complexity in using the retained earnings to grow the business, although this can be managed.

This form of structure is more dynamic and agile than the Trust. Partners can potentially change over time although this may be complicated to actually do and you would need to ensure that its status as a charity for tax purposes and a Registered Community Housing Provider were not compromised.

Council influence would be through its shareholding and the appointment of Directors.

Auckland City Council has set this model up with its partner, The Selwyn Foundation. This Limited Partnership is responsible for 1,412 older persons housing units.

The Limited Partnership has a 25 year lease of the housing units with three 25 year rights of renewal.

The Limited Partnership is responsible for tenancy management, rent-setting and the day-to-day maintenance of units. It is also responsible for major repairs and renewals. Any surplus money is reinvested back into social housing to improve the service provided to tenants and the wider community.

The intention is to grow the housing stock over time with the development of new social housing being carried out by Panuku Development Auckland (a CCO of Auckland Council). Any developments are agreed in a collaborative way with the Limited Partnership through a development committee, with Panuku having responsibility to deliver on them.

Conclusion

A partnership involving a Trust or Limited Partnership has been used elsewhere in New Zealand and, based upon this initial analysis, potentially offers a range of benefits to Council. These benefits are improved tenancy management and long-term financial sustainability. The new entity will be a provider whose sole focus is on social housing and can deliver more intensive tenancy services.

To gauge the interest of partners a procurement process would need to be undertaken.

This option is recommended for further consideration.

Way forward

The two recommended shortlisted options for further consideration are:

> Option 1 - The Council remain a social housing provider for low income older renters and sells or leases the low cost rental villages and sells some of the retirement villages to allow funding of redevelopment of the remaining stock and potential new sites. This option will require further analysis as to which villages to retain and how to manage and deliver the redevelopment proposal. There are a number of legal issues that will need to be clarified.
>
> Consideration could also be given to contracting out tenancy management services to a community housing provider to increase access to wrap around services.
>
> Option 2 - The Council enter into a partnership arrangement with a social housing provider to create a community housing provider that delivers the service on its behalf. This option will require the Council to test this with the market through a procurement process. This would confirm who would be interested in entering the Napier market and which form of governance / contractual arrangement would be best.

Consultation requirements

The Council’s Significance and Engagement Policy identifies retirement housing as a strategic asset. Therefore compliance with the policy is required before any decision around transfer of ownership or control is undertaken.

It proposed that this consultation be done as part of the Long Term Plan consultation early in 2018.

Appendix 1 Section 17A of the Local Government Act

(1) A local authority must review the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services, and performance of regulatory functions.

(2) Subject to subsection (3), a review under subsection (1) must be undertaken

- *a) In conjunction with consideration of any significant change to relevant service levels; and*
- *b) Within 2 years before the expiry of any contract or other binding agreement relating to the delivery of that infrastructure, service, or regulatory function; and*
- *c) At such other times as the local authority considers desirable, but not later than 6 years following the last review under subsection (1).*

(3) Despite subsection (2)(c), a local authority is not required to undertake a review under subsection (1) in relation to the governance, funding, and delivery of any infrastructure, service or regulatory function –

- *a) to the extent that the delivery of that infrastructure, service, or regulatory function is governed by legislation, contract, or other binding agreement such that it cannot reasonably be altered with the following 2 years; or*
- *b) if the local authority is satisfied that the potential benefits of undertaking a review in relation to that infrastructure, service, or regulatory function do not justify the costs of undertaking the review.*

(4) A review under subsection (1) must consider options for the governance, funding, and delivery of infrastructure, services, and regulatory functions, including, but not limited to, the following options:

- *a) responsibility for governance, funding, and delivery is exercised by the local authority:*
- *b) responsibility for governance and funding is exercised by the local authority, and responsibility for delivery is exercised by*
  - *(i) a council-controlled organisation of the local authority; or*
  - *(ii) a council-controlled organisation in which the local authority is one of several shareholders; or*
  - *(iii) another local authority; or*
  - *(iv) another person or agency:*
- *c) responsibility for governance and funding is delegated to a joint committee or other shared governance arrangement, and responsibility for delivery is exercised by an entity or a person listed in paragraph (b)(i) to (iv).*

(5) If responsibility for delivery of infrastructure, services, or regulatory functions is to be undertaken by a different entity from that responsible for governance, the entity that is responsible for governance must ensure that there is a contract or other binding agreement that clearly specifies

- *a) the required service levels; and*
- *b) the performance measures and targets to be used to assess compliance with the required service levels; and*
- *c) how performance is to be assessed and reported; and*
- *d) how the costs of delivery are to be met; and*
- *e) how any risks are to be managed; and*
- *f) what penalties for non-performance may be applied; and*
- *g) how accountability is to be enforced.*

Appendix 2 Summary of Options Analysis

Criteria	Status Quo	Enhanced Status Quo – sell low income rentals (option 1)	Enhanced Status Quo – sell low income rentals and other units (option 2)	Shared Services	Partnership with CHP Trust	Partnership with CHP Limited Partnership
Future needs	No new stock to meet predicted increased demand	Would provide funding to increase stock numbers	Would provide funding to increase stock numbers – would be more than option 1	No new stock to meet predicted increased demand	Would provide funding to increase stock numbers	Would provide funding to increase stock numbers
Fit for Purpose	Won't allow for improvements in stock	Would allow modern units to be built and for refurbishment of remaining stock	Would allow modern units to be built and for refurbishment of remaining stock	Won't allow for improvements in stock	Would allow modern units to be built and for refurbishment of remaining stock	Would allow modern units to be built and for refurbishment of remaining stock
Tenancy services	Service levels unchanged but efficiency gains would be made	Service levels unchanged but efficiency gains would be made	Service levels unchanged but efficiency gains would be made	Won't allow for improvements in stock	Tenancy services likely to be improved	Tenancy services likely to be improved
Cost to Ratepayers	Not financially sustainable as it doesn't provide for substantive refurbishment	Capital upgrade and redevelopments funded from sale not rates or borrowing – potential to raise $13.7m	Capital upgrade and redevelopments funded from sale not rates or borrowing – an additional $3.35m	Opportunity to reduce costs through efficiency gains but not financially sustainable as it doesn't provide for substantive refurbishment	Reduce or eliminate ratepayer investment in the long-term. Would be costs to set up Would be able to access IRRS and development grants	Reduce or eliminate ratepayer investment in the long-term. Would be costs to set up Would be able to access IRRS and development grants
Asset	Assets retained	Partially retain assets – sell some	Partially retain assets – sell some	Retain asset	Asset would be transferred to Partnership through lease	Asset would be transferred to Partnership through lease

Criteria	Status Quo	Enhanced Status Quo – sell low income rentals (option 1)	Enhanced Status Quo – sell low income rentals and other units (option 2)	Shared Services	Partnership with CHP Trust	Partnership with CHP Limited Partnership
Best use of Council Assets	Won't unlock capital or allow council to optimise asset use	Vacant land can be more effectively used and the sites better utilised	Vacant land can be more effectively used and the sites better utilised	Won't unlock capital or allow council to optimise asset use	Vacant land can be more effectively used and the sites better utilised	Vacant land can be more effectively used and the sites better utilised
Tenant Disruption	None	Current tenants would need to be moved and rehoused	Current tenants would need to be moved and rehoused	None	Current tenants would need to be moved and rehoused	Current tenants would need to be moved and rehoused
Impact on City Vision	No improvement on use of land or development of more vibrant villages	Better use of land and able to develop more vibrant villages	Better use of land and able to develop more vibrant villages	No improvement on use of land or development of more vibrant villages	Better use of land and able to develop more vibrant villages	Better use of land and able to develop more vibrant villages
Partnership variables					Good where activity is charitable and surpluses are to be retained in the entity Complexity in set up and working with Trust arrangements Complex to manage change	Provides protection of limited liability Reduces risk for council More dynamic and agile Need to ensure status as a charity

Appendix 3 Information on Councils

The following table sets out which councils hold social housing stock, how they manage it and what changes they have made as a result of recent reviews.

North Island Councils

Council	Number of units and tenant groups	How stock is managed
Far North DC	147 units for pensioners	Council owned and managed.
Whangarei DC	165 units for pensioners	Council owned. The Masonic Trust contracted to do day to day management.
Kaipara DC	92 units for pensioners	Council owned. The stock is managed by Dargaville Community Development Board, an Incorporated Society and a private company in Mangawhai.
Waikato DC	34 units for pensioners	Owned and managed by Council
Hamilton CC	0	The stock was transferred to Accessible Properties, a CHP, in March 2017 for $23.5m. The process took two years.
Waipa DC	129 units for pensioners.	Council owned and managed. It is self-funded. Market rents were set to enable upgrade and increase of stock. As part of this year's LTP the Council is proposing reintroducing the subsidy to have the maximum rent of 30% of gross national superannuation. Council is selling its largest village to Habitat for Humanity, a CHP, to providing funding to build new stock.
Otorohanga Dc	28 units for pensioners.	Council owned and managed.
Waitomo DC	20 units for pensioners	Council owned and managed.
Thames-Coromandel DC	0	
Hauraki DC	57 units for pensioners	Council owned and managed.
Matamata-Piako DC	108 units for pensioners	Council owned and managed.
South Waikato DC	78 units for pensioners and certain beneficiaries.	Council owned and managed.
Taupō DC	55 units for pensioners	Council owned and managed.
Western Bay of Plenty DC	70 units for pensioners	Council owned and managed.
Tauranga CC	246 units for pensioners	As part of s17A review Council is considering partnering with a CHP or selling its portfolio to a CHP. Will be consulted on as part of the LTP. Ageing stock – with villages in need of redevelopment. Looking to improve tenancy services.
Rotorua Lakes DC	152 units for pensioners	Council owned and managed.
Kawarau DC	0	

Council	Number of units and tenant groups	How stock is managed
Whakatane DC	0	Stock sold to Tawanui Community Housing (a Trust whose sole purpose is to be a social housing provider) for less than market value.
Opotiki DC	14	Council owned and managed.
Gisborne DC	120 for pensioners or 55 plus beneficiaries	Council owned and managed.
Wairoa	32 units for pensioners	Council owned and managed.
Hastings DC	220 units for pensioners	Council owned and managed.
Central Hawkes Bay DC	48 units for pensioners	Council owned and managed.
New Plymouth DC	140 units for pensioners	Council owned and managed. Council consulted on how it was managed in mid-2016 and decided to continue to own and manage. Looking to make it self-funding.
Stratford DC	10 units for pensioners	Council owned and managed.
South Taranaki DC	74 units for pensioners	Owned and managed by Council. Stock was previously managed by Presbyterian Support Central. Council considering selling some units that cannot be upgraded.
Ruapehu DC	60 units for pensioners	Council owned and managed.
Whanganui DC	275 units for pensioners	Council owned and managed. A welfare officer visits three times a year. In 2015, Council agreed to sell or partially sell to fund the service. Sale did not proceed.
Rangitikei DC	0	
Manawatu DC	0	Transferred ownership of 205 units for pensioners to the Manawatu Community Trust. Trustees appointed by the Council.
Tararua DC	67 units for pensioners	Council owned and managed.
Palmerston North DC	403 units for pensioners	Council owned and managed. The Council was considering options for partnering with CHP to reduce ratepayer burden.
Horowhenua DC	0	115 units for pensioners sold to Sisters of Compassion and are now managed by Homes of Compassion, a CHP.
Kapiti Coast DC	118 units for pensioners	Council owned and managed. Rents vary depending on the quality of the stock. Increases considerable for new tenants.
Porirua DC	26 units for pensioners	Owned by Council, managed by Wellington City Council.
Upper Hutt CC	0	
Hutt City	188 units for pensioners	Owned and managed by Urban Plus, a wholly owned council controlled organisation. Provides 24-hour maintenance service and a tenant liaison service on request.
Wellington CC	2200 units for low income households and those who face barriers to other types of housing	Owned and managed by Council. Some rent is subsidised and some are market rent. Tenancy advisors provided as well as usual tenancy management. Link to support services where required. 20 year upgrade programme in partnership with the government.
Masterton DC	74 units for pensioners	Owned and managed by Council.
Carterton DC	0	
South Wairarapa DC	32 units for pensioners	Owned and managed by Council.

South Island Councils

Council	Number of units and tenant groups	How stock is managed
Marlborough DC	178 units for pensioners	Council owned managed by APL Properties Limited, a private property management company.
Kaikoura DC	16 units for pensioners	Council owned and managed.
Nelson CC	142 units for pensioners	Council owned. Managed by the Nelson Tasman Housing Trust from 1 November 2017 – previously managed by Opus International.
Tasman DC	101 units for pensioners	Council owned and managed.
Buller DC	0	
Grey DC	118 units for pensioners	Council owned and managed. Self-funded.
Westland DC	46 units for pensioners	Council owned. Managed by Westland District Property Limited Management, a CCO.
Hurunui DC	33 units for pensioners or beneficiaries	Council owned and manged.
Waimakariri DC	112 units for pensioners	Council owned and managed.
Christchurch CC	2651 units for people on MSD Social Housing register	Council owned. Self-funded. Leased and managed by the Otautahi Community Trust, a CHP.
Selwyn DC	0	
Ashburton DC	112 units for pensioners	Council owned and managed.
Timaru DC	236 units for low income renters with a preference for pensioners	Council owned and managed.
Mackenzie DC	10 units for pensioners	Council owned and managed. Self-funded.
Waimate DC	27 units for low income renters	Council owned and managed.
Waitaki DC	0	
Dunedin City Council	988 units split into two groups, one for pensioners and the second for low income tenants. Others can apply if vacancies exist	Owned and managed by council through City Property. Eligibility priority and rent depends on income.
Clutha DC	98 units for pensioners and beneficiaries	Council owned and managed. Self-funded. Market rents applied. Priority system pensioners first then beneficiaries and then others.
Central Otago DC	98 units for pensioners or beneficiaries	Council owned and managed. Pensioners have priority. Market rent.
Queenstown Lakes DC	60 units for pensioners 20 units for low income renters	Community Housing owned and managed by Queenstown Lakes Community Housing Trust, a CCO. Low income renters are taken from the MSD social housing register. Pensioner housing has subsidised rents.
Gore DC	0	

Council	Number of units and tenant groups	How stock is managed
Invercargill CC	215 units for pensioners	Council owned and managed. Self-funded.
Southland DC	69 units for low income renters including pensioners	Council owned and managed.