



Performance audit report

Housing New Zealand Corporation:
Effectiveness of programmes to buy and lease properties for state housing





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This is the report of a performance
audit we carried out under section
16 of the Public Audit Act 2001.

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Foreword

Housing New Zealand Corporation provides state housing to more than 190,000 people, and controls assets valued at more than \$11 billion. With the allocation of more funding to meet housing needs – particularly in Auckland – I considered it timely to audit the programmes used to acquire properties for state housing.

I examined the planning, acquisition, and monitoring and reporting processes for buying and leasing houses. I am pleased to report that the Corporation has met my performance expectations in each of these areas.

Housing New Zealand Corporation has recently focused on regional planning to acquire houses, to best meet the needs of those waiting for state housing. I have recommended that the Corporation include performance reporting about each region in its public accountability documents, to provide more information about acquisition performance to Parliament and to those with an interest in social housing.

Other public entities might like to consider whether they too are in a position to enhance their accountability reports through more detailed reporting.

I thank the management and staff of Housing New Zealand Corporation for their full co-operation.

A handwritten signature in blue ink, consisting of a horizontal line that curves upwards and loops back to the left, ending in a small flourish.

K B Brady
Controller and Auditor-General

20 June 2006

Contents

Summary	5
Our findings	5
Our recommendations	6
Part 1 – Introduction	9
Role and structure of Housing New Zealand Corporation	9
Why we audited the programmes for buying and leasing houses	11
Our audit objective and performance expectations	13
How we carried out our audit	13
Programmes outside the scope of our audit	14
Part 2 – Strategic planning for buying and leasing houses	15
Our expectations of the planning for buying and leasing houses	15
Information used to support acquisition planning	15
Aligning asset planning with business planning	17
Risk management and planning for acquiring houses	20
Considering the costs and benefits of the buying and leasing programmes	21
Targets for acquiring houses	23
Part 3 – Buying and leasing houses	25
Our expectations for buying and leasing houses	25
The process for buying and leasing houses	25
Compliance with guidelines	27
The Corporation’s investment decisions	29
The quality of bought and leased houses	30
Acquiring the most suitable properties and making them available to tenants	31
Part 4 – Monitoring and reporting	35
Our expectations	35
Monitoring and reporting of acquisition performance	35
Using internal monitoring and reporting information	36
Monitoring the management and renewal of leases	38
Opportunities and risks in initiatives for improvement	39
Figures	
1 – Housing New Zealand Corporation’s structure	11
2 – Housing New Zealand Corporation’s 11 regions	12
3 – In Auckland, number of bedrooms in existing state houses and bedrooms needed by high-priority applicants	16
4 – Connections between Housing New Zealand Corporation’s regional and national planning	19

Summary

Housing New Zealand Corporation (the Corporation) manages more than 66,000 state houses on behalf of the Crown. There is high demand for its services, with 11,458 applicants on the waiting list for a state house as at 30 June 2005. The Corporation has assessed 4288 of these applicants as being of high priority for state-provided housing.

In response to this demand, in 2001-02 the Corporation began an intensive programme of acquiring houses by buying, building, and leasing properties, particularly in Auckland. The Corporation plans to buy or lease from the private market nearly 64% of the 1019 properties it aims to acquire in 2005-06.

Our audit looked at the effectiveness of the Corporation's buying and leasing programmes for acquiring properties for state housing. We expected there to be strong planning, monitoring, and reporting processes for the buying and leasing programmes. We also expected the Corporation to provide state houses in line with financial and quality requirements, and to make state houses available to tenants without delay.

We reviewed the Corporation's documentation for planning, monitoring, and reporting on the acquisition of properties, and examined the relevant files and electronic records for 48 bought or leased properties. We also interviewed managers and operational staff involved with the buying and leasing programmes.

Our findings

Overall, the Corporation's buying and leasing programmes are effective and performing well in meeting challenging programme targets. However, the programmes face obstacles – most immediately because property values in Auckland have increased steeply, and in the long term because the exact nature of future housing demand is uncertain.

Planning to get more houses

The Corporation plans effectively for obtaining properties for state housing. It uses the needs of waiting list applicants to identify the type of properties it will buy or lease. This planning process is well integrated with the Corporation's overall business planning and risk management framework.

The Corporation has a good understanding of most of the costs and benefits of the buying and leasing programmes, and it has introduced new processes to help meet its targets.

Getting more houses

The buying and leasing programmes use similar acquisition processes. The Corporation takes a diligent approach, assessing the investment return of properties and their compliance with quality standards.

The guidelines supporting the acquisition processes, including the guidelines on conflicts of interest, are robust. Proper approvals had been obtained in all but one of the files we reviewed, and there were minor omissions in the documentation of some files. However, overall we were satisfied that the required procedures had been followed.

The Corporation is acquiring suitable properties, but not without difficulty (largely because of difficult property market conditions, especially in Auckland). The increasing use of leasing arrangements has created some risks, identified by the Corporation, in managing and renewing existing leases. The Corporation has started work to address these risks.

Monitoring and reporting

In our view, the Corporation thoroughly monitors and reports on its buying and leasing of properties for state housing. Managers closely monitor the acquisition of houses against acquisition plans, and this informs reporting at regional and national levels. The monitoring and reporting information supports the effective use of state houses as it enables the Corporation to identify and manage instances where houses have more bedrooms than the tenants need, and to redirect its buying and leasing programmes as required.

The Corporation's external reporting could be enhanced to align it better with the increasing sophistication of the Corporation's planning process. This would see more information being provided to Parliament, and to other parties with an interest in social housing, about the Corporation's performance in each region. This would be beneficial given the recent funding that has been designated for acquiring properties in Auckland for state housing.

Our recommendations

We have made 6 recommendations to help the Corporation ensure that its documentation is complete, to increase its knowledge about the costs to the Corporation of leasing properties from private owners, and to enhance the public reporting of its performance.

We recommend that Housing New Zealand Corporation:

- undertake work to understand the full cost of lease management to the Corporation;
- include a checklist of the mandatory documentation to be included on each file in its quality management system guidance for buying and leasing;
- prepare a strategy for making the best long-term use of properties acquired in the absence of more suitable properties identified in the Asset Management Strategy and Regional Asset Management Plans;
- provide more details about the 3 Auckland regions in its annual reporting to the Minister of Housing and the Minister of Finance;
- provide more details about regions of high need in its annual reporting to the Minister of Housing and the Minister of Finance; and
- include the risks associated with the renewal of leases in its national risk management framework, and prepare a recommended approach for regions to use in addressing those risks.

Part 1

Introduction

- 1.1 In this Part, we describe:
- the role and structure of Housing New Zealand Corporation;
 - why we audited the programmes for buying and leasing houses;
 - our audit objective and performance expectations;
 - how we carried out our audit; and
 - programmes outside the scope of our audit.

Role and structure of Housing New Zealand Corporation

- 1.2 Housing New Zealand Corporation (the Corporation) is the entity responsible for managing state housing on behalf of the Crown.¹ It provides housing² to people who are unable to find suitable and sustainable accommodation through the private sector. It houses about 190,000 people, and controls an asset portfolio of more than 66,000 state houses with a value of \$11,300 million. The Corporation also works to increase levels of home ownership, and has a lead role in advising the Government on housing policy.
- 1.3 The Corporation's services are in high demand. As at 30 June 2005, there were 11,458 applicants on the state housing waiting list. Of these applicants, the Corporation assessed 4288 as being of high priority for state-provided housing. Although 57% of the high-priority applicants live in Auckland, only 44% of all state houses are located in Auckland. In response to this demand, the Corporation plans to increase the number of state houses by 3164 between 2005-06 and 2008-09. Most of the additional state houses will be in Auckland.
- 1.4 Some of the additional houses will be built by the Corporation, and some will be buildings bought or leased from private owners. The Corporation will also reconfigure some houses to make them better match the needs of applicants on its waiting list. Most state houses are made available to applicants on the general waiting list, but some are specifically for people in rural areas, and some are made available only to providers of residential services to people with special health or welfare needs.
- 1.5 The Corporation was formed in 2001 by the merger of 4 agencies that had separately overseen different aspects of state housing and housing policy.³ It is

1 Housing New Zealand Corporation is a Crown entity established under the Housing Corporation Act 1974, as amended by the Housing Corporation Amendment Act 2001.

2 In this report, "property", "state house", and "house" refer to all types of housing, including stand-alone houses, townhouse units, and units in blocks of flats.

3 The 4 agencies were Housing New Zealand Limited, responsible for managing state houses at market rent; Housing Corporation of New Zealand, responsible for managing the loan portfolio; Community Housing Limited, responsible for managing the community housing portfolio; and the Housing Policy Team from the Ministry of Social Policy, responsible for providing housing policy advice.

governed by a Board of 8 members and is accountable to both the Minister of Housing and the Minister of Finance. The Minister of Housing has the primary relationship with the Corporation, while the Minister of Finance oversees the Corporation's borrowing.

- 1.6 The Corporation has adopted the New Zealand Housing Strategy's vision as the overarching outcome towards which it works.⁴ The overarching outcome is that "All New Zealanders have access to affordable, sustainable, good quality housing appropriate to their needs." The Corporation has identified 3 outcomes that contribute to the overarching outcome. They illustrate the importance the Corporation places on taking into account the needs of the users when addressing housing needs –
- *New Zealanders in the greatest housing need receive appropriate assistance and support*
 - *the social housing sector is effectively supported to deliver affordable, sustainable, good quality homes*
 - *the wider housing sector is effectively supported to provide appropriate housing.*⁵

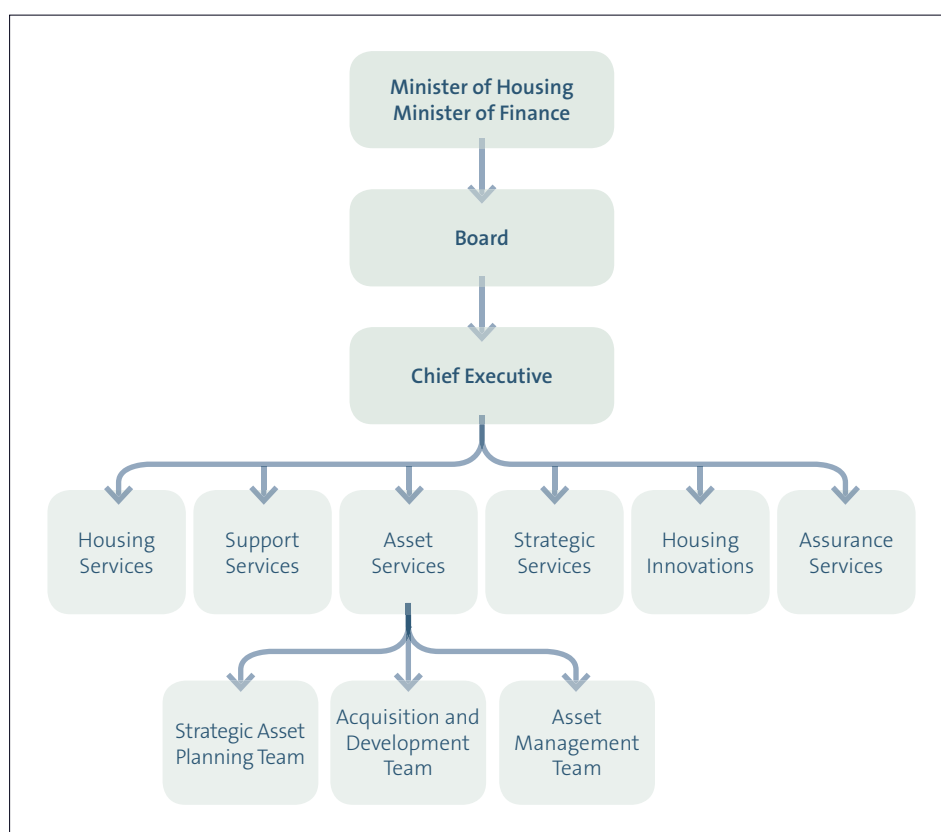
Structure of Housing New Zealand Corporation

- 1.7 The Corporation is organised into 6 business groups. Each business group is led by a general manager. The Asset Services business group's responsibilities include planning for, and acquiring, more state houses. Separate teams oversee these different processes. The teams and their place in the Corporation's structure are shown in Figure 1.
- 1.8 The Corporation uses a regional structure to deliver services to the public. There are 11 regions, each administered by a regional manager. There are 3 regions within Auckland. Staff from the Corporation's business groups work together within each region. Corporate management and support is provided to the 11 regions by offices in Manukau City, Wellington, and Christchurch.
- 1.9 The staff responsible for managing tenants and properties are based in 43 neighbourhood offices spread throughout the 11 regions. Each neighbourhood office focuses on a particular geographic area. However, specific housing needs might vary within each area. For example, the Glen Innes neighbourhood office in Auckland manages properties in the suburb of Glen Innes, which has relatively high levels of deprivation, but also manages a few properties in more affluent areas such as Mission Bay and Waiheke Island.

4 The New Zealand Housing Strategy was launched in May 2005 after consultation, research, and analysis that involved local government, communities, businesses, and central government agencies. The New Zealand Housing Strategy sets priorities for housing and an action plan for the housing sector as a whole.

5 Housing New Zealand Corporation (2005), *Statement of Intent 2005–2008*, page 11.

Figure 1
Housing New Zealand Corporation's structure



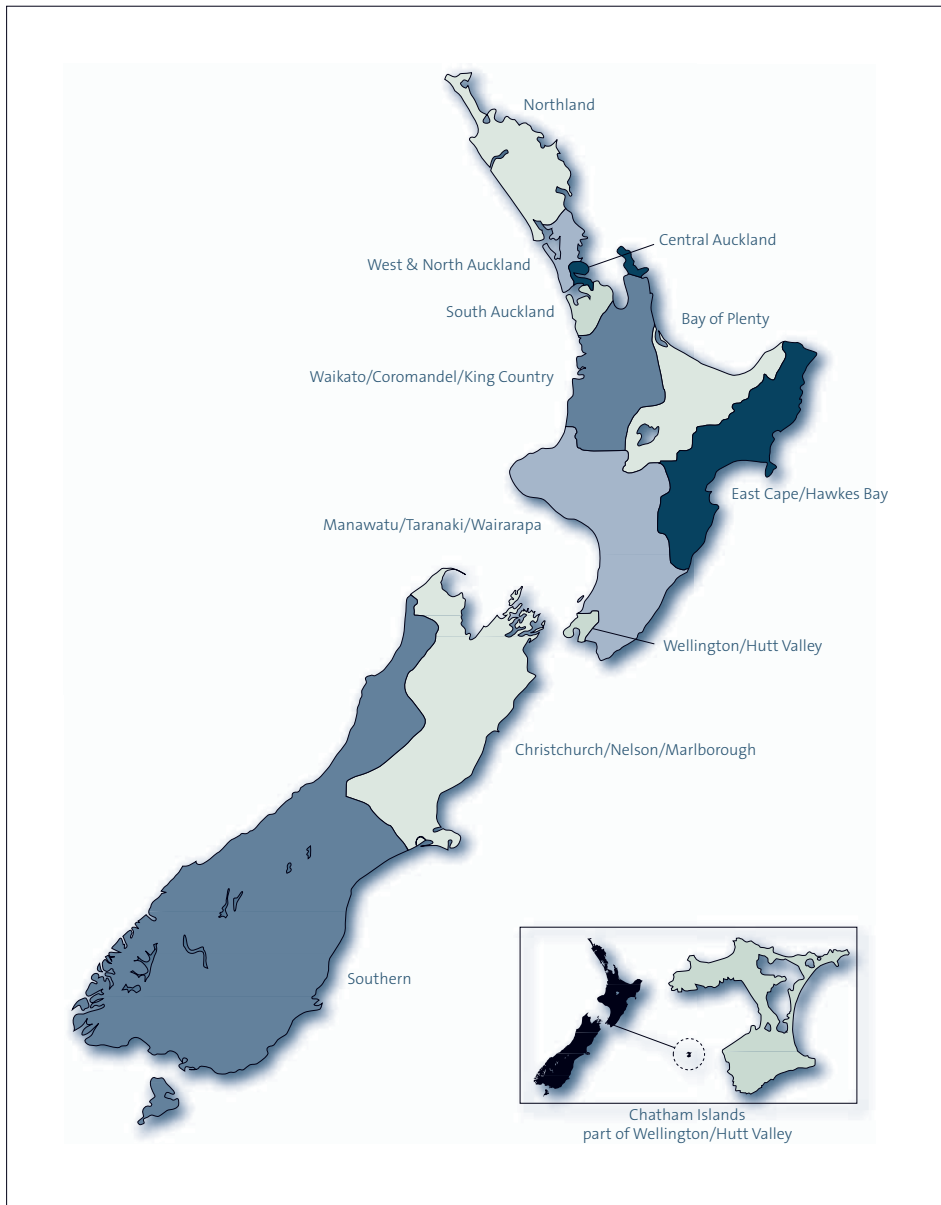
Source: Adapted from Housing New Zealand Corporation (2005), *Statement of Intent 2005–2008*, page 20.

- 1.10 The Corporation's 11 regions for delivering services are shown in Figure 2.

Why we audited the programmes for buying and leasing houses

- 1.11 In 2001-02, the newly formed Corporation began a major programme of capital spending on state houses. As part of this, the Corporation has steadily increased the number of state houses throughout the country. It has received additional capital appropriations in 2004-05 and 2005-06, totalling \$256.6 million, to address high housing need, particularly in Auckland.
- 1.12 Given that the Corporation plans to provide 3164 additional state houses between 2005-06 and 2008-09, an audit of the programmes used to acquire properties is timely. We selected the buying and leasing programmes for the audit as they will be used to acquire over half of the additional properties. The Corporation will

Figure 2
Housing New Zealand Corporation's 11 regions



be acquiring 650 new properties through the buying and leasing programmes in 2005-06. This is 63.8% of the 1019 new properties the Corporation plans to provide in 2005-06.⁶

Our audit objective and performance expectations

- 1.13 The objective of our audit was to provide assurance to Parliament about the effectiveness of the Corporation's buying and leasing programmes for providing state housing.
- 1.14 We expected the Corporation's planning for buying and leasing properties from private owners to be robust, and to provide state houses of the required standard to people in need of them.
- 1.15 We expected the 2 programmes we audited to be linked to the Corporation's business goals through a wider strategy, and that there would be plans for achieving the targets for each programme.
- 1.16 For each programme, we expected:
- purchases or leases to be made in keeping with the Corporation's policies and procedures;
 - standards for financial performance and quality to be met;
 - the most suitable properties to have been obtained; and
 - newly acquired properties to be made available to high-priority applicants without delay.
- 1.17 We also expected the Corporation to be monitoring, and periodically evaluating, the performance of its buying and leasing programmes.

How we carried out our audit

- 1.18 To assess the planning framework, we interviewed staff responsible for asset planning and asset management, and examined important strategies and planning documents.
- 1.19 We interviewed managers and staff responsible for buying and leasing properties. We reviewed 48 acquisition files to see whether they complied with the relevant policies and procedures.⁷

⁶ Housing New Zealand Corporation (2005), *Statement of Intent 2005–2008*, page 30. Of these 650 new properties, the Corporation plans to buy 216 properties, enter into 350 new leases with private owners, and renew 84 existing leases.

⁷ We reviewed 23 lease files and 21 purchase files. We also looked at 4 files for proposed acquisitions that had been cancelled part-way through the process. The files related to single houses, several houses leased or purchased at once, multiple-unit buildings, and apartment complexes. In total, the 48 files covered 133 individual properties.

- 1.20 We discussed with regional managers the process of making newly acquired properties available to tenants. We reviewed electronic records for 126 properties that related to the 48 acquisition files we reviewed, to see whether there were delays between when properties were available to be tenanted and when they became occupied.
- 1.21 We reviewed the monitoring and reporting systems that related to buying and leasing, and met with the Corporation's internal auditors to learn about the Corporation's risk management framework and its oversight of the 2 programmes.

Programmes outside the scope of our audit

- 1.22 We did not review the Corporation's programmes that are aimed specifically at rural housing and residential services for people with special health or welfare needs. However, our examination of the strategies, plans, monitoring, and reporting for leased and bought properties has provided us with a good overview of the systems that the Corporation uses for acquiring state houses in general.
- 1.23 We did not directly examine the Corporation's building or redevelopment programmes. We did not examine the Corporation's significant building activities nor the planned large development at Hobsonville, West Auckland, that is expected to provide 3000 new homes (of which 600 will be retained as state houses). However, we will continue to assess whether we need to review the Corporation's building and development activities.

Part 2

Strategic planning for buying and leasing houses

2.1 In this Part, we discuss:

- our expectations of the Corporation’s strategic planning for buying and leasing houses;
- the information used to support acquisition planning;
- how the Corporation aligns asset planning with business planning;
- considerations in assessing the costs and benefits of the buying and leasing programmes; and
- the Corporation’s targets for acquiring houses.

Our expectations of the planning for buying and leasing houses

2.2 For the Corporation to effectively provide state houses and achieve the targets agreed with by the Government, it needs to have planning processes that can assess housing need and then direct resources appropriately.

2.3 We expected the Corporation to:

- make the best use of the information available to it when assessing housing need;
- align plans for obtaining houses with its wider business goals and strategies;
- incorporate a risk management framework into planning for obtaining houses; and
- understand the costs and benefits of its buying and leasing programmes.

Information used to support acquisition planning

2.4 We expected the Corporation to allocate housing based on need. To assess this, we examined whether the Corporation had a system for measuring the letting of houses to people in need and whether this system was monitored and reported on.

Allocating housing based on need

2.5 People who seek housing assistance from the Corporation are assessed and grouped into 4 categories:¹

- an A-priority household has severe and persistent housing needs and is unable to access suitable housing without state intervention;

1 Housing New Zealand Corporation (n.d.), *Social Allocation of Housing New Zealand Corporation Housing*. The assessment is based on criteria that include the ability to afford a house in the private market, the condition of an applicant’s current housing and whether it is overcrowded, whether the applicant is discriminated against, and whether the applicant’s situation is sustainable.

- a B-priority household has significant and persistent housing needs and is unlikely to access suitable housing in the near future without state intervention;
- a C-priority household has a moderate housing need that is likely to get worse, possibly requiring state intervention; and
- a D-priority household, despite experiencing some disadvantage, is able to function in the private housing market.

- 2.6 The Corporation concentrates on finding state housing for the applicants assessed as an A-priority or B-priority household (high-priority applicants). The Corporation periodically reassesses the people on the waiting list to ensure that their priority status remains accurate.
- 2.7 The Corporation identifies the type of state house most suitable for applicants by learning about their social, medical, and personal needs. A large family will need a house with more bedrooms, while a person with disabilities may need a house with special facilities.

Comparing availability of housing with need

- 2.8 The Corporation uses information about the needs of applicants to determine the type of properties that it should obtain. For example, the Corporation compares the profile of its existing housing stock against information about the type of houses that applicants need. Figure 3 compares the number of bedrooms available in existing state houses in Auckland with the number of bedrooms needed by high-priority applicants.

Figure 3
In Auckland, number of bedrooms in existing state houses and bedrooms needed by high-priority applicants

Number of bedrooms needed	State houses with this many bedrooms	High-priority applicants requiring this many bedrooms
0-2	43.8%	53.5%
3	45.2%	26.0%
4+	11.0%	20.5%
Total	100.0%	100.0%

Source: Aggregation of the Corporation's data from December 2005 for the 3 Auckland regions.

- 2.9 One of the Corporation's main objectives is to acquire suitable properties for high-priority applicants. Figure 3 shows that, while only 11% of state houses in Auckland had 4 or more bedrooms, 20.5% of the high-priority applicants had been assessed as needing houses with 4 or more bedrooms.

- 2.10 The Corporation uses this type of analysis to determine its strategy for obtaining additional state houses in Auckland. For example, acquiring properties with 4 or more bedrooms is an identified priority for 2005-06 housing acquisitions in Auckland.
- 2.11 The Corporation also compares the profile of existing state houses with long-term forecasts of housing requirements. Based on population growth predictions, it estimates that it will need to increase its portfolio by 9634 properties by the year 2016 to retain state housing at its current 4.24% share of the total housing market.²
- 2.12 The Corporation has drafted a plan for how the housing stock will need to change because of this growth. The draft plan shows that, by the year 2016, the Corporation will need to have made a net increase of 1237 houses of 4 or more bedrooms, 4100 3-bedroom houses, and 4297 houses of 2 or fewer bedrooms. The Corporation has put in place an annual process for producing and updating these long-term forecasts.
- 2.13 However, the forecast to 2016 is uncertain because of the unpredictability of population growth and demographic changes. The Corporation has found that this uncertainty is compounded when it tries to predict the needs of households between regions and within regions.
- 2.14 To counter some of this uncertainty, the Corporation is researching trends in the needs of existing tenants and waiting list applicants. It is also considering how these are likely to change in the future. We consider that this project has the potential to support the Corporation's wider forecasting work and provide a more detailed picture of future housing need.
- 2.15 Overall, the Corporation is making good use of available information about housing need. It is also seeking to improve the information available to it. This supports the planning process for acquiring additional houses, and is important given that housing investment is long-term. Nearly 73% of all state houses have been owned by the Crown for more than 25 years.

Aligning asset planning with business planning

- 2.16 We expected the Corporation to have aligned its asset and business planning processes to ensure that the objectives of its acquisition programme could be achieved effectively.
- 2.17 Each of the Corporation's 6 business groups (see Figure 1) produces an annual business plan that contributes to the Corporation's overall business plan and

² The main assumptions underpinning the predictions are that current economic and social conditions will prevail. The Corporation uses "medium" household growth forecasts and net migration from Statistics New Zealand to inform its work.

Statement of Intent. Each of the 11 regions also produces a business plan, which involves staff from the different business groups working closely together.

- 2.18 The regional planning for the 2005-06 financial year introduced new joint planning procedures. In each region, a joint planning team prepares and signs off a set of planning documents that includes:
- a regional profile that documents the Corporation's understanding of the needs of the local community;
 - a regional strategy that provides a 3-year view of the Corporation's priorities for the region and links them in to the wider outcomes included in the Statement of Intent;³ and
 - a regional action plan that details the specific activities that will be undertaken in the region to support the Corporation's priorities for the coming year.
- 2.19 The Corporation's 3 Auckland regions have worked together to produce a joint Regional Strategy and Regional Action Plan.⁴ The 3 regions face similar challenges and we consider they are well placed to help each other in addressing them.

Asset planning at a regional level

- 2.20 A Regional Asset Management Plan is linked to each Regional Action Plan. These plans identify the gap, if any, between the current housing stock administered by each neighbourhood office and the current and expected demand from the waiting list.⁵ The plans give targets for asset programmes of 1-3 years to address any gaps, including buying and leasing new properties.
- 2.21 There is a team responsible for national co-ordination of the Regional Asset Management Plans. This involves prioritising the resources available to the Corporation. To do this:
- The national team provides regional planning teams with estimates, based on previous performance, of the number of properties each region requires.
 - The regional planning teams review these estimates and update them based on current market conditions and the most appropriate housing programmes to use.
 - The national team compares the updated plans with the Corporation's national priorities throughout regions, and makes any adjustments that are needed.
 - The Regional Asset Management Plans are finalised once appropriations are confirmed in the Budget and the Corporation's budgets and business plans are approved.

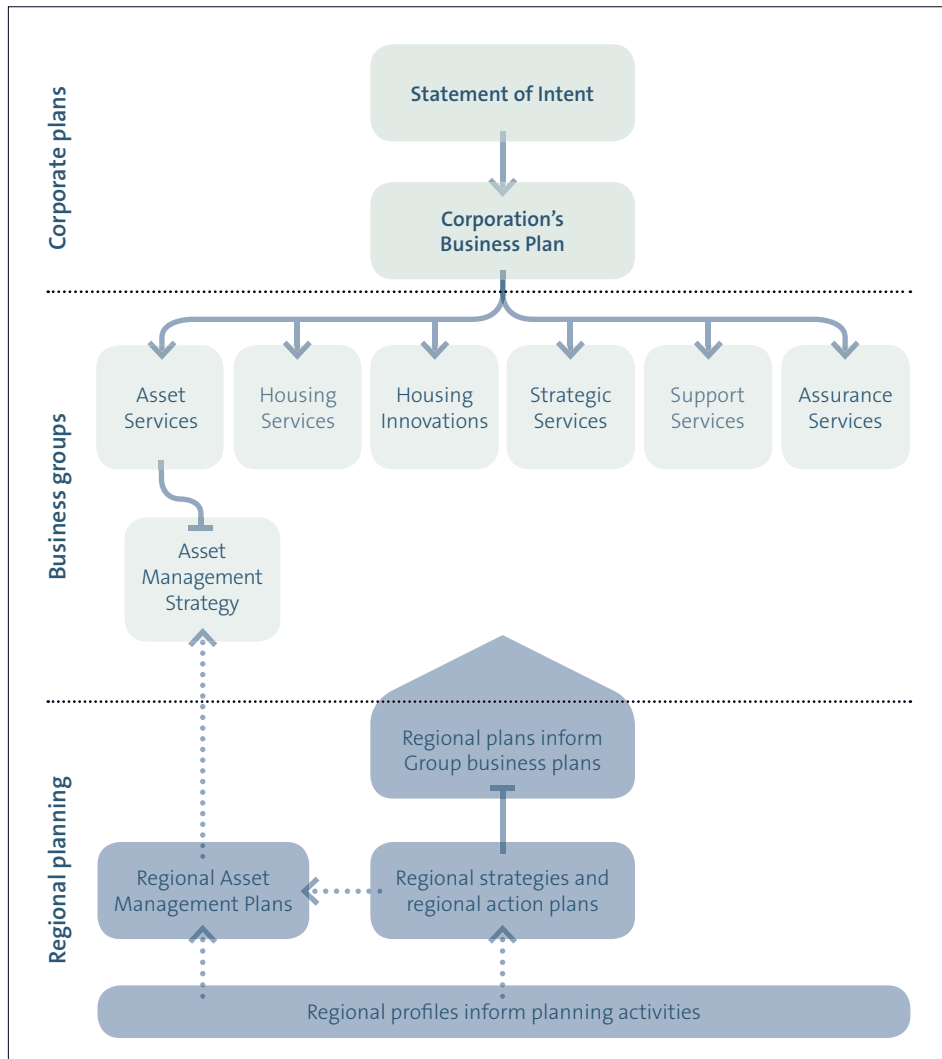
³ The Corporation publishes the strategies on its website – www.hnzc.co.nz.

⁴ However, each of the Auckland regions produces a separate regional profile.

⁵ Information about the expected level of future demand comes from the Corporation's forecasts to 2016 (see paragraphs 2.11-2.13).

- 2.22 When making adjustments between regions the Corporation considers the need in each region and the ability of the region to meet that need. We are satisfied that the Corporation has enough information to make sound decisions when prioritising its activities.
- 2.23 The Corporation consolidates the finalised Regional Asset Management Plans into a national Asset Management Strategy that sets out the overall targets for the numbers of houses to be acquired. Figure 4 shows how these regional plans are linked to the national Asset Management Strategy.

Figure 4
Connections between Housing New Zealand Corporation’s regional and national planning



Source: Adapted from Housing New Zealand Corporation (2005), Asset Management Strategy.

- 2.24 In our view, the Corporation's regional planning process is improving. For 2006-07, it has clarified documentation requirements and the roles and responsibilities of staff. In the longer term, the Corporation is seeking to undertake more detailed regional planning. Rather than the current focus on planning by neighbourhood office, the Corporation is considering planning at "precinct" level. Precincts are specific areas, within the wider areas overseen by neighbourhood offices, that have their own demand and demographic profiles.
- 2.25 We consider that the Corporation has a comprehensive business planning process that effectively co-ordinates its business groups and regional offices when planning for acquiring houses.

Risk management and planning for acquiring houses

- 2.26 We expected the Corporation to have identified the risks associated with the acquisition programme, to be monitoring and reporting on those risks, and, where necessary, to be developing and implementing mitigation strategies.
- 2.27 Risk assessment takes place at each level of the business planning process. It is supported by workshops with the various business groups and with the executive team.⁶ The main output of the risk assessment process, known as the ORCA document,⁷ includes all significant risks for each of the Corporation's major activities, and highlights risks that might affect the achievement of the objectives in the Statement of Intent.
- 2.28 Each Regional Asset Management Plan contains a statement of the main risks to achieving housing targets for the region as a whole, as well as a summary of the housing issues facing each neighbourhood office. This assists in the production of a Group business plan, where a specific risk management plan is prepared that requires a completed risk assessment matrix adapted from Australia/New Zealand risk management standards.⁸
- 2.29 The ORCA document lists 17 risks that might affect the delivery and quality of newly acquired properties. We have summarised these risks into 5 categories:
- a challenging property market in which the Corporation is unable to access suitable properties;
 - poor planning with too much emphasis on meeting targets at the expense of providing the right housing;
 - a failure to achieve quality standards;

⁶ The executive team includes the Chief Executive and the General Managers of the Asset Services, Housing Services, Strategic Services, Support Services, and Housing Innovations business groups.

⁷ The ORCA document is part of the risk management framework. Its name is an abbreviation of "objectives, risk, control, and alignment".

⁸ The Australian/New Zealand Standard AS/NZS 4360:2004 Risk Management.

- an inability to balance financial and social aspects of projects; and
 - insufficient project management.
- 2.30 The Corporation has controls in place to manage these risks:
- using a complete planning process;
 - regularly consulting and managing relationships with internal and external stakeholders;
 - making detailed guidance material available for staff;
 - overseeing and regularly reviewing projects;
 - ensuring that dedicated resources are available for important tasks; and
 - committing to business improvement.
- 2.31 There are 2 other important outputs of the risk management framework. The first is a selection and compilation of the top 10 risks to achieving the objectives in the Statement of Intent.⁹ The other is the Corporation's Assurance Plan. The Assurance Plan sets out the Corporation's priority risk areas for internal audit review and sets a schedule of audits for compliance with business procedures.
- 2.32 The Corporation has a risk management framework that is overseen by the Board's Assurance Committee. Risk management is an important part of the Corporation's business planning process and is incorporated into the planning for acquiring houses. In our view, the risk management framework is well developed, and risks to achieving housing targets are well monitored.

Considering the costs and benefits of the buying and leasing programmes

- 2.33 We expected the Corporation to have considered the costs and benefits of the buying and leasing programmes, and to take these into account when setting acquisition targets.
- 2.34 The buying and leasing programmes have been in place for a long time. The buying programme has been a constant activity since the former Housing Corporation was formed in 1974, and the leasing programme began in 1995.
- 2.35 Both programmes are useful for responding quickly to housing need. The benefits of buying or leasing single properties (rather than building them) lie in the variety of properties available, the relative speed of the process, and the flexibility of where the properties are situated. Arranging to lease properties before they are built gives the Corporation a degree of influence over their type and design. We consider that the Corporation's sound planning system allows it to tailor the use of buying and leasing to areas where they are most likely to be effective.

⁹ These risks are regularly reviewed by the Assurance Committee and are published in the Statement of Intent.

- 2.36 The Corporation believes that a significant benefit of the leasing programme is that it allows the Corporation to increase state house numbers without capital expenditure. This means that greater resources are available for the Corporation's other programmes that do require capital, such as buying and building new properties. Because of the advantages of leasing, the Corporation plans for the leasing programme to deliver 35% of all acquisitions in 2005-06. As at 31 December 2005, only 4.6% of the 66,000 state houses were leased from private property owners.
- 2.37 However, the Corporation considers that, to meet future leasing targets, the leasing programme should be improved to attract a wider range of property owners into the programme. It has created the position of national Lease Programme Manager to support staff dealing with leases, to investigate opportunities for improving the leasing programme, and to represent the leasing programme to the private market.
- 2.38 In our view, the Corporation is aware of most of the costs and benefits of the buying and leasing programmes. It has recognised that it could improve the leasing programme, and work is underway to make the programme more attractive for property owners and more efficient for the Corporation.

Costs of lease management

- 2.39 In addition to time spent managing the tenancies for state houses (for example, signing tenancy agreements, and arranging maintenance), Corporation staff also spend time managing the relationship between the Corporation and the property owners. This interaction involves, for example, negotiating annual rent reviews, managing disputes around maintenance liabilities, and seeking to renew leases when they expire. Relationship management is important because the Corporation intends to renew expiring leases, where appropriate, to meet its overall housing targets.
- 2.40 The regional offices told us that lease management is putting an additional burden on their staff, both in day-to-day business and when leases come up for renewal. We discuss this further in Part 4. However, to support planning activities, the Corporation needs to undertake further work to understand the full implications of the cost of lease management on the leasing programme, and on its wider business. This would enhance the Corporation's ability to assign suitable resources to lease management and to plan for renewing leases.

Recommendation 1

We recommend that Housing New Zealand Corporation undertake work to understand the full cost of lease management to the Corporation.

Targets for acquiring houses

- 2.41 The Corporation considers that it faces challenging housing targets for 2005-06 to 2008-09, but a new planning approach adopted by the team with responsibility for acquiring houses should assist in meeting these targets.
- 2.42 In recent years the Corporation has mostly met its targets for acquiring houses, but not without difficulty. In 2003-04, the Corporation increased the total number of state houses by 903, when its target was 944. In 2004-05, 1050 state houses were added, when the target was 1054. In both years, the Corporation acquired more houses through the buying and leasing programmes than was originally planned, to make up for shortfalls in its building programme.
- 2.43 In 2005-06, the Corporation aims to increase the total number of state houses by 1019. It intends to increase the number of state houses by 815 for 2006-07, by 675 in 2007-08, and by 655 in 2008-09. During our interviews, staff responsible for sourcing properties suitable for state housing indicated that these targets are challenging but achievable. Difficult property market conditions, especially in the 3 Auckland regions, were seen as the biggest challenge to meeting the targets.
- 2.44 The Acquisition and Development Team has introduced a planning approach to help ensure that all acquisition programmes achieve its targets. In addition, the Corporation's Asset Management Strategy allows targets and budgets to be transferred between programmes to make the best use of available resources (see paragraphs 4.13-4.16).
- 2.45 The Acquisition and Development Team's planning approach involves identifying likely houses and beginning the acquisition programme for targets set in the current year, as well as identifying likely houses for meeting targets in the future (including leasing arrangements that involve a long negotiation, planning, and construction phase). Staff were focused on meeting targets in the current year, and looking for opportunities to address targets out to 2008-09.

Part 3

Buying and leasing houses

- 3.1 In this Part, we discuss:
- our expectations of the Corporation in buying and leasing houses;
 - the Corporation's process for buying and leasing houses;
 - compliance with the Corporation's guidelines;
 - the Corporation's investment decisions;
 - the quality of bought and leased houses; and
 - how the Corporation acquires the most suitable properties, and makes them available to tenants.

Our expectations for buying and leasing houses

- 3.2 We expected the Corporation to have robust processes in place to support the effective acquisition of bought or leased houses. We expected:
- robust guidelines for the buying and leasing process to be provided;
 - those guidelines to be complied with;
 - the Corporation's quality standards to be met;
 - financial benchmarks to be met and proper approvals given; and
 - the most suitable houses to be acquired, and be made available to tenants without undue delay.

The process for buying and leasing houses

- 3.3 The Corporation's process for buying and leasing houses from private owners is well defined and met our expectations. Each programme follows similar steps:
- identifying opportunities;
 - assessing the suitability of the property;
 - seeking approval to lease or buy the property;
 - overseeing the project through to completion; and
 - notifying the tenancy management staff, who are responsible for allocating the house to appropriate tenants.
- 3.4 The specifics of each step can vary, depending on the nature of the property. The biggest differences occur when the Corporation leases properties that are being built as part of a property development. The Corporation assesses these properties in more detail earlier in the process, and they are more closely overseen throughout the life of the project.
- 3.5 We reviewed 48 acquisition files to see whether the actions taken had complied with the relevant policies and procedures.

Identifying opportunities

- 3.6 Corporation staff monitor the local housing market, using newspapers, real estate publications, and local real estate agents to help identify suitable properties. Property developers or private owners who are keen to lease to the Corporation may also approach them.¹

Assessing suitability

- 3.7 The Corporation assesses potential properties against its design criteria. Staff seek verification from regional management if the property seems to be marginal in terms of meeting local need. Properties are occasionally offered to the Corporation for leasing before they are built (that is, from a proposal with building plans). In these cases the Corporation may be able to negotiate design changes to better meet regional need.
- 3.8 The Corporation requires due diligence checks to be carried out when it buys properties. The checks include:
- a title check;
 - obtaining satisfactory reports from the local authority; and
 - undertaking a maintenance assessment.
- 3.9 Checks on properties for leasing involve verifying the property's ownership, recording its condition, and checking the credit history of the property's owners.
- 3.10 The Corporation requires valuation reports for bought properties, and for leased properties that have been offered to the Corporation before being built. The valuation reports inform the Corporation's financial analysis of the likely long-term value of the investment.

Approving acquisitions

- 3.11 All proposals to acquire properties must be approved in keeping with the Corporation's delegations framework.
- 3.12 The approval of acquisitions includes considering background information, the results of due diligence work and financial analysis, and copies of sale and purchase agreements or an agreement to lease.²

Completing the acquisition

- 3.13 The staff member responsible for a particular purchase or lease will oversee progress with each property through to settlement date, or the date the lease

¹ The Corporation advertises the leasing programme on its website.

² There may already be a signed sale and purchase agreement, or an agreement to lease, conditional on approval by the Corporation's management.

starts. During this process the staff member interacts with other Corporation staff, including tenancy management, and legal and administrative support.

- 3.14 For bought properties, completing the acquisition involves confirming that conditions in the sale and purchase agreement have been met. As the time of settlement approaches, the staff member must conduct a final inspection, and arrange for the vendor to be paid and for the title to be transferred. For leased properties, a lease start date must be agreed with the owner and the lease registered on the property's title. For both processes, the staff member lists the property as "pending" in the Corporation's property database.
- 3.15 The Corporation monitors the quality of properties that are being built to be leased. For these projects, the start of the lease depends on the property developer notifying the Corporation that the properties are ready to be lived in. However, the Corporation must satisfy itself that this is the case. It is possible for the start date of a lease to be postponed if the Corporation considers that the property is not ready to be lived in.

Notifying tenancy management staff

- 3.16 Once property settlement has occurred or a lease has begun, a state house is recorded as vacant in the Corporation's property database. It can now be made available to people on the waiting list. We were told that it is important for tenancy management staff to have at least 10 days' warning of new properties becoming ready for tenants so that they can arrange for an applicant from the waiting list to move into the house.
- 3.17 Before moving in, applicants need to inspect the property and sign a tenancy agreement. Once an applicant has signed on as a tenant and has taken possession of a house, it is recorded as let in the Corporation's property database.

Compliance with guidelines

- 3.18 We expected the Corporation to have comprehensive guidelines clearly setting out the process for buying and leasing houses.
- 3.19 Guidelines for buying and leasing are stored in an electronic quality management system (QMS) that is available to all staff. The QMS is kept current and secure, and the responsible general manager must approve updates to the policies and procedures section.
- 3.20 The Corporation has documented the process for buying and leasing houses, and written guidance is provided for each of the important steps. Responsibilities

are set out at each stage, and cross-references to other relevant documents are provided. Other relevant documents include:

- forms that can be used to set up information in the Corporation's property database;
- standard conditions to be added to any sale and purchase agreements;
- codes of conduct for real estate agents and valuers working with the Corporation; and
- templates for lease documents.

Conflicts of interest

- 3.21 We have a particular interest in the way that public entities manage conflicts of interest. We are satisfied with the way the Corporation has approached this risk.
- 3.22 The Corporation's policy on managing conflicts of interest is available through the QMS. It sets clear directions about identifying, disclosing, and managing conflicts of interest, the processes to be followed, and who makes decisions.
- 3.23 Staff are required to disclose any conflicts of interest to their manager and agree on actions to manage the conflict. A signed declaration of this agreement is held on the Corporation's conflicts of interest register.
- 3.24 We obtained examples of conflict of interest declarations that related to the leasing programme. The declarations involved:
- a family member leasing a house to the Corporation; and
 - a staff member already owning an investment property in the Corporation's leasing programme.³
- 3.25 The Corporation took appropriate action to manage the conflicts, and the staff involved agreed not to participate in decision-making that might affect the properties.
- 3.26 Managing conflicts of interest has a high profile within the Corporation. Training courses and advice have been provided to staff and managers. Managers must annually certify that they have complied with policies and procedures, including checking with their staff for any conflicts of interest.
- 3.27 The Corporation provides its staff with robust guidelines for buying and leasing houses. Generally, the guidance is being complied with. The Corporation recognises the importance of managing potential conflicts of interest and has adequate arrangements for managing them.

³ The Corporation's policy is that it will not enter into new lease programme agreements with staff.

Compliance with guidance

- 3.28 Our review of 48 files showed general compliance with policies and procedures. However, some of the required documentation was missing:
- There was not always evidence of pre-settlement inspections.
 - The justification for entering into cross-leases was not always documented in the file.
 - There was not always evidence that credit checks had been carried out for leased properties.
- 3.29 Although these were minor omissions, it is important that the Corporation can show through written documentation that it has complied with its policies and procedures. We understand that these matters are being pursued through the Corporation's internal audit process, and we expect to see an improvement in the documentation.

Recommendation 2

We recommend that Housing New Zealand Corporation include a checklist of the mandatory documentation to be included on each file in its quality management system guidance for buying and leasing.

The Corporation's investment decisions

- 3.30 It is important that properties bought or leased by the Corporation meet the required financial benchmarks and are approved at the appropriate levels. Our review of files for bought and leased state houses showed that:
- the required analysis had been undertaken for each property;
 - financial benchmarks had been met or exceeded; and
 - with one exception, all acquisitions had been approved at the appropriate level or higher.⁴
- 3.31 The Corporation undertakes financial analysis of all proposed purchases or leases. Its modelling software can analyse single properties or groups of properties, and forecast investment performance over time.
- 3.32 The data supporting the analysis comes from valuation reports that are obtained as part of the due diligence process. This includes an assessment of the market rental for the properties, and, in the case of bought properties, an assessment of

⁴ The exception related to a lease mistakenly approved by a staff member who, since shifting from one business team to another, no longer had delegated authority to approve leases. The Corporation has reviewed the files in question and dealt with this exception appropriately.

their market value. Standard assumptions of rates of capital and rental growth⁵ and likely vacancy rates are also included.

- 3.33 These factors are used to forecast income and expenses for the property, and thus the net cash flow of the investment, over 5, 10, and 15 years for bought properties, or over the term of a lease. From this information, the Corporation can see the internal rate of return that it can expect to receive.⁶ If this exceeds the cost of capital to the Corporation, then the acquisition is considered an acceptable financial investment.⁷
- 3.34 To be approved, the Corporation has specified that the internal rate of return for a proposed purchase should exceed the cost of capital to the Corporation at the 15-year benchmark. Where the internal rate of return is less than the cost of capital, the purchase may proceed if the rate is equal to, or greater than, the average rate of return for nearby state houses.
- 3.35 For leased properties, the Corporation's income is a management fee of between 7% and 10% of the total weekly rent.⁸ To be approved, a leased property must return a positive net cash flow when discounted to today's dollars during the term of the lease.
- 3.36 The level of approval sought for purchases and leases is based on the risks associated with the proposal. The managers of staff sourcing acquisitions have approval rights. However, more senior approval must be sought if financial performance is marginal, if more expensive properties are sought, or if leases have non-standard margins or lease terms. More senior approval can be sought from general managers, the Chief Executive, the Property Committee of the Board, or the whole Board.

The quality of bought and leased houses

- 3.37 We are satisfied that, overall, properties sourced through the buying and leasing programmes comply with the Corporation's specifications and are of high quality.
- 3.38 The Corporation has state housing specifications that set quality requirements. State houses must also comply with local authority district plans, the Building Act

⁵ The system uses underlying tables of values that are applied to investment analysis. These tables include central and local government tax rates, rates set centrally by the Corporation's corporate finance team, and rates specific to the Corporation's regions. If staff use non-standard assumptions, they must justify why.

⁶ Internal rate of return is the annual percentage profitability on the initial investment in a project, taking into account that money received later is worth less than money received earlier.

⁷ The Corporation uses a Weighted Average Cost of Capital, set by its corporate finance team, to represent the assumed interest cost for the capital used in the project.

⁸ This is intended to cover initial set-up costs, vacancy rates, lease management overheads, reinstatement costs at the end of the lease, and income tax.

2004, and the Building Code.⁹The Corporation's requirements focus on safety, ease of maintenance, and ensuring that property values are maintained.

- 3.39 Properties sourced from private owners do not always initially comply with the Corporation's specifications. When buying a property, the Corporation assesses the work needed to bring it up to the necessary standard. The costs of the work are included in the financial analysis supporting the proposal to purchase, and, if approved, the work is undertaken before the property is let.
- 3.40 There is less scope for altering leased properties, because the private owner decides whether to make improvements. The Corporation can require certain changes when negotiating the conditions of the lease. For example, we noted instances of the Corporation requiring dishwashers and garbage disposal units to be disconnected.¹⁰ However, property owners may choose not to enter into leases if they find the quality requirements too onerous.
- 3.41 It is possible for the Corporation to influence the design of properties being built for leasing. Proposals to enter into such arrangements must be reviewed by the Corporation's design experts before they can be approved. Projects underway are monitored to ensure that they adhere to the quality specifications and must be signed off as complying before the lease can start. We saw one example of the Corporation seeking compensation from a property developer under contract penalty clauses for repeatedly missing lease start dates because of problems with the quality of the property.

Acquiring the most suitable properties and making them available to tenants

- 3.42 It is important that newly acquired houses match the housing needs identified in each region. We expected the Corporation to acquire the most suitable properties, and to make them available to tenants as soon as possible.

Acquiring the most suitable properties

- 3.43 The Corporation has had some difficulty matching its most recent acquisitions in Auckland to the priority housing types identified in the Regional Asset Management Plans. However, overall, we consider that the Corporation has been acquiring the most suitable houses, given the challenges that it faces.

⁹ The Building Act 2004 provides for the regulation of building work, the establishment of a licensing regime for building practitioners, and the setting of performance standards for buildings. The New Zealand Building Code is Schedule 1 of the Building Regulations 1992. All building work must comply with the Building Code. It states how a building is to perform, but does not prescribe detailed requirements for design and construction. The Building Code is currently being reviewed to align it with the 2004 Act.

¹⁰ The Corporation does this to prevent any future liabilities for repairing or replacing these appliances.

- 3.44 Regional Asset Management Plans set out housing targets for the 2 programmes. Supporting this information is a breakdown of targets by required housing type. To assess the Corporation's most recent acquisitions we compared written statements in the Regional Asset Management Plans about the types of properties required, and the breakdown of targets, to the properties the Corporation had obtained.
- 3.45 The Corporation's latest Asset Management Strategy states that about 45% of all state houses have 2 bedrooms or fewer, about 45% have 3 bedrooms, and about 10% have 4 bedrooms or more. The Auckland Regional Asset Management Plans for 2005-06 emphasise the need for the Corporation to obtain fewer 3-bedroom houses, and more with 2 or fewer bedrooms and 4 or more bedrooms. Averaged across the 3 Auckland regions, they specify that for newly acquired houses:
- 42.5% should have 2 or fewer bedrooms;
 - 36.3% should have 3 bedrooms; and
 - 21.2% should have 4 or more bedrooms.
- 3.46 As at February 2006, acquisition performance for the year 2005-06, averaged across Auckland, showed that for newly acquired houses:
- 30.1% had 2 or fewer bedrooms;
 - 43.8% had 3 bedrooms; and
 - 26.1% had 4 or more bedrooms.
- 3.47 A direct comparison between these 2 sets of figures is of only limited use, because the acquisition programme for 2005-06 was not complete when we wrote this report. However, our analysis has identified that the Corporation is tending towards acquiring more 3-bedroom houses in Auckland than its planning has identified as necessary. We looked at performance for 2004-05 and found that, of all the houses acquired in that year, 33.5% had 2 or fewer bedrooms, 34.8% had 3 bedrooms, and 31.7% had 4 or more bedrooms.
- 3.48 The Corporation has found that, in Auckland, properties with 2 or fewer bedrooms tend to be in apartment blocks that in most cases do not suit the needs of applicants on the waiting list. It has also found that high costs tend to limit the building of non-apartment properties of 2 or fewer bedrooms.
- 3.49 The Corporation does not see this as an urgent problem. The extra number of 3-bedroom houses above the target percentage equates to about 64 houses in the 3 Auckland regions that share a total of 28,382 houses. In addition, many Auckland applicants on the Corporation's waiting list could make use of the additional 3-bedroom houses.

- 3.50 Acquiring more 3-bedroom houses than necessary creates a long-term risk for the efficiency of the overall housing portfolio. If the Corporation continues acquiring 3-bedroom houses in Auckland in the absence of suitable properties with 2 or fewer bedrooms, it should put a strategy in place to deal with the associated risk.

Recommendation 3

We recommend that Housing New Zealand Corporation prepare a strategy for making the best long-term use of properties acquired in the absence of more suitable properties identified in the Asset Management Strategy and Regional Asset Management Plans.

Preparing houses for tenants

- 3.51 Most bought properties are let within 5 days of being ready for tenants. Leased properties are also let within a reasonable timeframe, but occasionally do experience delays. When delays occur, in our view, they are not unreasonably long.
- 3.52 Bought and leased properties count towards the Corporation's targets after contracts are signed and are unconditional. In the case of properties built for leasing, they count towards the targets when the developer has given the required 21 days' or 15 working days' notice of completion. The properties are recorded as "awaiting settlement" or "pending lease start" in the Corporation's property database. However, before tenants can move in, the lease must start or settlement must be concluded, and any necessary maintenance must be carried out.
- 3.53 Acquisition staff are required to give other Corporation staff advance warning of state houses becoming available for tenants to move in. This allows suitable tenants to be identified early, and notified to make arrangements for moving in as soon as the house is ready.¹¹
- 3.54 The Corporation's property database shows the length of time between properties being counted towards targets, being ready for tenants to move in, and being occupied. We accessed the database history of 126 properties that related to the 48 acquisition files we reviewed, and examined the histories of 114 properties that had been tenanted (22 of these properties were bought and 92 were leased).
- 3.55 Most of the 22 bought properties had been recorded in the database as "let" within 5 working days of being ready for tenants. Sixteen had become occupied within 5 days, and the other 6 were occupied within 3 weeks. Five of the latter group had needed maintenance to be completed.

11 There is typically a delay before applicants can move into state houses because they need to give notice at other properties.

- 3.56 Our examination showed that the 92 leased properties were also tenanted in a reasonable timeframe, but there were longer delays for some properties:
- 25 had become occupied within 5 working days;
 - 51 took between 5 days and 3 weeks to become occupied; and
 - 16 properties took longer than 3 weeks to become occupied.
- 3.57 Newly built leasing developments that consisted of many individual properties took longer to fill. In these cases, it is reasonable to expect some delays given the logistics required in arranging tenants for large new developments. However, it took between 5 weeks and just over 8 weeks for 9 of the properties to be tenanted, which approaches the limits of what would be reasonable to expect.

Part 4

Monitoring and reporting

- 4.1 In this Part, we discuss:
- our expectations about monitoring and reporting;
 - monitoring and reporting the Corporations' performance in acquiring houses;
 - using internal monitoring and reporting information;
 - monitoring the management and renewal of leases; and
 - the opportunities and risks in initiatives for improvement.

Our expectations

- 4.2 It is important that the Corporation's performance against state housing targets is monitored and reported to management so that emerging issues can be addressed. We expected the Corporation to:
- have systems in place to ensure that its monitoring and reporting of state housing targets was complete and reliable;
 - use its monitoring and reporting information to support the effective use and delivery of state houses; and
 - monitor the renewal of lease agreements.

Monitoring and reporting of acquisition performance

- 4.3 Staff involved in buying and leasing are responsible for updating progress information to a monitoring system managed by the Acquisition and Development Team. The system tracks performance against regional and national targets. Potential state houses are listed in the report and their status is updated as each step of the buying, leasing, or building process is completed.
- 4.4 In our view, monitoring is supported by good levels of formal and informal interaction between business groups at regional and national levels. Managers responsible for buying and leasing properties are in contact with their staff based in regional offices. We were told that they also communicate regularly with other regional staff so that they have a complete picture of performance.
- 4.5 The Corporation reports at a strategic level on its performance against the Statement of Intent and Corporate Business Plan, and at a regional level against Regional Action Plans. Information about the number of state houses acquired is included at each level of reporting.
- 4.6 At the strategic level, the Acquisition and Development Team's monitoring of housing targets is consolidated into a monthly report from Asset Services to the Board. The monthly report measures performance against the targets in the

Corporation's Statement of Intent and identifies potential risks. Corporation staff check the accuracy of information reported to the Board, and in the Corporation's quarterly reports and annual report, by validating the monitoring information against data held on the Corporation's property database.

- 4.7 A cross-divisional reporting team measures performance against targets in the Regional Action Plan and reports to regional management staff. The Corporation's executive team reviews a 2-page summary of each regional report. The Corporation is introducing a formal risk reporting framework for its regions in 2006-07.
- 4.8 In our view, the Corporation is thoroughly monitoring its performance against state housing targets, and has systems in place to ensure that performance reporting is reliable.

Using internal monitoring and reporting information

- 4.9 Information about the Corporation's performance against targets is available to staff through customised reporting software. The software allows users to examine the detailed regional office, neighbourhood office, or individual property information that supports monthly reporting information.
- 4.10 With wide access to good quality information, the Corporation is able to make better use of state houses and can respond to trends in its housing programmes, as illustrated in the following examples.

Using monitoring information for an efficient use of state houses

- 4.11 The Corporation identifies state houses that are "under-used". Under-used houses are larger homes in which few people live, such as a family home where several children have grown up and left home. The Corporation monitors and reports instances of under-used houses as a percentage of all state houses.
- 4.12 The Corporation uses some leased properties that have been newly built to tempt tenants out of houses that no longer suit their needs.¹ The 2004-05 Annual Report notes that the equivalent of 142 3-bedroom houses were made available to other applicants on the waiting list by transferring existing tenants to more suitable houses.

Using monitoring information to reallocate housing targets

- 4.13 The Corporation's performance information enables it to recognise trends and alter its various programmes accordingly. The Asset Services Group meets each

¹ The Corporation has a policy of providing security of tenure for tenants and does not transfer tenants without their agreement.

quarter to review acquisition performance. One outcome of these meetings is that state housing targets and budgets may be reallocated to different regions.

- 4.14 One such reallocation exercise occurred in December 2005. Because of a challenging property market, a shortage of housing supply, and increasing prices, the Corporation considered that it was not likely to acquire all the houses that it had planned to acquire in Auckland during 2005-06. Instead, the targets to acquire 68 properties in Central Auckland and 26 for South Auckland were reallocated, mainly to the Waikato/Coromandel/King Country and Christchurch/Nelson/Marlborough regions. The reallocation of these housing targets was supported by a detailed paper to the Property Committee of the Housing New Zealand Corporation Board, prepared by managers within Asset Services and approved by the Chief Executive.
- 4.15 The reallocations are an example of the Corporation using its available resources to meet housing needs throughout the country. For reallocations to be effective, management staff in the region receiving the reallocation need to be involved in the decision-making process. While staff responsible for acquiring the properties were consulted, we observed one instance in which the communication about the reallocation was not clear to those with responsibility for allocating houses to tenants.
- 4.16 In our view, overall, the Corporation uses its monitoring and reporting information to support the effective use of state houses.

Opportunities for the Corporation to improve external reporting

- 4.17 As we noted in Part 1 of this report, a large proportion of the funding used to acquire properties for state housing is directed at addressing the need in Auckland. In Part 2, we noted the increasing sophistication of the Corporation's planning process, particularly in its focus on regional needs. These developments provide an opportunity for the Corporation to enhance its accountability reporting on its performance in addressing housing need in Auckland and in other regions.

Recommendation 4

We recommend that Housing New Zealand Corporation provide more details about the 3 Auckland regions in its annual reporting to the Minister of Housing and the Minister of Finance.

Recommendation 5

We recommend that Housing New Zealand Corporation provide more details about regions of high need in its annual reporting to the Minister of Housing and the Minister of Finance.

Monitoring the management and renewal of leases

- 4.18 The Corporation monitors the number of leases that are successfully renewed. Until the appointment of the national Lease Programme Manager, there had been no national co-ordination of the risks associated with the renewal of leases, resulting in some local responses to managing and renewing leases.
- 4.19 The Corporation plans to renew 86 leases in 2005-06. Its Asset Management Strategy indicates that this will increase to 219 by 2008-09. It is reasonable to expect this increase to continue as more state houses are leased, and as the existing 5-year and 10-year lease terms begin to expire.
- 4.20 Currently, the Corporation's property database gives staff 120 days' notice before a lease expires. Regional management considers lease expiry and renewal monthly. The Corporation will exercise any rights of renewal, or enter into new negotiations with owners, if properties are deemed suitable.
- 4.21 If the Corporation decides not to seek renewal of the lease, tenants are to be given 90 days' notice of relocation and a choice of 3 other suitable properties to move into. The Corporation fixes any damage to the leased property after the tenant has relocated.
- 4.22 The 3 Regional Asset Management Plans for Auckland all note the increased pressure on staff involved in managing and renewing leases. This risk is currently not included in the Corporation's ORCA document (see paragraph 2.27), but the Corporation has included managing this risk in the national Leasing Programme Manager's job description.
- 4.23 In the meantime, regional offices have initiated their own strategies for dealing with the day-to-day management of leases. For example, one region made lease management a responsibility of its entire staff, to build familiarity with the process and institutional knowledge. Another allocated all leases to one designated staff member, for efficiency and a single point of contact for owners.
- 4.24 We also noted that one of the Corporation's regions has, in the past, formally planned for and assigned resources to a project to ensure that the renewal of leases proceeded smoothly. We consider that there should be national recognition and co-ordination of the risks associated with the renewal of leases. The project-based approach is a sensible starting point.

Recommendation 6

We recommend that Housing New Zealand Corporation include the risks associated with the renewal of leases in its national risk management framework, and prepare a recommended approach for regions to use in addressing those risks.

Opportunities and risks in initiatives for improvement

- 4.25 Throughout this report we have referred to initiatives that represent opportunities to improve the Corporation's planning and its programmes. The initiatives are at various stages of planning and implementation. Some relate to the Corporation as a whole, and others are specific to individual business groups. The initiatives include:
- updating information each year about long-term housing needs (see paragraph 2.12);
 - studying the changing needs of applicants on the waiting list and existing tenants (see paragraph 2.14);
 - enhancing the regional business planning process (see paragraph 2.18);
 - planning for state houses at "precinct level" (see paragraph 2.24);
 - improving the leasing programme (see paragraph 2.37); and
 - introducing formal regional risk reporting in 2006-07 (see paragraph 4.7).
- 4.26 Many of these initiatives involve the same staff from throughout the organisation. There is a risk that the Corporation will be unable to realise the full benefit of these initiatives because staff may be unavailable, either because they are involved in other initiatives or because of the pressures of day-to-day business.
- 4.27 To address this risk, the Corporation is establishing a Programme Management Office project within the Asset Services business group to co-ordinate these new initiatives. The project is intended to provide an example for the rest of the Corporation to follow. We support the initiative, and consider it necessary for ensuring that the benefits of these projects are realised, and that business as usual is maintained.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Local government: Results of the 2004-05 audits – B.29[06b]
- Inquiry into certain allegations made about Housing New Zealand Corporation
- Department of Conservation: Planning for and managing publicly owned land
- Ministry of Agriculture and Forestry: Managing biosecurity risks associated with high-risk sea containers
- Annual Plan 2006-07 – B.28AP(06)
- Foundation for Research, Science and Technology: Administration of grant programmes
- Management of the West Coast Economic Development Funding Package
- Management of heritage collections in local museums and art galleries
- Central government: Results of the 2004-05 audits – B.29[06a]
- Progress with priorities for health information management and information technology
- The Treasury: Capability to recognise and respond to issues for Māori
- New Zealand Police: Dealing with dwelling burglary – follow-up report
- Achieving public sector outcomes with private sector partners
- Inquiry into the Ministry of Health's contracting with Allen and Clarke Policy and Regulatory Specialists Limited
- Maritime Safety Authority: Progress in implementing recommendations of the *Review of Safe Ship Management Systems*

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