

**THE ROLE OF LOCAL  
GOVERNMENT IN THE  
PROVISION OF  
AFFORDABLE HOUSING**

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**A report prepared for  
Local Government New Zealand,  
Dunedin, Wellington and North Shore  
City Councils and New Plymouth and  
Western Bay of Plenty District  
Councils**

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by  
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January 2004

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# 1. Introduction

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This report has been prepared by McKinlay Douglas Limited (MDL) for Local Government New Zealand and five local authorities (Dunedin, New Plymouth, North Shore, Wellington and Western Bay of Plenty). It is one of a series of reports that MDL has undertaken either for individual local authorities in respect of their own housing portfolios, or with a broader sector focus. Of these, the most significant was *Local Government and Community Involvement in Management and Ownership of Social Housing* which was completed in December 2000.

That report was prepared against a background of uncertainty regarding the role of local government resulting from the shift to a market based approach to the provision of social housing implemented during the 1990s. Under that approach there appeared to be little or no place for local government as neither income transfer as a means of addressing affordability nor the provision of goods and services through the market is part of the core role of local government.

As a direct consequence of the policy changes of the 1990s, a number of local authorities, concluding that they had no role in the provision of social housing, disposed of part or all of their housing portfolios. Others retained them, usually because of community resistance to privatisation of social housing, but typically sought to operate them on at least a break-even basis.

The December 2000 report was undertaken as a response to the clear intention of the newly elected Labour led government to reassert the role of government in the provision of social housing, an approach which had been signalled in the Labour party's election manifesto in the following terms:

"Housing is fundamental to the health and well being of families and communities. For this reason access to quality, affordable housing is critical in our society. To achieve this Labour will work to ensure that an adequate supply of housing is available, particularly for low and modest income families in areas of the country where it is needed.

"Labour's priority will be to meet the needs of those in the rental market through the state's involvement in building and owning an adequate supply of quality, affordable rental housing and encouraging and facilitating lending for families to obtain their own home"<sup>1</sup>.

That government had also signalled, without being specific, that:

- It was unhappy at the prospect of further sales of local authority owned housing stock, with the implication that it might take measures to prevent this or penalise in some unspecified way local authorities which sold down their stock.

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<sup>1</sup> New Zealand Labour Party (2000) p 2

- It was interested in exploring opportunities for partnership in the development of affordable housing.

The December 2000 report identified a number of issues that could usefully be addressed on a partnership basis and set out principles that could apply. Amongst other things, it served as the basis for Local Government New Zealand's briefing to Mark Gosche when he took up the portfolio of Minister of Housing in August 2001.

The principal trigger for preparation of this report was the announcement in the government's budget for the 2003/2004 year of the establishment of two funds to be administered by the Housing New Zealand Corporation (HNZC) (see page 13 for more detail). The original proposal for the work to produce this report focused on the role of local government in the provision of rental housing. This reflected the fact that, traditionally, local government's roles in housing have overwhelmingly been:

- The provision of rental housing for defined target groups (usually older persons, because of the origin of most local authority housing).
- Regulatory in the exercise of its statutory responsibilities under legislation such as the Resource Management Act, the Building Act, the Health Act and the Local Government Act.

What has become very clear, in the course of the work which MDL has undertaken for this report, is that local government now has a further and very important role in relation to social housing; that of identifying the community's desired housing outcomes, who should be responsible for delivering those outcomes, and the role that the local authority itself should take (either as a provider or in endeavouring to ensure that others deliver the outcomes the community seeks).

What is also clear is that we are dealing with a very complex set of issues, and circumstances that differ remarkably in different parts of the country. Government subsidised housing initiatives have traditionally concentrated on two principal groups – low-income families with children and the low-income elderly. Other groups in significant need, such as younger to middle aged single people with needs resulting from (say) physical or psychiatric disability have largely been ignored.

Conditions differ remarkably around the country. This is not only in terms of affordability as such, with housing being significantly cheaper in districts such as Southland than it is in Auckland (to take the extremes), but also in the different ways that affordability manifests. Conventionally affordability is thought of in terms of insufficient income to meet mortgage and other outgoings (for owners) or rental (for renters). There are parts of the country where the crucial affordability issue is the lack of a sufficient income to upgrade rundown owner occupied houses. This is a particular problem in parts of the East Coast and Northland although not confined to those areas.

Also, affordability is increasingly seen as an issue for other groups at particular stages of their lives: university students, couples with incomes that would normally be regarded as medium to high but who are confronting the trade-offs faced if they decide to have or increase a family.

Consideration was given to whether this report should deal separately and specifically with Maori housing. There is a good case for doing so: Maori are disproportionately represented amongst New Zealanders in housing need. In addition, they face particular and well documented difficulties in using multiply owned Maori land for housing purposes especially if they need to borrow to finance all or part of the cost of housing.

We concluded that, despite the importance of Maori housing, this report should not deal with Maori housing as a separate topic. Its focus is on the role of local government in the provision of affordable housing. It looks generally at issues of principle and makes recommendations regarding the future role that we believe will necessarily ensure a focus on Maori housing need in those regions/districts where it is an issue. As an example of why we believe this, one principal recommendation concerns the role of local authorities in developing regional/local housing strategies. In regions or districts where Maori housing need is an issue (whether because of affordability or difficulties in dealing with multiply owned land) it is hard to imagine how a local authority could prepare a housing strategy without addressing those matters.

This report is divided into the following sections:

- Background: an overview of New Zealand housing issues.
- Role of local government: its current role in housing and the impact of LGA 2002.
- Themes from international experience: points of relevance for New Zealand.
- Local government housing in New Zealand: an overview – examines the role of the five local authorities considered in this report and identifies some generic issues.
- The potential role of local government in the provision of affordable housing.
- Options for future action.
- Two appendices provide information on international experience.

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## 2. Background

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### RECENT HISTORY

For most of the twentieth century, New Zealand was a society which had both a strong commitment to the ideal of home ownership, and a set of policy and economic circumstances that made home ownership seem a realistic objective for the overwhelming majority of New Zealanders.

The strength of the attachment to home ownership can be seen in the ongoing policy contest which took place between what were then the country's two leading political parties, Labour and National, in the thirty years or so from the election of the first Labour government in 1935.

Following the experience of the depression years, Labour was strongly committed to state rental housing as superior to home ownership as a means of providing for the needs of working class New Zealanders. Its 1938 budget included the statement "these houses are not intended for sale, as investigations have shown that the housing shortage is being experienced most actively by those who for various reasons are unable or unwilling to finance the purchase of a property"<sup>2</sup>.

The National party's response to this was a commitment to allow a right of purchase. Labour responded in a pamphlet "Labour's Magnificent Record in Home Building" in these terms:

"The rent of a state house is based on a life of 60 years for the dwelling. If you allow Toryism to persuade you to take on its bargaining creed of freehold, which generally means mortgage hold, your weekly payments would be doubled, at least, and possibly thousands of people would lose their homes altogether"<sup>3</sup>.

The policy debate took a major shift when National won office in 1949 and introduced the right to purchase for state tenants. One factor in its increased majority in the 1951 election appears to have been a vote of thanks from state tenants who had been able to exercise that right or anticipated being able to do so.

The policy contest between Labour and National was clearly won by the latter, as can be seen by the gradual shift in Labour's position. In 1957 the party's manifesto gave priority to state housing: "the policy of building state rental homes will be continued and in addition the next Labour government will for the purpose of encouraging families to own their own homes..."<sup>4</sup>. Nine years later, in its 1966 manifesto, the emphasis had shifted: "a Labour government will continue Labour's traditional policy of assisting those

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<sup>2</sup> New Zealand Labour Party (1938)

<sup>3</sup> New Zealand Labour Party

<sup>4</sup> New Zealand Labour Party (1957)

who wish to own their own homes, building state owned homes for those unable to contemplate home ownership ..."<sup>5</sup>.

The practical impact of this policy reached its zenith in the early 1970s when, with a combination of low interest loans, family benefit capitalisation and other assistance, virtually any low-income family with children could afford to purchase a basic new three bedroom home.

A key feature of the housing policies of both main political parties was the emphasis on the family unit. Whether it was to qualify for state rental housing, or for assistance to purchase a home, eligibility was restricted to families with children. People who did not fall into this category were left to fend for themselves with one significant exception: low income older people.

## **ROLE OF LOCAL GOVERNMENT**

Meeting the needs of older persons became the primary focus of a partnership between central government and local government. An informal agreement between central and local government endorsed local government's role as the principal provider of housing for low-income older people but with government acting as the funder through a mix of low interest loans and grants.

This program was very strictly targeted. The housing built by local government had to meet the government's cost requirements<sup>6</sup> and would-be tenants had to pass quite strict asset and income tests. In addition to government funding for older persons' housing, it also supported urban renewal under programmes such as CHIP (the Community Housing Improvement Program), providing low interest finance for the redevelopment of rundown urban areas. Prime examples were the Freemans Bay council housing in Auckland (since sold) and Wellington City Council's Aro Valley/Newtown high rise developments.

As long as central government maintained its low interest and grant-based programmes, local government had a clear understanding of its role. Within the constraints of central government funding, local government had the opportunity of providing housing for low-income groups, particularly older people, with the expectation that this would be done largely on a cost recovery basis (that is, at little or no cost to the ratepayer).

This understanding came to an end with the major shift in government policy in the early 1990s to treating housing (and funding for local authority owned housing) as a market based service, with social needs to be addressed through income support policies. The impact on local government was to break down long held understandings and throw open, authority by authority, the question of whether it should continue to be involved in housing and, if so, on what basis.

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<sup>5</sup> New Zealand Labour Party (1966)

<sup>6</sup> The emphasis was very much on providing absolutely basic accommodation, hence the fact that most local authority housing portfolios are dominated by bed sitting room and single bedroom accommodation reflecting ideas from the 1960s and 1970s of what was an acceptable minimum level of accommodation for older people.



A number of local authorities undertook reviews of their housing activity in response both to what was seen as a strong policy signal from the then government and to the financial management provisions for local government introduced in 1996 (the "No. 3 Act"). Those reviews aimed to determine whether and to what extent housing was a core activity. Outcomes varied, and included:

- Sale of all housing stock – a handful of local authorities, mainly with relatively small holdings.
- Sale of part or all of general rental housing, whilst retaining older people's housing (often these authorities have recognised a "community expectation" that they will continue to provide housing for older people, and/or have been influenced by arguments that their housing portfolios were built up by taxpayers' funds with an expectation that they should remain committed to housing purposes rather than be available for the general purposes of the local authority).
- Some making a positive commitment to housing as a core activity and seeing their continuing involvement as part of the process of building a strong community.

The most significant single decision was that of the Auckland City Council under Mayor John Banks to sell its entire housing stock (approximately 1,560 units housing older people and rather less than 200 units of general rental housing) on the basis that housing was not a core activity. The council spoke publicly as though its intention was to sell the housing to the highest bidder, with the strong implication that much of the stock could end up in the hands of private developers with the potential for many tenants to be forced out of their housing. The actual outcome was a sale of the entire portfolio to the Housing New Zealand Corporation. It is generally considered that the Corporation became the purchaser as the government was not prepared to accept the loss of such a significant portfolio of social housing in its strongest support base.<sup>7</sup>

In July 2003 the Housing New Zealand Corporation undertook a survey of local authorities to determine their level of interest in maintaining a role in social housing provision. From the survey responses, 90% of local government social housing stock is held by councils which are strongly committed or committed to housing and only 6.1% belongs to councils with a decreasing or no commitment (with the balance being neutral).

Councils responding to the survey (and all but one did) noted a number of challenges to continued social housing provision. Quoting from Housing New Zealand Corporation's summary of findings, challenges included:

- Change in the nature of housing demand was the major challenge facing councils (24.3%). In particular, councils face:
  - increased demand pressures from non-traditional segments (e.g. people experiencing severe mental illness); and
  - inappropriate configuration of the current portfolio to meet housing need. For instance, bed sits no longer reflect housing preferences and are not appropriate for households with more than one member.

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<sup>7</sup> Perhaps recognising the potential for other local authorities to try and repeat the Auckland success, the Government has made it very clear that it does not regard the Auckland transaction as a precedent, and is not interested in purchasing any other local authority housing portfolios.

- The other main challenges councils cope with are:
  - the condition of the councils’ physical housing stock;
  - the low demand councils in some rural areas face; and
  - the cost of supply relative to income from rents.

All of these challenges reflect or have as a consequence rising cost in social housing provision. Table Two summarises the challenges councils face in providing social housing.

Table Two: Challenges that councils face in providing social housing (a council can identify more than one challenge).

| Challenge   | Councils: |       |
|---|-----------|-------|
| Change in demand (i.e. no longer primarily older single people) | 33        | 24.3% |
| Physical housing stock  | 26        | 19.1% |
| Low demand  | 23        | 16.9% |
| Cost of supply relative to income from rents                    | 22        | 16.2% |
| Council financial or management structure                       | 14        | 10.3% |
| Community expectations  | 14        | 10.3% |
| Planning or regulatory environment                              | 4         | 2.9%  |

## POLICY SHIFTS

The shift to a market based approach to meeting housing need adopted in the early 1990s was a radical swing away from what had been the accepted approach in New Zealand – the provision of subsidised finance for low income households with children wishing to purchase their own properties, coupled with the provision of rental housing for those low income households (both families and elderly) who were unable to meet their needs through the market.

Underlying the policy shift of the early 1990s was the view that access to affordable housing should be seen as an issue of inadequate income, to be addressed through income support, rather than something that the state should deal with through physical provision.

As a consequence, not only did government withdraw its support for local authority housing provision (by discontinuing funding programs and, where possible, increasing interest rates on loans that had been made to local government to market rates). It also:

- Replaced income related rentals for state houses by market rentals.
- Discontinued low interest lending for home purchase, increased interest rates on existing loans to market rates and sold the majority of its mortgage portfolio.<sup>8</sup>
- Treated the accommodation benefit as the principal means of support for people in housing need. The benefit was designed to meet the major part of rental and home

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<sup>8</sup> Minor exceptions remained in place such as low interest lending for special rural programs.

ownership costs, above defined thresholds, for households that qualified on income grounds.

A principal argument for this shift in policy, as far as rental housing was concerned, was the view that income related rents for tenants in state housing created a major inequity. This view was based on the belief that there were something in the order of two to three times the number of low income households, in broadly equivalent financial circumstances to state tenants, living in private rented accommodation and paying net rentals that were significantly higher than the equivalent income related rents (as the accommodation supplement to which they were entitled provided a lesser amount of support than was received by state tenants on income related rents).

Consistent with the policy shift, government ceased the construction or purchase of new state housing stock and, instead, commenced a process of gradual disposal, reducing the state sector housing portfolio by some 12,500 units over the period to late 1999 (when the Labour led government took power and terminated the policy of selling down the state's portfolio).

This shift in policy had some unintended outcomes which were widely regarded as negative. They included:

- Significantly increasing the turnover of state housing tenancies. Under the income related rental policy, there had been a relatively high level of stability in state housing tenancies, both because the income related rental was cheaper than the market rental on an equivalent property, thus providing a strong incentive to remain as a state tenant, and because of a relative reluctance on the part of the state, as landlord, to evict tenants.
- In turn, the increased rate of turnover has been seen as contributing to negative outcomes for low income households in ways such as:
  - Making it more difficult for children to establish long term connections with a specific school, as their family moved from one zone to another;
  - Breaking connections with other service providers such as doctors – something frequently referred to as a contributor to lower follow up rates for immunisation.
- Contributing to a significant increase in overcrowding in state houses, as families “doubled up” in order to afford the increased rental.

As already noted, the Labour led government which has been in office since 1999 has rejected the market based approach to state housing, abolishing market rentals and returning to the traditional policy of income related rents.

What it has not been able to do is to meet the objective stated in Labour's 1999 manifesto to “meet the needs of those in the rental market through the state's involvement in building and owning an adequate supply of quality, affordable rental housing and encouraging and facilitating lending for families to obtain their own home”<sup>9</sup>.

It has not yet been able to make up the loss in state housing rentals through the years of a market based housing policy. Nor has it re-entered the market as a significant provider

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<sup>9</sup> New Zealand Labour Party (1999)

of subsidised loan finance for those wishing to purchase their own homes (it maintains targeted programs such as the Low Deposit Rural Lending Scheme to meet specific needs).

## **CURRENT INFLUENCES**

### **PURCHASE AFFORDABILITY**

The major feature of the New Zealand housing market, over the past year or more, has been the strong increase in house prices. In the twelve months to December 2003, the national median dwelling price moved up 20.5% from \$195,000 to \$235,000.

Regionally, levels of increase varied significantly with the Nelson/Marlborough region showing easily the highest rate of increase at 48.7%<sup>10</sup>.

Despite the rate of increase in median dwelling prices, housing affordability has worsened by less than might have been expected from the increase – a decline of 7.6% over the 12 months to December 2003. This needs to be understood in context. Housing affordability, as conventionally calculated, measures the impact of changes in three different variables: the median dwelling price, average weekly earnings, and borrowing rates. The impact of rising house prices on affordability has been largely off set by a reduction in interest rates (the key benchmark rate, the Reserve Bank's official cash rate, off which mortgage interest rates are indirectly set, reduced from 5.75% to 5% over the period) and by an increase in average wages.

Further decreases in affordability seem likely over the first half of this year following the decision by the Governor of the Reserve Bank, announced on 29 January 2004, to increase the official cash rate of 5% to 5.25%. The announcement signals the possibility of further increases. From this it follows that, unless there is an offsetting reduction in the median house price, home ownership will continue its recent pattern of steadily becoming less affordable.

A different way of considering people's ability to afford housing is to consider the feasibility, under current conditions, of a typical household saving the minimum deposit needed in order to purchase a property. This approach recognises that there is a qualitative difference between the ability to service mortgage outgoings from income once a property has actually been purchased, and the ability to accumulate the necessary minimum deposit, whilst also meeting other costs including rental.

Massey University's Real Estate Analysis Unit<sup>11</sup>, in its December 2003 residential rental market survey, analysed this issue. First, the unit accessed information on the savings patterns of New Zealand households from the Household Economic Survey carried out in 2001 by Statistics New Zealand. The data shows that average weekly savings for all households, from the survey, was \$20.60 and for renter households \$10.20.

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<sup>10</sup> Massey University Real Estate Analysis Unit (2003a)

<sup>11</sup> Massey University Real Estate Analysis Unit (2003b)

Next, the unit assumed that the typical first home purchase would be at the median house price for the region in which the household was purchasing, and that the required deposit would be 10%<sup>12</sup>. On that set of assumptions the unit calculated, by district, the number of years required to save a 10% deposit assuming that savings earned an average after tax interest rate of 4% and that this was accumulated. The following table shows the years required at different monthly savings levels:

### Monthly Savings

|                   | <b>\$50</b> | <b>\$60</b> | <b>\$70</b> |
|-------------------|-------------|-------------|-------------|
| Whangarei         | 26.47       | 22.22       | 19.14       |
| North Shore       | 57.56       | 48.70       | 42.21       |
| Waitakere         | 39.81       | 33.53       | 28.97       |
| Auckland          | 60.98       | 51.64       | 44.79       |
| Manukau           | 48.18       | 40.66       | 35.18       |
| Papakura          | 33.76       | 28.39       | 24.49       |
| Hamilton          | 29.10       | 24.44       | 21.07       |
| Tauranga          | 36.50       | 30.72       | 26.52       |
| Rotorua           | 21.99       | 18.44       | 15.87       |
| Gisborne          | 20.18       | 16.91       | 14.55       |
| Hastings          | 27.42       | 23.02       | 19.84       |
| Napier            | 31.06       | 26.10       | 22.51       |
| New Plymouth      | 22.51       | 18.87       | 16.25       |
| Wanganui          | 11.48       | 9.60        | 8.24        |
| Palmerston North  | 25.36       | 21.28       | 18.33       |
| Wellington Region | 37.43       | 31.50       | 27.20       |
| Nelson            | 38.13       | 32.10       | 27.72       |
| Christchurch      | 29.70       | 24.95       | 21.51       |
| Dunedin           | 22.86       | 19.17       | 16.50       |
| Invercargill      | 14.82       | 12.40       | 10.66       |
| All NZ            | 33.91       | 28.51       | 24.60       |

The estimated times to accumulate a deposit are subject to a number of variables. They include:

- The assumption that the purchase price will be the median dwelling price may produce an overly pessimistic outcome as the typical first home purchaser is likely to buy a cheaper rather than a dearer property.
- On the other hand, as suggested in footnote 12, assuming a 10% deposit may be unduly optimistic – lenders may require a higher deposit, especially if the purchaser’s means are limited.
- The table is based on current relativities between wages and house prices. As the unit notes “house price increases typically exceed increases in wages and salaries”.

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<sup>12</sup> The deposit assumption may be somewhat generous: in its AMP Home Affordability report for the September 2003 quarter the unit referred to “approximately 80%” as a maximum percentage of the house price which a mortgage may represent.

## RENTAL AFFORDABILITY

For New Zealand as a whole, the national median rent (as determined from tenancy bond data held by the Ministry of Housing) has increased from \$210 per week in October 2002 to \$230 in October 2003, an increase of 9.5%<sup>13</sup>.

This has happened at a time when, generally, landlords have been prepared to accept relatively low capitalisation rates<sup>14</sup>, presumably because they see their principal return as coming from capital gain. This implies something of a catch 22 for tenants. If house price increases (capital gains) continue at the present rate, then their chances of saving the deposit required to purchase a home may worsen, even if net rentals do not keep pace with house price increases. On the other hand, if house price increases slow, thus reducing the rate of increase in the amount of deposit required, landlords may seek increased rentals to minimise the reduction in their overall returns. To the extent that they are successful in doing so, renter households will have a lesser capacity to save.

There are some signs that, at least in Auckland, the rental market is starting to turn in tenants' favour. The Weekend Herald for 31 January 2003 in an article *Landlords Hit Rental Walls* reports quite marked declines in rentals being currently achieved as compared with levels in 2003. The report does, however, concentrate on higher valued properties and on inner city apartments with a strong implication that a main contributor is the decline in the number of overseas students. It remains to be seen whether this softening will have any impact on the median rental (most of the properties affected appear to be above the median level) or otherwise significantly impact on affordability for low income households.

The article does note, also, that the trend for the moment appears confined to Auckland (which has had by far the largest concentration, within New Zealand, of overseas students).

## HOME OWNERSHIP TRENDS

Traditionally, New Zealand has had a high rate of home ownership by world standards. This has been coupled with a strong attachment to home ownership as a preferred goal (see the discussion above on the policy debate through to the 1960s). Despite this, in the past decade or so the percentage of private dwellings owned by the people who live in them has been declining quite rapidly. In 1986, 73% of New Zealanders were homeowners. In 2001, the rate of ownership has fallen to 68%, despite the vast majority of New Zealanders still looking upon home ownership as their preferred tenure choice<sup>15</sup>. If this trend continues, and without intervention, the home ownership rate could fall to 62% within ten years and 58% over the next twenty-five years.

It seems likely that a number of different factors lie behind this trend. First, changes in household composition, with people marrying later is likely to be a factor – on the assumption that single people are likelier to prefer renting to owning than are married

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<sup>13</sup> Massey University Real Estate Analysis Unit (2003b)

<sup>14</sup> The capitalisation rate is the annual rental (before landlord's costs) divided by the value of the property.

<sup>15</sup> Working Party on Home Ownership Issues (2003)

couples or families with children. Next, changing lifestyle patterns may be a factor, especially in larger cities - as a growing number of people prefer the urban apartment lifestyle.

It does seem likely, though, that one factor is the increased difficulty in crossing the threshold into home ownership as the deposit gap has increased. This has long term implications as, for most New Zealand households nearing retirement, their investment in their home is by far their most significant asset. If the shift to a rental economy continues, then there may well be consequences in later years in meeting the costs of supporting the needs of future generations of older people if they do not have equity in a home to supplement other sources of support.

More immediately, these various trends suggest that there will be increasing pressure on the public sector to devise means of making housing more affordable, including pressure to:

- Increase the supply of publicly owned rental housing stock.
- Encourage the provision of affordable housing by non-public sector landlords.
- Facilitate the achievement of first home ownership.

## **HOUSING NEW ZEALAND CORPORATION CAPACITY**

Some 12,500 state houses were disposed of in the decade from 1991, following the shift in policy from the provision of subsidised housing to income support as the then government's preferred means of delivering housing assistance. Labour led governments since 1999 have reversed this trend with, so far, a net addition of approximately 4,000 units to the state-housing portfolio (including the units purchased from the Auckland City Council)<sup>16</sup>.

Currently, Housing New Zealand Corporation has a target of acquiring an additional 1,500 units each year (it also disposes of approximately 350 units each year that are considered no longer suitable or appropriate)<sup>17</sup>.

Despite the Labour party's 1999 election manifesto commitment, it is clear that it will be several years yet, before the number of units in the state housing portfolio is restored to the 1991 level. This emphasises that, despite the government's best intentions, its ability to make a significant impact on housing need, through the provision of additional units of state housing, is extremely limited. This is recognised in Housing New Zealand Corporation's August 2002 briefing to the incoming minister which notes that "expansion at current rates will only alleviate housing shortages at the margin, and demand will continue to exceed supply"<sup>18</sup>. This is compounded by the particular problems of the Auckland region where both house prices and rentals are significantly above national median figures. Government has made it clear that the bulk of new state housing stock will be provided in Auckland, an approach which means that areas under pressure in the rest of New Zealand (for example Nelson/Marlborough, Western Bay of Plenty,

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<sup>16</sup> Housing New Zealand Corporation (2002)

<sup>17</sup> Ibid

<sup>18</sup> Ibid, p5

Christchurch) will get little relief in the way of new investment in social housing in the absence either of a significant change in the level of new investment in Housing New Zealand Corporation or development of innovative programs that make a lesser demand on central government funding.

The government's 2003 Budget initiatives included provision of a total of \$63 million (\$43.262 million capital and \$19.831 million operating) over four years for third sector and local government housing initiatives. Third sector support will come through the Housing Innovation Fund and support for local authority housing through the Local Government Housing Fund. At the moment, the government has not yet decided how the \$63 million will be apportioned between the two funds. The initiative has the twofold purpose of:

- Encouraging local authorities to increase and/or upgrade their housing portfolios.
- Facilitating the development of a viable third sector<sup>19</sup> in the provision of social housing.

For local government, assistance with the purchase of additional social housing will be in the form of an interest free suspensory loan of 50% of the cost. For modernisations and reconfigurations, an interest free loan to a maximum of \$30,000 per unit will be available capped, in the case of reconfigurations, at 50% of the cost. There will also be a requirement that, if a council that has a suspensory loan through the Local Government Housing Fund sells any social housing, the suspensory loan will be repayable unless the sale proceeds are reinvested in further social housing.

The Housing Innovation Fund provides a range of assistance for community groups focused on both rental accommodation and affordable home ownership. For groups seeking to build or buy rental social housing, the fund will contribute 85% of the cost (which may be by way of grants or low interest loans) with the community group required to contribute 15%. Assistance is also available for capability development and the preparation for proposals.

## THE RESEARCH BASE

One concern, in the New Zealand social housing environment, is that we lack the research base we need for a full understanding of housing affordability. This is both in terms of the extent to which affordability is an issue for different groupings within the population (and the same groupings within different parts of the country) and the

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<sup>19</sup> The term "third sector" lacks any clear and generally agreed definition. It is normally used in contrast to public or private sector and thus implies both that it encompasses voluntary and community sector activity and has a not for profit commitment. It may range from substantial and formally structured organisations, such as English housing associations or European housing co-operatives, to alternative "grass roots" organisations. In this report, the term "third sector" is used to include any voluntary or community organisation, however structured, provided that it operates on a not for profit basis – that is, any surplus the organisation generates is applied to the purpose or purposes for which the organisation exists rather than belonging to individuals as a form of profit share or distribution.



implications for those households/individuals affected and the communities of which they are part.

In 2003 a group known as the working party on affordability issues<sup>20</sup> reviewed what it saw as research needs, based on problems it was able to identify from a review of existing information. For example, the group adopted "residual income" as a measure of affordability.<sup>21</sup> Assessing the circumstances of lower income households, the working party stated:

"Research using the Household Economic Survey 1998 data, and adopting a benchmark of 60% of median equivalent household disposable income found:

- Public and private renters experienced the largest shortfalls in residual income of over \$100 per week per household.
- 77% of sole-parent families had insufficient residual incomes.
- The proportion of elderly people with insufficient residual incomes at 10.9% was considerably less than the proportion with insufficient incomes (20.2%) showing the importance of home ownership as a mechanism for reducing the likelihood of poverty in old age. (Stephens et al, 2001).
- Whilst income-related rents have been introduced for HNZA tenants, the situation for private sector tenants is unlikely to have improved since 1998"<sup>22</sup>.

To improve our understanding of affordability it recommended research:

- "To up-date our understanding of households experiencing insufficient income and insufficient residual income levels, as part of the determination of an "adequate standard of living".
- To assess the extent of high other-housing costs.
- On the interaction between the abatement regimes associated with the Accommodation Supplement and WINZ benefits and the IRD system, to enable possible improvements to be more fully understood, before implementation.
- On housing demand, including functionality, particularly in the main centres of population"<sup>23</sup>.

The working party also observed "Given the current role of home ownership in reducing the incidence of poverty amongst older people, research is needed into the most appropriate mechanisms for reducing poverty for this age group in the future. In particular the research will need to identify the range of positive and negative attributes

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<sup>20</sup> The membership of the working party was drawn from academic researchers, public servants, the voluntary and community sector, and local government. Despite the membership, the report was prepared on the basis that the views expressed were those of the authors and not the views of either the government or of the Housing New Zealand Corporation.

<sup>21</sup> Residual income is the income available for other basic living costs, including the ability to save for regular but unavoidable costs such as medical and dental care, after expenditure on housing.

<sup>22</sup> Working Party on Affordability Issues (2003) p68

<sup>23</sup> Ibid p71

associated with ownership, and examine alternative mechanisms, which have similar positive attributes"<sup>24</sup>.

Other recent reports have also highlighted the growing problem of affordability. The regular quarterly reports of the Real Estate Analysis Unit at Massey University (quoted above) are one such source. Another, from a group which has long been a housing advocate, the Child Poverty Action Group, entitled *Room for Improvement: Current New Zealand Housing Policies and their Implications for our Children*, presents a view of growing unaffordability, increasing dependence on state rental subsidies, increasing inequality between those who own a house and those who do not and other negative factors such as the impact on children in low income renting households of high mobility.

Both the relative dearth of research on housing affordability (and associated factors such as supply, suitability, habitability, tenure security and freedom from crowding and discrimination) and the relative lack of any third sector in New Zealand mean that, in the search for ideas on options for improving affordable housing, it is normal to look to overseas jurisdictions for experience that may be relevant for New Zealand.

The appendix to this report provides an overview of current and recent housing policy in England, Australia, Canada and the United States of relevance for New Zealand.

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<sup>24</sup> Working Party on Affordability Issues (2003) p71

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## 3. Role of Local Government

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### HOUSING PROVISION

New Zealand's local government sector has traditionally taken the stance that core social assistance spending is a responsibility of the taxpayer, not the ratepayer. This stance has been based on the view that the role of income redistribution properly belongs to the entity which has access to the income tax base.

In contrast, local government has seen its primary role as that of providing services to property, including services which can be seen as locality based – such as sports, recreation and cultural facilities – and local public or merit goods (libraries are an obvious and occasionally controversial example).

In housing, this has meant that although local government has for many years had quite extensive powers to undertake, or financially support, housing development, provision of housing has not normally been seen as a local authority function. Where exceptions exist, as for example with the development of residential subdivisions in Waitakere and Hutt City, they have normally been justified in terms of district specific objectives rather than social assistance<sup>25</sup>.

For the most part, local government's role in housing provision has been regulatory in the exercise of its powers under legislation such as the Resource Management Act, the Building Act and the Health Act. Its involvement in direct housing provision, as with older person's housing or urban renewal programs, has been a direct result of government subsidy and thus consistent with the local government stance that services that are akin to income redistribution (if social housing is such a service) should be funded by the taxpayer not the ratepayer.

This has not stopped local government from acting as advocate on behalf of its communities, or entering into partnership with central government to deal with particularly pressing problems of housing need, such as substandard housing in Northland, the East Coast and the Eastern Bay of Plenty.

Even those local authorities which, by New Zealand standards, have had a relatively substantial involvement in housing provision, have traditionally done so on the basis that their housing activities should, as a minimum, be at no cost to the ratepayer (ignoring, for the purpose of determining cost, any return on capital). Typically they have operated portfolios targeted towards older persons and primarily (although not exclusively) as conventional "friendly" landlords rather than in a manner consistent with some wider social policy objectives.

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<sup>25</sup> In Waitakere City's case, the development of part of the Te Atatu peninsular for residential purposes was undertaken by the city (through a subsidiary company) as a demonstration project consistent with its eco-city principles. Hutt City's substantial land development program of the 1960s and 70s was a conscious part of city development.

Perhaps the most telling evidence that New Zealand's local authorities have not traditionally seen themselves as having a lead role in the development of social housing is that few, if any, have been proactive in seeking to use their regulatory or planning powers as means of providing incentives for the development of social housing. Instead, their focus has been on ensuring that new housing developments make an appropriate contribution to public amenities, including contributing to the cost of the local authority infrastructure which services them.

## **LOCAL GOVERNMENT ACT 2002 – COMMUNITY OUTCOMES & THE LONG TERM COUNCIL COMMUNITY PLAN**

The Local Government Act 2002 (LGA 2002) redefined the statutory role of local government. Amongst other things, the combination of sections 10 and 11 of LGA 2002 results in each council (district, city, regional) having a statutory role to promote the social, economic, environmental and cultural wellbeing of communities, in its district or region, in the present and for the future.

The principal means the Act spells out for undertaking this new statutory role are:

- The carrying out of a process to identify community outcomes for the intermediate and long-term future of its district or region, including identifying, so far as practicable, other organisations and groups capable of influencing either the identification or the promotion of community outcomes and securing, if practicable, their agreement to the process.
- Preparing, as the local authority's basic planning document, a long term council community plan which is based on describing community outcomes, how they have been identified, how the local authority will contribute to furthering them and how it will work with other local organisations, regional organisations, Maori, central government, and non government organisations and the private sector to further those community outcomes.

The practical effect of the legislation is to position local authorities as the lead party in the development of a long term strategic plan for their communities, to be developed in conjunction with other key influencers from the public, private and voluntary/community sectors.

In housing, it means that the local authority's focus now shifts. As well as being concerned with the management of whatever housing assets it might have, and with undertaking its traditional regulatory activities in respect of housing, to the extent that housing is an issue for its community, each local authority now has an obligation to identify the community's housing related outcomes and to make judgements regarding whose responsibility it is to deliver those outcomes (a judgement which will no doubt be tempered by a consideration of trade-offs, and the resources potentially available).

For the purposes of this report, LGA 2002 can be seen as putting local government at centre stage in terms of identifying housing need and options for meeting that need.

One qualifying comment is necessary. The shift from local authorities' planning and accountability role under the Local Government Act 1974 to the community outcomes/LTCCP process under LGA 2002 is a very major one. There is a wide-spread

consensus that it will take some years for it to be fully achieved and for local authorities generally (and their communities, including sectors which have not generally seen local government as a natural partner) to become fully familiar with the extent of the change and the new role, and develop the processes, organisational culture and linkages necessary to realise the full potential of the new provisions. It will also take something of an attitude shift on the part of central government departments and agencies who themselves, generally, appear not yet to have understood the implications of LGA 2002's provisions.

In this respect, housing provides one of several opportunities for local government and other stakeholders, including central government, to demonstrate the potential that the legislation has to add value within their communities.

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## 4. Themes from International Experience

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From amongst the material and experience reviewed for this report, we identify seven themes of significance for the development of affordable housing policy in New Zealand from the perspective of local government. These themes are:

- An affordability crisis.
- The scope of affordable housing.
- The role of supportive services.
- The neglect of the 1990s.
- Housing strategy as regional/local.
- The role of regulation and planning instruments.
- Management.

### AN AFFORDABILITY CRISIS

In each of the jurisdictions we have reviewed, there is an acknowledgement that there is a crisis in the supply of affordable housing. The interim report of the Barker Review in the UK notes “the long term upward trend in house prices and recent problems of affordability are the clearest manifestations of a housing shortage in the UK”<sup>26</sup>.

In Australia, a consultation document produced by the Community Housing Federation of Australia records significant difficulties with affordability including, on the measures that it used, that in 2000 no low income household could afford to buy a three bedroom house in Adelaide, Melbourne or Sydney and only a tiny percentage could afford to rent a three bedroom house<sup>27</sup>.

In Canada the discussion paper *Housing Policy for Tomorrow's Cities* released by the Canadian Policy Research Networks in December 2002 quotes the interim report of the Taskforce on Urban Issues describing the Canadian housing situation as:

“The shortage of affordable housing is one of the biggest challenges affecting economic competitiveness and quality of life. Municipal governments and housing providers cannot meet the demand for affordable housing and emergency shelter. As more and more people migrate to cities, the pressure to find suitable accommodation has a ripple effect on society as a whole. As competition for existing housing stock intensifies, tenants at the lower end of the market increasingly have no choice but to turn to shelters or remain in already overcrowded conditions”<sup>28</sup>.

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<sup>26</sup> Barker, Kate (2003) p1

<sup>27</sup> Community Housing Federation of Australia (2003) p3

<sup>28</sup> Hulchanski, David (2002) p5

The introduction to the Brookings/Urban Institute report "*Rethinking Local Affordable Housing Strategies: Lessons from 70 Years of Policy and Practice*" (see page 71) records that "the affordable housing crisis in the country has worsened despite new housing policy innovations and the strong economy during the 1990s"<sup>29</sup>.

At the risk of over-simplifying, international experience confirms what may also be the case in New Zealand: that problems of affordability come in two different types. The first is the inability of households (individuals: families) on low incomes to accumulate the deposit required and/or service the mortgage debt involved in purchasing a property in the more prosperous and rapidly growing parts of the country and, alternatively to afford the rental for a dwelling of acceptable standard. In England, this is particularly the case in London and the South East, in Australia it is urban centres such as Adelaide, Melbourne and Sydney, in the United States it is the fast growing metropolitan areas (especially the suburban districts surrounding city centres). In Canada it is cities such as Vancouver, Toronto and Ottawa.

The other dimension is that in slow or no growth areas, affordability is more a matter of the cost of upgrading run-down housing stock, the relative absence of well paid employment, and the risk of people, if they seek housing through purchase, being trapped by an inability to sell if they wish to move elsewhere in the search of (better paid) employment.

## **THE SCOPE OF AFFORDABLE HOUSING**

In New Zealand, the housing affordability work stream in the New Zealand housing strategy adopted the six dimensions of housing adequacy used by Statistics New Zealand in its housing indicators project work: affordability, suitability, habitability, tenure security and freedom from crowding and discrimination. The suitability dimension was further broken down into suitability of the dwelling and suitability of the location<sup>30</sup>.

A similar view is taken of affordable housing internationally. It is about much more than just the ability to purchase (or rent) a house of a suitable physical standard and configuration at an acceptable cost. It is about the contribution that housing makes to achieving other outcomes in education, health, employment and building stronger communities.

The Barker Review recognised this with its statement that: "housing has profound and often unappreciated impacts upon our lives. It directly affects our quality of life, our health and well being; it determines our transport needs and often our choice of work; it affects our family structures and our friendship networks. Housing also affects our national economic well being: the rate of economic growth and our prosperity. It also influences the distribution of resources between regions, individuals and generations"<sup>31</sup>.

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<sup>29</sup> Katz, B et al (2003) p1

<sup>30</sup> Working Party on Affordability Issues (2003) p65

<sup>31</sup> Barker, Kate (2003) p1

In Australia, the final report of the State of Victoria's Affordable Housing Steering Committee: *Toward a State and Local Government Affordable Housing Strategy* observes:

"All cities, including Melbourne, have low-cost housing available. However, often it is poorly located in relation to employment, public transport, recreation, shops and community services. This can lead households into economic disadvantage and social isolation, or over-reliance on costly private transport. By contrast, well-located housing is located in proximity to social and physical infrastructure thereby enhancing the capacity of residents to engage in employment, education and social activities"<sup>32</sup>.

In the United States, the Brookings/Urban Institute report identifies seven goals for affordable housing in an American context (see page 72).

## **THE ROLE OF SUPPORTIVE SERVICES**

The material that we have reviewed reveals an increasing concern with the needs of many of the low-income individuals/households who are actual or potential tenants of publicly owned affordable housing. Perhaps because conditions such as mental or physical disability, or marginal status within society (as a recent immigrant, member of a minority group, or someone whose fluency in the local language is minimal) will often be associated with low income, many actual or potential tenants of affordable housing have needs that go far beyond housing as such.

The City of Melbourne's Social Housing Strategy 2001-2004, *Linking People, Homes and Communities*, notes as a critical issue:

"Increased social exclusion for individuals and groups who have a high priority need for access to safe and affordable housing and related support services. This includes, for example, individuals with complex needs, the frail aged, large and extended families, young people and indigenous persons"<sup>33</sup>.

*Homes and Communities in London*, the London Housing Strategy released by the London Housing Board in 2003, recognises the importance of providing housing for people with disabilities (and others with particular needs) close to the facilities they require. It states:

"The provision of new housing should underpin the creation of vibrant, mixed and sustainable communities recognising the diverse contributions of ethnic minority groups, older people, people with disabilities, and others requiring support. New housing will be built where there is existing access to facilities and infrastructure such as schools, hospitals, employment and public transport"<sup>34</sup>.

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<sup>32</sup> Affordable Housing Steering Committee (2002) p11

<sup>33</sup> City of Melbourne (2001) p5

<sup>34</sup> London Housing Board (2003) p19



Specifically recognising the support needs of people with disabilities is not just seen as a social justice issue. As research reviewed by the Brookings/Urban Institute report makes clear, it can also result in substantial savings in the costs, to the public sector, of meeting their diverse needs.

## **THE NEGLECT OF THE 1990s**

In each of the four jurisdictions we considered, there is now significant acknowledgement that the decade of the 1990s was a period of significant under-investment in affordable housing and that very real costs have resulted from this, not just for low income households but for society at large.

The most dramatic statement in the material we have reviewed is from the consultation document *Our Future in Affordable Housing* released by the Community Housing Federation of Australia in September 2003 (see pages 59-60).

In Canada, the Federation of Canadian Municipalities, in October 2000, released *A National Affordable Housing Strategy*. In respect of supply, it reported:

“Canada Mortgage and Housing Corporation has identified an estimated need for 45,000 new rental units annually over the decade from 2001 to 2010. The historical income profile of renters suggests that at least half of these new renter households will be low income and will need affordable units.

“New rental construction has plummeted from 25,000 units annually in the 1980’s to fewer than 8,500 units annually in the later 1990’s – far short of CMHC’s projected requirements”<sup>35</sup>.

In England, the Barker Review observes that keeping affordability for new households in line with that in the second half of the 1980s would imply a current shortfall in England of between 93,000 and 146,000 homes per annum, of which, 20,000 to 45,000 are owner occupied private sector homes and 73,000 – 101,000 are affordable<sup>36</sup>.

## **HOUSING STRATEGY AS REGIONAL/LOCAL**

Historically, housing strategy in the sense of developing policies for the supply of affordable housing was a central government function in England, a federal government function in the United States (through the Department of Housing and Urban Development and delivered substantially through Public Housing Associations) a federal/state government responsibility in Australia and substantially a federal government responsibility in Canada through the Canada Mortgage and Housing Corporation.

As is the case with a number of other social policy areas, this is now changing recognising that “one size fits all” policies developed at a national level may not be the best way of identifying housing need and initiatives for dealing with it. Internationally it

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<sup>35</sup> Federation of Canadian Municipalities (2000) Chapter 3

<sup>36</sup> Barker, Kate (2003) p9

now appears to be widely accepted that the development of housing strategies is very much a regional/local matter although still requiring strong central/state government support (especially because it is at the central/state government level that the main taxing instruments are held).

In England, the government's housing green paper *Quality and Choice: A Decent Home for All* set out the role of local government in the following terms:

**"Making it work locally**

Central Government can set the framework for housing policies. But the delivery of those policies must be tailored to a variety of local circumstances. Making housing policies work locally depends on the actions of all of us, as tenants, homeowners, landlords, or members of private, public and voluntary bodies. But local authorities have a pivotal role.

**"A stronger strategic role for local authorities**

As we make clear in Chapter 7, we strongly favour the separation of authorities' strategic and landlord responsibilities for housing. This will strengthen both roles. The strategic role of local authorities is assuming ever-greater importance across all policies and is central to the proposals in this Green Paper.

"This separation of roles allows authorities to address in the round the housing needs of their wider communities, including tenants of private sector and registered social landlords, homeowners, homeless people and those seeking to establish new households. Those responsible for day-to-day management of housing can concentrate on delivering a high quality service. This goes to the heart of Best Value.

"It is now almost a cliché, but no less true for that, that housing cannot be considered in isolation. The quality of our housing affects the health and well being of us all. Conversely, fear of crime, lack of jobs, or a despoiled environment reduce significantly the quality of life no matter how good the housing. All of these elements have to be tackled together.

"We want to see local authorities, in consultation with their partners, ensuring effective co-ordination of their different activities. When local authorities act to improve housing, this contributes to wider strategies, including community strategies and those for improving education and employment opportunities; for improving health; for tackling crime; for tackling all forms of social exclusion and regenerating deprived neighbourhoods. Similarly, action in other spheres affects housing objectives. The aim must be to create positive, complementary outcomes across the span of objectives.

"The main strands of an authority's strategic role for housing are:

- Assessing the needs of local communities, balancing those needs with national priorities, and producing a clear strategy for tackling problems across all types of housing in the area, based on wide consultation;
- Identifying, co-ordinating and facilitating all the resources and agencies that can contribute to the delivery of the strategy;

- Co-ordinating and planning for the provision and development of additional housing, both in the private and social sectors, helping to create sustainable communities;
- Acting as a housing service provider (including the administration of lettings schemes and Housing Benefit) and commissioning housing and services from other agencies as appropriate;
- Linking housing with wider policies for the social, economic and environmental well-being of the area, including the regeneration of deprived neighbourhoods;
- Operating and facilitating local partnership schemes to encourage best practice amongst providers of housing and housing services;
- Enforcing and raising standards;
- Consulting and empowering the local community;
- Providing and commissioning advice and assistance, for example to help homeless people to find suitable housing;
- Taking action to tackle anti-social behaviour, including racial harassment, across all tenures;
- Working with neighbouring authorities and other agencies to meet housing need and tackle housing problems across wider areas in the region;
- Monitoring and evaluating the success of the strategy and revising it where necessary<sup>37</sup>.

This was followed, in 2003, by *Sustainable Communities: Building for the Future*. Its section on reforming delivery states:

**“The Challenge**

To ensure the right framework of laws, structures and decision-making processes, and the right skills, to support the agenda in this action programme.

**“The Response**

Legislation to reform the planning system, to allow devolution of power to the regions, to provide more freedoms for local government and to improve the experiences of homebuyers and tenants. Strengthened arrangements at the regional level, with regional housing boards, to ensure regional housing strategies are co-ordinated with economic and planning strategies, and allowing sub-regional approaches to housing problems extending beyond individual local authority boundaries. A further major step in the reform of local authority housing finance. Action to ensure we have the right people with the right skills and knowledge to deliver. By July 2003, we will develop a comprehensive skills strategy for sustainable communities, building on existing strategies<sup>38</sup>.

For the US, the Brookings/Urban Institute report observes:

**“Housing strategies should be tailored to local market conditions**

Housing needs and policy priorities differ from place to place, due to differences in housing market conditions, history, and political realities. Although this report

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<sup>37</sup> Department of the Environment, Transport and the Regions (2000a) Chapter 3

<sup>38</sup> Office of the Deputy Prime Minister (2003e) p49

focuses on a comprehensive set of affordable housing goals and the tools that can be used to achieve them, it does not make sense to implement the same strategy everywhere. In hot markets, where population is growing rapidly and housing is in short supply, producing new affordable units may be a top priority. But in markets where the overall demand for housing is weak and vacancy rates are high, new units may not be needed; instead, poor households may need assistance in paying for the housing that is already available. And just as cities and metropolitan areas differ, neighbourhoods within a jurisdiction often have very different housing circumstances and needs. Thus, the best strategies are those that match local conditions (and political realities) and respond to community input and expectations”<sup>39</sup>.

In Australia the recognition of this need is tempered by a belief that many local government entities lack the resources required for the development of a comprehensive local housing strategy. The final report of the Victorian State Government’s Affordable Housing Steering Committee had this to say:

“As well as contributing to a state-wide planning framework, local housing policies play an important role in articulating housing challenges, objectives, priorities, lines of responsibility and timeframes at a local level. Ideally they will underpin and inform a strategic and integrated response by council to affordable housing issues, with key objectives and strategies articulated in councils corporate plans, municipal planning schemes and municipal public health plans. Local housing policies and strategies lend transparency and legitimacy to local government decisions around affordable housing and provide clarity and direction for all key players, including community housing providers who require information for the purpose of housing needs analyses and/or determining project feasibility, and the private sector.

“Despite their importance, many local governments do not have local housing policies in place. This is reflected in the Municipal Association of Victoria (MAV) survey of local governments that shows in 1998, 15 respondents (or 28 per cent) reported having undertaken a housing strategy. Given that this survey was undertaken in 1998, it is likely that the number of local governments that have undertaken a housing strategy has since increased. For many local governments, this can be attributed to a lack of resources, with 63 per cent of survey respondents citing ‘a lack of resources’ as the main constraint in dealing with housing issues (MAV, 1999, Appendix 2).

“The development and implementation of an affordable housing policy requires significant resources and expertise. Very few local governments employ, or have the capacity to employ, a dedicated housing officer and the pressure on land-use and social planners is often great. Given this, the Steering Committee believes that the State Government has an important role in supporting local governments to develop housing policies. A failure to do so will result in an inability by many local governments to pursue affordable housing opportunities”<sup>40</sup>.

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<sup>39</sup> Katz, B et al (2003) xii

<sup>40</sup> Affordable Housing Steering Committee (2002) p24

## THE ROLE OF REGULATION AND PLANNING INSTRUMENTS

There is an increasing emphasis, in looking for solutions to the problem of affordable housing, on the use of regulatory and planning instruments.

In England, the government is nearing the end of consultation on proposals for a new approach to planning obligations which its consultation paper states it believes should:

- a "Help deliver high quality, sustainable development that provides social, economic and environmental benefits to the community as a whole;
- b Continue to provide affordable housing as well as the facilities and infrastructure needed to accommodate the demands of new development;
- c Help deliver the physical investment needed to secure high and stable economic growth and higher productivity;
- d Be more transparent to all stakeholders in the planning process so that all can see what contributions are being secured through planning obligations;
- e Provide an effective mechanism for delivering desirable development without causing delays;
- f Not impose financial burdens on developers which in themselves deter desirable development; and
- g Be sufficiently flexible to reflect the circumstances of individual proposed developments"<sup>41</sup>.

For the US, the Brookings/Urban Institute report identifies substantial research evidence demonstrating that regulatory and planning instruments can have a substantial impact on affordable housing – either restricting the potential for its provision or actively encouraging it.

In Canada, the City of Vancouver is commonly used as an exemplar for the success which it has had in encouraging the provision of affordable housing by requiring developers to set aside a percentage of developments for this purpose.

What the international experience also makes clear is that this does come at a cost. The ability to use regulatory and planning requirements to encourage developers to set aside land and/or developed units for affordable housing depends on the fact that the planning authority sets the terms on which developers are able to proceed. In essence, planning controls restrict supply and thus, where demand is sufficiently strong, raise the price sufficiently so that the developer still has an incentive to proceed despite the cost of making provision for affordable housing. Alternatively, the planning authority may use its powers to impose costs in a different manner, allowing a developer a "density bonus" in return for affordable housing. Here, what is happening is that the community's preferred outcome in terms of density is being traded away for provision of affordable housing.

As English experience shows (see the research report *Planning Gain and Affordable Housing: Making it Count*, prepared in 2002 by the University of Cambridge with support

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<sup>41</sup> Office of the Deputy Prime Minister (2003h) p6

from the Joseph Rowntree Foundation), the use of planning mechanisms to require developers to make provision for affordable housing works only when there is significant demand in the local housing market. Their research shows that the overwhelming proportion of affordable housing resulting from the planning obligations provisions in England has been in London and the South East, with comparatively little in the North, even where there is significant need for good quality affordable housing<sup>42</sup>.

## MANAGEMENT

Internationally, there appears to be a general trend away from public sector management of social housing towards a preference for the public sector's role concentrating on:

- Funding (especially at the level(s) of government that holds the major tax instruments).
- Strategy with the management of social housing increasingly left to special purpose entities established for the purpose and able, by virtue of this, to:
  - Better reflect local conditions.
  - Be more flexible in management.
  - Directly involve tenant participation.
  - Be of a scale and focus sufficient to develop specialist skills and services required to meet the needs of tenants, as they increasingly have high and complex needs.

In England, in keeping with the approach that central government has taken towards local government, the present government has been quite directive in both stating and implementing its view that local government should concentrate on its strategic role and leave management to specialised entities – housing associations through the Stock Transfer program, Arms Length Management Organisations if the local authority wishes to retain ownership of the housing stock, significant private sector involvement through the Private Finance Initiative.

The government's views were set out in the housing green paper *Quality and Choice: A Decent Home for All* as:

"A reduction in local authorities' flexibility in allocating housing acts against the interests of tenants. In some areas, these failings of policy have been exacerbated by a lack of tenant involvement in the management of their housing and by poor standards of management and other housing services. Tenants who are given no say in the day to day decisions affecting their homes and their lives are being denied the responsibility and opportunity that most homeowners take for granted. They are also being let down in areas where public services fall short.

"The lack of choice for tenants over the housing that is allocated to them is compounded by an inconsistent system of rents. Tenants in one area may be charged a similar rent for a small, rundown property on an unpopular estate to that

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<sup>42</sup> Crook, T et al (2002)

for a larger family home in a more desirable location. At the same time, tenants in neighbouring authorities might pay significantly different rents for very similar properties, while some tenants of registered social landlords can face much higher rents than local authority tenants and even other housing association tenants.

"This creates a system where tenants can feel that they are being treated unfairly and where neither tenants or landlords see any logical link between the rent and the relative value of their properties. It takes personal responsibility away from tenants and reduces incentives for proper investment in the housing stock"<sup>43</sup>.

The 2003 edition of *Guidance on Arms Length Management of Local Authority Housing* makes the government's position quite clear. Local authorities who do not use one of the options for divesting management cannot expect increased investment in their stock above that from the Housing Investment Program<sup>44</sup>. The point is further emphasised by the financial provision which the government is making for the Arms Length Management Organisation program. Funding for improvement of housing stock managed by ALMOs will rise from £59 million in 2002-03 to £323 million in the following year and then £851 million in 2004-05<sup>45</sup>.

In the US, policy is less explicit partly because of the long tradition of designing housing assistance programs that are open not just to public sector organisations but to the voluntary and community sector and private sector developers. Currently, the two main federally funded housing assistance programs, the Low Income Housing Tax Credit and the Home Investment Partnerships programs, although both administered by state and/or local agencies, are designed so that take-up is primarily by private sector developers in partnership with community based organisations.

As the Brookings/Urban Institute report emphasises, this approach is not free from difficulty. Most importantly, the effective administration of low-income housing requires a high level of skill and resources. In this respect their report observes that programs that subsidise the production of affordable rental housing are not always successful in providing decent-quality housing. As discussed earlier, both public housing and privately owned subsidised housing developments have faced serious problems of financial mismanagement, physical deterioration, crime, and social disorganisation. These problems are by no means inevitable, but their prevalence demonstrates that simply building low-cost rental housing is not sufficient. Managing low-income developments is very challenging, and owners need to have both the capacity and the resources to maintain and operate them effectively.

In Canada, a recent research report prepared for Canada Mortgage and Housing Corporation, the government of Canada's national housing agency, makes a strong case for direct community sector involvement in the management and delivery of social housing:

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<sup>43</sup> Department for the Environment, Transport and the Regions (2000) Chapter 2

<sup>44</sup> Office of the Deputy Prime Minister (2003f) p7

<sup>45</sup> Office of the Deputy Prime Minister (2003d)

“The expertise that exists in civil society especially in the national social policy groups should be called upon. These organisations can play a significant role in addressing the question of how to develop housing that meets a range of social and economic goals in partnership with communities and local governments.

“These objectives will not be met without a sustained effort to build on the capacity that exists at the community level. In many cases, communities can be involved in the delivery of programs. This is particularly true with housing. While Canada has a strong history of working with communities in the delivery of housing policy in the past, new community groups are emerging with different mandates. An intentional focus on serving individual and community needs when designing programs should be put in place by supporting partnerships with communities that seek their views from the outset of policy formation. In fact, by involving communities in the delivery of affordable housing, multiple objectives will be more easily achieved. In order for this level of community capacity to be effective, a stable, predictable public infrastructure will be required to provide resources to community groups”<sup>46</sup>.

In Australia, involvement in the management and delivery of social housing has not been a core local government activity. As noted on page 59, the single largest local government housing portfolio in Australia, that of the City of Port Philip in Melbourne, is less than 400 units.

Where local government is becoming involved, it is generally through the use of arms length entities, typically not for profit companies, such as City West Housing Pty Limited in Sydney, Community Housing Canberra Limited, the Brisbane Housing Company, and the Inner City Social Housing Company in Melbourne.

Community housing organisations, affiliated to the Community Housing Federation of Australia, already manage 66,000 dwellings representing around 20% of all social housing provision in Australia.

Despite the traditional stance of Australian local governments that they are not generally involved in social housing.

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<sup>46</sup> Canada Mortgage and Housing Corporation (2003) p54



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## 5. Local Government Housing in New Zealand: An Overview

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In this overview, we look at the role of the five local authorities that are co-sponsors of this report. They were selected as providing a representative sample of what remains of the local government housing sector. They include two of the three largest portfolios (Wellington and Dunedin), a provincial city (New Plymouth), a small portfolio in a peri-urban authority in a rapidly growing area (Western Bay of Plenty) and a rapidly growing city in the Auckland Conurbation (North Shore).

We look briefly at each of these in turn.

### WESTERN BAY OF PLENTY DISTRICT COUNCIL

This council owns and manages 70 units of older persons housing. It has concluded that housing is not a core function for the council and that the size of its portfolio is too small to justify the specialist management and tenant support that older person's housing requires.

Consistent with this, its strategic plan states:

"Housing:

(u) Council acknowledges it is not well placed to be in the business of housing provision, and accordingly the divestment of current housing stock will be managed over a period of time in a way that does not disadvantage the existing residents.

Council's role: Facilitator

(v) Council acknowledges there may be a need for the provision of affordable housing within the District and will work with relevant organisations to achieve affordable housing solutions for sectors of the community who need assistance.

Council's Role: Advocate  
Facilitator<sup>47</sup>.

Over 2002/2003, the council went through a process of seeking to dispose of its housing portfolio. The request for proposals stated the council's desired outcome as:

"It is now the Council's intention to seek an outcome where the long-term interests of its existing residents are protected and this will be a prime issue when considering proposals. The stability of tenure for residents, confidence in the security of their social and physical environment and rent level security, are items which the Council intends to secure for its existing residents before entering into any divestment agreement. In order to secure this outcome, the successful Proposer shall execute an appropriate Bond<sup>48</sup>.

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<sup>47</sup> Western Bay of Plenty District Council (2002)

<sup>48</sup> Ibid

Essentially, the council was seeking a purchaser that would both provide tenure security to tenants and apply the same non-market rental policy the council itself had in place. After protracted negotiations with some parties who had expressed an interest, the sale process was terminated. It is understood that reasons for this included:

- Strong community opposition to the concept of divestment.
- The lack of a purchaser who was both prepared to commit to the council's long-term outcome and who had the resources and skills needed to take over the portfolio.

This experience has not changed the council's view that it should seek to exit from at least the management of its social housing portfolio by seeking a management alternative better placed to deliver the type of service it believes its tenants require.

## **NEW PLYMOUTH DISTRICT COUNCIL**

New Plymouth has a portfolio of 156 units of housing for the elderly. As far back as 1991 demand from older persons was insufficient to achieve full occupancy and the council resolved that other groups would also be eligible as a response to falling demand. Priority is still given to older persons but provision is also made for others, normally younger people on invalids or sickness benefits. Currently, 68% of the council's tenants are older persons with the balance being primarily invalids and sickness beneficiaries.

The council reports that it has had comparatively little difficulty with tenant compatibility. The principal reason is that, generally, younger people are offered accommodation in units that are seen as unsuitable for older persons (because of access issues), thus effectively segregating different categories of tenants.

Rentals are set on an income related basis, tied to 25% of national superannuation.

The council is working through a process of rationalising its portfolio, with some units deemed unsuitable being ear-marked for sale (7) and others being upgraded to meet current standards.

## **NORTH SHORE CITY COUNCIL**

North Shore owns and manages a portfolio of 458 rental units occupied exclusively by older persons.<sup>49</sup>

The portfolio has very high occupancy rate and, in addition, the council normally has a waiting list in the order of 100 persons. The portfolio is operated at minimal cost to the ratepayer with rental set at below market levels. As with virtually every local authority owning older persons housing, the council recognises that the nature of the housing stock (approximately 60% bed sitting rooms with the balance single bedroom) falls short of current standards. Its high occupancy rate and waiting list reflects the lack of affordable alternatives rather than the inherent desirability of the housing itself.

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<sup>49</sup> It is also involved with 37 owner-occupied units under a subsidised arrangement through which, when units are vacated, they are sold back to the council and on-sold on similar terms to older people who meet the council's criteria for assistance with home ownership.

The North Shore experience contrasts with major urban portfolios such as Dunedin and Wellington where, as a consequence of lack of demand from older persons, a significant proportion of housing is made available for other groups of people in housing need (many of whom have a history of psychiatric disability).

A question which this report has not been able to explore, but which is clearly significant for social housing in Auckland, is what provision ought to be made for groups such as mental health consumers who, in cities such as Dunedin, Christchurch and Wellington have and use the option of local authority housing.

## **DUNEDIN**

Dunedin owns and manages a portfolio of approximately 1,000 housing units. Of these, 950 were originally built as older persons housing and 52 as "general housing" units available to anyone at market rental.

In the late 1990s, the council undertook a review of its housing policy which, until that time, had reserved older persons housing for people aged 55 and above with limited income and assets. A falling away in demand from this target group, coupled with an awareness of the need amongst other groups for low income single person accommodation was a principal reason for the policy review.

Today, all housing is treated as council housing and made available on a priority basis.

Housing is divided into two groups. Within group one, top priority is people aged 55 and over with financial resources less than the income and primary asset limits. The next priority is to the same age group whose resources are less than the income limit and below the secondary asset limit. The last priority is people aged 55 and over who have greater financial resources. The first two priority groups are charged a break even rental (set to ensure that housing operates at no cost to ratepayers, after making provision for maintenance and renewal). The last group is charged a market rental.

Within group two, the top three priorities are the same but housing is allocated also to a fourth priority, those under 55 years of age who have financial resources less than the income and primary asset limits. Within this group, priority is given to individuals on the invalids benefit.

We understand from the council that its expectation has been that approximately 20% of its housing would be occupied by people under the age of 55 but that in practice approximately 35% is. Primarily this reflects a falling off in demand, by older people, for the type of accommodation that the council offers.

In 2003 the council commissioned a survey of social housing in Dunedin with the purpose of identifying both the nature and extent of housing need in Dunedin and the role for council.

The report identified a number of issues which, from comments made to McKinlay Douglas both in the course of preparing this report and in other work which the firm has undertaken on housing, appear to be generic especially in larger centres. Key issues raised include:

- Surveys, interviews and documents indicate that there are rental housing needs in Dunedin for a number of older persons with low incomes, low income individuals

and family groups, mental health consumers and people with physical disabilities in Dunedin. The greatest needs are for housing for low-income families (especially those with children) and for younger individuals on low income and, among these individuals, beneficiaries who are mental health consumers.

- Few among these people can afford to own and their rental housing needs are not currently being met by either the private sector or the public sector.
- There are high demand levels in Dunedin for single bedroom housing, this demand particularly comes from unemployed males aged between 25 and 35. Because of this preference to live alone, this makes the cost of living for these residents very difficult to afford.
- Mental Health Services Consumers: Issues that affect consumers' housing options include affordability, lack of choice, financial problems and a concentration of accommodation (including boarding or rooming houses) in the inner city. Often the private rental units are poor quality. Other issues are the lack of flexibility for community living when consumers move between independent living, hospital care and supported living. Establishing new housing and a range of housing types for consumers is affected by the planning processes of local authorities, including Dunedin City Council.
- Emergency Housing: Emergency housing is not available for women (except the Refuge), youth and mental health consumers and there are few options for transients.
- Co-ordination among social housing providers: The opportunity for co-ordination among providers and for meaningful discussion of social housing needs and regular monitoring of this sector is required. Responsibility for ensuring these things happen needs to be discussed.
- Dunedin City Council has multiple roles: Discussion within council should consider the multiple roles regarding social housing. The council policies, as well as regulatory authority, includes or could include some oversight of monitoring responsibilities for social housing. As noted above, there is council provision of housing. There are regulatory activities as to quality and health and the provision and operation of the District Plan has specific aspects for density, location, parking and other features which can affect social housing. Some matters are briefly noted here. Allocation of DCC housing units is limited under the present policy and both increased access and more flexibility are requested by community groups to meet social housing needs. Opportunities for younger people renting the units and more suitable locations for tenants such as close accessibility to services, schools or family members are required. It is also suggested that a social worker in the DCC housing team could assist with management of tenants. More active and regular planning and co-operation on housing issues would be beneficial to the work of HNZC and the DCC. Also some discussion between, perhaps, the DCC and the Otago District Health Board on behalf of mental health sector and public health representatives could assist. The present Housing Network could be reviewed to define what it can achieve<sup>50</sup>.

As well as its involvement in the provision of older persons housing, Dunedin City has also been active in addressing the need for student accommodation. In doing so, it has been concerned both to ensure that the university itself is able to maintain its important role within the Dunedin economy and to relieve the pressure on other low income home seekers of demand from students seeking accommodation.

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<sup>50</sup> Houghton, Ruth et al (2002)

The council facilitated the formation of the Tertiary Accommodation Trust as a four way partnership between the council, the University of Otago, the Dunedin College of Education and Otago Polytechnic. The council contributed the land plus \$2.5 million in facilitation funds and each of the three tertiary institutions contributed \$1.8 million (a total of \$5.4 million).

Today, City College provides 300 bedroom units, with 100 being allocated to students from each of the three institutions.

The land is being sold to the trust over a five year period (financed from rental). The council's \$2.5 million was provided as a suspensory grant written off over ten years as a charitable donation (and offset against the council's taxable income).

City College has the reputation of being the most desirable hostel accommodation in Dunedin.

## WELLINGTON

With 2,355 units, Wellington City Council owns and manages the third largest social housing portfolio in the country. Only Christchurch City and Housing New Zealand Corporation hold larger portfolios.

The council has positioned itself as "landlord of last resort" and has a targeting policy to reflect this objective.

The council's tenant mix is more complex than that of the other councils considered in this report. An understanding of the mix, and the policies which the council has adopted in meeting tenant needs, comes from the council's framework<sup>51</sup> for the provision of housing which assigns applicants to one of three streams and also establishes a hierarchy for assistance:

**Stream 1** applicants are seen to require security of tenure and stable rentals. Their housing need is driven by physical need exceedingly unlikely to change over time. Stream 1 comprises the fit elderly, people with low level psychiatric diagnosis and people with physical disabilities requiring modified accommodation. Rents are set at 70% of the market.

**Stream 2** is for households needing shorter-term assistance who may, with support and over time, be able to participate in the private rental market. Stream 2 target groups are refugee and migrant households, households in crisis situations – multiple disadvantaged, and those paying more than 50% of income on rent. Tenancies for these groups are charged 70% of the market

**Stream 3** applicants are used to maximise occupancy levels when available units and applications from priority group households are not in alignment. Applicants still have to be within the income and asset thresholds and prove a housing need but do not fall into one of the priority groups. Tenancies for these households are charged 70% of the market.

<sup>51</sup> Wellington City Council (2000) p6-7

The *Framework* sets out a hierarchy of groups eligible for council housing.

| <b>Rank</b> | <b>Group</b>                           | <b>Explanation</b>  |
|-------------|--|---|
| 1           | The Fit Elderly                        | Those able to maintain an independent lifestyle at time of application                              |
| 2           | Refugees                               | Either arriving through the quota or asylum seekers accepted by the Immigration service as refugees |
| 3           | Low Level Psychiatric                  | Those people able to maintain an independent lifestyle with minimum supervision and support         |
| 4           | Multiple disadvantaged                 | Households with a number of problems that make them vulnerable in the housing market.               |
| 5           | All households with 50% rent to income | After all entitlements have been received and including single person and family type households.   |
| 6           | Migrants                               | People entering the country under the humanitarian or family reunification categories               |
| 7           | People with physical disabilities      | People requiring modified accommodation.  |

Despite the fact that the majority of the council's housing was originally built to provide accommodation for low income older people, and that the fit elderly are the council's top priority group, there appears to be relatively little demand from older people for council housing. In the twelve months to May 2002 new tenants came from the following priority groups:

| <b>Target Group</b>    | <b>No. of new tenancies</b> | <b>Percentage of new tenancies</b> |
|------------------------|-----------------------------|------------------------------------|
| Fit Elderly            | 43                          | 6                                  |
| Refugees               | 77                          | 11                                 |
| Migrants               | 180                         | 26                                 |
| Multiple Disadvantaged | 327                         | 47                                 |
| Physical Disabilities  | 127                         | 18                                 |
| <b>TOTAL</b>           | <b>754</b>                  | <b>108<sup>52</sup></b>            |

NB Some applicants/new tenants fall into more than one target group, for example, they might answer yes to the refugee question and the physical disabilities question. "Low level psychiatric" tenants are not separated out as a group. They are included in the category "multiple disadvantaged".

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<sup>52</sup> Wellington City Council (2002) p11

Reflecting the shift away from older persons as the primary beneficiaries of council housing, the age distribution of head tenants (as at May 2002) was reported as:

| <b>Age Group</b> | <b>Percentage of Head Tenants in Age Group</b> |
|------------------|--|
| 0-25             | 7%   |
| 26-40            | 28%  |
| 41-55            | 30%  |
| 56-65            | 13%  |
| 66-99            | 22% <sup>53</sup>                              |

The Wellington City Council has been engaged in a housing policy effectiveness review one purpose of which has been to identify means for achieving better outcomes for tenants, including greater tenant involvement where that might be appropriate.

Currently, the council provides funding of \$35,000 a year for the Wellington Housing Association of Tenants (WHAT), an incorporated society representing tenants in council housing. The funding supports tenant rooms in major complexes, tenant newsletters, and a contribution to WHAT's administrative expenses.

The council is also exploring options for further developing the relationships between council housing staff and social service agencies who work with tenants in council housing. This recognises the fact that many of the council's tenants have significant support needs which require specialist expertise.

Also as part of the housing effectiveness review, the council has been considering options for the future management of its housing portfolio. Whilst the establishment of an arms length management structure of some kind is a possibility, the idea of shifting direct management responsibility from the council is controversial. In the light of other developments in local authority housing in recent years (including the sale of Auckland City Council's housing stock), the establishment of a separate management entity could be seen as suggesting council withdrawal from a social housing function – or, alternatively, preserving in perpetuity a significant social housing function. Views amongst voluntary and community sector organisations who work with council tenants also vary. Some would see the creation of a separate arms length management entity as allowing for a better and more targeted focus on the needs of tenants. Others would see such an initiative as distancing housing from council and thus potentially weakening both the council and the community's commitment to social housing.

## **GENERIC ISSUES**

All of the five councils face a number of generic issues. These include:

- Ongoing uncertainty on the nature of their role including whether housing is a core business of council (although this is less of a concern in Dunedin and Wellington).

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<sup>53</sup> Wellington City Council (2002) p11

- A realisation that the current configuration of their housing stock is not consistent with current standards and that the work necessary to reconfigure the stock will be extremely expensive. Most councils are committed to operating their housing portfolios on a break-even basis (or in Wellington's case to produce a surplus for the council's general revenue). The significant capital investment involved in re-configuration would push most portfolios into a loss making position (as interest costs and depreciation impact) with little scope to increase rentals to cover those additional costs.<sup>54</sup>
- A changing tenant mix has fewer older people seeking council housing. Councils have responded by making housing available to other people in housing need, often younger single adults with a psychiatric history or other special needs. Councils are finding that this change creates a number of new requirements for effective management including tenant compatibility, access to support services for tenants with high needs and different skill sets for the people responsible for the housing management function.
- Co-ordination with other social housing providers, and with support services.
- Questions over their role in social housing provision as they consider why their major investment in housing is targeted towards one group in need and not towards others.
- How (if) they should address issues of affordability for residents generally rather than just for their traditional priority groups (see the concerns raised in Dunedin's social housing survey).

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<sup>54</sup> This follows from the fact that most councils apply either an income related rental policy or a policy of fixing rents at a percentage of market – in Wellington's case 70%. Theoretically there is scope for councils to increase the revenue from their housing portfolios by increasing rentals to a level that would attract the maximum amount of accommodation supplement and "compensating" tenants for the additional portion they would have to pay by providing services or benefits of equivalent value. In practice, it seems that this option is not attractive to local government politicians.



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## 6. The Potential Role of Local Government in The Provision of Affordable Housing

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From our review of current practice and developments in the provision of affordable housing, both internationally and locally, at least four potential roles can be identified for local government in New Zealand. These are:

- Provider.
- Regulator.
- Strategy/leadership (including facilitation and advocacy).
- Funder.

Before considering each of these four separate roles, there is a preliminary question which is implicit in much of current research and policy work on affordable housing: how to consider the nature of the problem.

Virtually all of the material that we have reviewed considers the issue of affordable housing primarily from the perspective of the individual and/or household in housing need. The relationship to the interest of the community/society is expressed in terms of the consequences that flow if, by reason of inadequate housing (standard, fitness for purpose, location, cost) people are at a disadvantage in terms of employment, education, health or community involvement. To put this another way, society's interest is expressed in terms of:

- Social justice – the sense that in a well functioning society, all its members should have access to at least an agreed minimum standard and set of services.
- Effectiveness – that services should be accessed/delivered in a way which meets agreed minimum standards at the least possible cost, both financial and non-financial (thus the argument for co-ordinating housing with supportive services for people with high needs, such as mental health consumers).

Essentially, this is an approach which focuses on the conditions of the individual/household. Specifically, it triggers policy responses whose origins are in the social justice/income redistribution domain. It carries with it a dependency framework and the risk of defining people as somehow inadequate if they are unable to provide appropriately for their own needs. At best, more enlightened policies may focus on how to enable those individuals to improve their employment prospects and income and work their way out of the affordability trap.

Much of the material that we have reviewed carries with it the implication that there is an alternative way of considering the affordability problem, at least for those individuals/households who are dependent on income from low paid occupations. The evidence from England, Australia, Canada and the US is that problems of affordability are often at their worst in major metropolitan areas for people employed in low paid occupations. In England, as noted on page 55, the government has specifically addressed this issue for certain categories of public sector workers in London through its so-called Key Worker Initiative.

The practical reality is that, in many countries, of which New Zealand is one, growth has concentrated in one or several large metropolitan centres. Along with this, costs such as

housing have risen disproportionately with the result that individuals/households dependent on low paid employment are simply unable to afford to purchase a mix of housing and other services of reasonable standard.

Traditional responses to this situation may be inherently inadequate. Provision of income support or other forms of social assistance will deal with the symptom (inability to purchase required services of a reasonable standard) but even if the social support system is adequate to bridge the gap, it does nothing to address the underlying problem and can entrench a culture of dependency.

More creative approaches, either from society, or from individual initiatives, that enable people to move on from low income employment may solve the problem for those individuals/households but do nothing to address the mis-match between low income and the high cost of living for those who remain dependent on those occupations.

This suggests at least the possibility of considering affordability in a quite different way. It is beyond question that major metropolitan centres will continue to depend on a range of services which have traditionally been staffed by low paid workers. At least in those centres, the provision of adequate housing may be better seen as just as much an infrastructure issue as the provision of roading, water, sewage, telecommunications etc.

This suggestion is somewhat speculative, as it would clearly involve some quite significant cost shifts within metropolitan economies, especially if it were funded in the same way as other metropolitan infrastructure, through rates. There would also be quite obvious boundary difficulties akin to the problems that income tested welfare beneficiaries face through abatement.

The answer may lie with the kind of initiative that the English government has taken with its key worker approach with a broader program targeted to low income workers in occupations that were part of the support structure for a modern metropolis.

Although the idea clearly has difficulties, so does the traditional practice of treating affordability as a welfare issue when it is much more a natural consequence of the mis-match, in modern urban centres, between cost and income for those in low paid employment.

We turn now to discuss the four possible roles.

## **PROVIDER**

Internationally, the trend is away from local authority direct involvement in housing provision. There are both negative and positive reasons for this.

The negative reason is the reluctance of local authorities to invest ratepayer funds in a function which is typically seen as the responsibility of central government. This is clearly a factor for each of the five local authorities considered in this report and is also a major reason for the relatively small role that local government plays in social housing in Australia (England is something of an exception as, historically, local government involvement in the provision of social housing has been funded by grants from central government).

The positive reasons result from a shift in understanding of the nature of the provider role. Traditionally, the provision of social housing has been seen as a relatively conventional property management function with, bolted onto it, a set of allocation

policies designed to ensure that people who are given access to social housing meet whatever income/assets or other criteria the provider has set.

As we have seen, that view of the provider role has changed. Provision is now seen as a much more complex and multi-faceted task, focused on ensuring that the often multiple needs of people in affordable housing are properly addressed.

Along with this there is a growing recognition of the importance of other aspects of the provider role including:

- Tenant involvement which increasingly sees tenants playing a role in governance and policy development as well as day to day administration.
- Drawing on community support for the development of social housing to meet specific needs, capitalising on local knowledge (and social capital) and bringing in expertise that might not be available to a purely commercial or public sector operator. Typical of this approach are the organisations affiliated to the Community Housing Federation of Australia, American Community Development Corporations, and many of the housing associations that act as Registered Social Landlords in England.

Another element of very real importance in New Zealand is scale. A critical factor in the effective provision of social housing services is organisational capability - over quite a wide range of specialist skills from asset management to tenant management, to co-ordination with other social service providers, to the provision of specialist social work and support services to deal with tenants with high needs.

This requires a size of provider organisation beyond the scope of the great majority of local authority social housing providers in New Zealand and beyond the scope of virtually all voluntary and community sector providers.<sup>55</sup>

This strongly suggests that there is a case for looking comprehensively region by region (locality by locality) at the optimal means of delivering social housing services. Is it appropriate to continue with the current range of small-scale providers or should there be some attempt to amalgamate at least the management of non-government social housing region by region? This is discussed further in the next section.

## **REGULATOR**

The research we have reviewed identifies three separate roles that come under the general ambit of regulator:

- Land use planning.
- Building regulations.
- Development incentives.

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<sup>55</sup> Here it should be noted that not all of these organisations face the complex needs which have started to emerge in local authority housing as local government becomes the main provider for groups such as mental health consumers.

## LAND USE PLANNING

Research reports a number of examples of land use regulation being used in ways that can either work against the provision of affordable housing (so-called “exclusionary zoning”) or encourage the provision of affordable housing (so-called “inclusionary zoning”).

In practice, it may be difficult to disentangle the apparent impacts of land use regulation, from underlying market influences. The American research on exclusionary zoning reports examples such as large-lot zoning, inadequate provision in the zoning code for affordable housing types, large lot width and set-back requirements for subdivisions, minimum house size requirements and other constraints.

In New Zealand, developers would argue that measures of this type are designed to protect amenity for future homeowners who wish to buy that type of environment. It is doubtful that local authorities, under the Resource Management Act’s powers, could effectively prohibit such practices so that developers were unable to set what they see as the standard desired by their potential buyers. It seems likely that, if land use planning is to be used as a tool for the encouragement of affordable housing, then local authorities would need to be given powers to require developers to produce a proportion of lots, within a subdivisional development (or units within an apartment development) that met defined objectives in terms of affordability and were made available to people who could demonstrate need. We doubt that such a change to planning legislation would be politically feasible. If it were to be considered, it should be as an initiative of central government, rather than from the local government sector.

## BUILDING REGULATIONS

The regulatory environment for New Zealand’s building industry is currently undergoing major review, with a Building Bill currently before a select committee that will effect quite major changes.

The principal focus of these changes is on tightening the regulatory environment as a response to experiences such as the “leaky homes crisis” by strengthening the powers of the regulator to mandate means of compliance, ban the use of particular products, and produce best practice guidance documents.

In parallel with this, the government is also considering the role of research in the building industry, both through the Building Research Association of New Zealand and through the Building Industry Authority itself.

Cost of building is an issue in affordability. There is clear anecdotal evidence that building costs in New Zealand are significantly higher than in Australia. It is less clear why this is the case.

Theoretically, local authorities in their role as building consent authorities could take the initiative in looking for means of compliance – construction methods – that would lower building costs and, hence, improve affordability. There are, though, good reasons to suggest that local authorities are unlikely to take this type of initiative. They include:

- **Liability.** As consent authorities, local authorities are likely to be held liable if they grant consent for a building that later fails in some respects, if the failure can in any way be attributed to the authority’s actions or inactions.

- Few New Zealand local authorities have the scale or resource required to undertake or commission original research into new building methods.
- Together the Building Research Association of New Zealand and the Building Industry Authority have both the power and the resource to undertake significant research into means of reducing building costs, if they have the will to do so.

Accordingly, in MDL's view the proper role for local government in harnessing the potential of building regulation to reduce the cost of building is to encourage government, through the means it has at its disposal (control over the BIA, influence over BRANZ) to encourage research on alternative means of construction.

This could also become part of the brief of the recently established Centre for Housing Research Aotearoa New Zealand established in 2002 on the initiative of the New Zealand Housing Corporation.

## **DEVELOPMENT INCENTIVES**

Conceptually, the idea of using planning instruments as a means of obtaining development contributions to the provision of affordable housing may have some attraction. It is clearly regarded as a legitimate and necessary tool in England, is seen as having worked successfully in Canada (especially in Vancouver) and interestingly has strong support in the United States (we say interestingly as it appears at odds with a market-based approach to development).

In New Zealand, though, the scope for this kind of approach may be somewhat more limited. First, we already have in place a statutory regime which allows New Zealand local authorities to require developers to make payments that are very similar to those which the English planning obligations process enables with the one difference that the end use of such payments, in New Zealand, does not include affordable housing.

The mechanism is the development contributions regime under the Local Government Act 2002 (and the somewhat less satisfactory development impact fees regime under the Resource Management Act). Development contributions may fund expenditure for reserves, network infrastructure and community infrastructure (to the extent that the local authority, by reason of the development, is required to incur expenditure on such assets). These purposes are similar to many of the purposes for which English planning contributions can be sought. The one significant difference is that provision of affordable housing is not part of the New Zealand regime.

Including a specific provision that enabled territorial local authorities to impose a development contribution to contribute towards the cost to providing affordable housing would both require legislation and be somewhat controversial, especially given the resistance that already exists within the development community towards the scale of development contributions.

The impacts of such an impost would also need careful consideration. First, on the assumption that developments would only proceed if developers could achieve their required rate of return, the probability is that such an additional impost would raise the cost of development and, over time, flow through into housing prices generally, thus potentially worsening the problem of affordability across the board. Second, as English experience shows, this kind of mechanism works best in markets where there is strong demand for new housing. In markets that are in balance, or where demand is weak, this approach may simply be unworkable even though problems of affordability may be just as great (but, as the English experience suggests, focused more on the cost of bringing

existing housing up to acceptable standards, in communities where incomes are low, than on the cost of producing new housing).

There is a further problem with the concept of using planning instruments as a means of obtaining contributions towards the provision of affordable housing. The underlying rationale is that the developer will normally be receiving a windfall gain as the result of being granted permission to develop land in an area of high demand. Accordingly, it is seen as appropriate that part of that windfall gain should be claimed by the society whose actions generally have created the value the developer is now seeking to exploit. The flaw in this argument is that, if prices are high as a consequence of what has been happening in society generally (the normal impact of economic growth etc on property values) then it is not just developers who are enjoying a windfall gain but all property owners. This suggests that if there is to be some form of levy or requirement for a contribution to affordable housing, then that should be imposed across all property owners who have benefited from increased values.

## **STRATEGY/LEADERSHIP**

In each of the jurisdictions we have considered, England, Australia, Canada and the United States, we have seen a strong emphasis on the importance of housing strategy. This is being coupled with an acceptance – in England a requirement – that housing strategy is best developed at a regional/local level. Reasons have included an awareness that circumstances differ from community to community and region to region. Not only does this mean that solutions need to be tailored to local circumstances: it means that planning solutions require a good understanding of local circumstances and, associated with this, the networks and influence required both to create and more importantly to implement effective housing strategies. It includes, as recognised by the UK Housing Green paper, “assessing the needs of local communities, balancing those needs with national priorities, and producing a clear strategy for tackling problems across all types of housing in the area, based on wide consultation” and “identifying, co-ordinating and facilitating all the resources and agencies that can contribute to the delivery of the strategy”<sup>56</sup>.

We know, from New Zealand data, that the country faces an affordability crisis. We also know that the nature of this crisis differs in different parts of the country.

Coupled with this, there is a realisation that currently New Zealand lacks good research information on affordability – hence the recommendations of the working party on affordability within the New Zealand housing strategy.

Finally, as outlined on page 17, New Zealand local authorities now have:

- A statutory obligation to promote the social, economic, environmental and cultural well being of communities, in the present and for the future.
- A requirement to identify community outcomes and base their long term council community plan on those outcomes, including the actions that the local authorities will take to encourage other parties to play their part in delivering those outcomes.

Housing itself is not an outcome: in the jargon of policy, housing is an input. However, as an input it contributes very significantly to the quality of outcomes not just for individuals and households, but for entire communities. As we have seen repeatedly in

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<sup>56</sup> Department of the Environment, Transport and the Regions (2000a) Chapter 3

the research reviewed for this report, affordable housing is regarded as a crucial factor in achieving outcomes not just as shelter but in education, health, employment, building stronger communities and much more.

Putting these various factors together, the outcomes that are enabled by affordable housing are clearly amongst the most important facing any community. Determining how best to achieve those outcomes is now widely seen as a role best undertaken by local government because of the way that circumstances differ from region to region and locality to locality.

The argument that local authorities should regard the development of comprehensive affordable housing strategies as an important part of their community outcomes process appears very strong. It does, though, raise very real issues of capability and resource. At the level of the district council, we would expect many local authorities to run into the same problems as were identified by the Victorian State Government's Affordable Housing Steering Committee (see page 25), including lack of resources and expertise (we are also aware, from feedback from a number of local authorities, that there is a measure of resentment that the new community outcome/LTCCP process has been mandated by government without any real consideration of the resources required to discharge that new role effectively).

Under LGA 2002, the statutory role and obligation around well being and outcomes apply equally to district and regional councils. In a number of instances, housing is one, this raises the very real question of whether outcomes are best seen as regional or local. The conventional approach is that outcomes should be considered at the level at which:

- The necessary activity needs to take place.
- The primary impacts are felt.

On a rule of thumb approach, this suggests that the outcome boundary should be around that area within which at least 80% of the activity takes place and/or at least 80% of the outcomes are experienced.

For housing, this rule does not provide an instant answer to the question of whether the primary role should be held at the district or regional level. However, considering issues such as expertise, capability and scale (especially in co-ordinating the supply and the management of affordable housing) we would expect that in most parts of New Zealand the primary responsibility should be held by regional councils. Even in Auckland, where the major territorial authorities should have both the capability and the resource, we expect to see an important role for regional level outcomes planning because of the nature of the Auckland housing market and the high level of cross boundary interaction (an approach which seems to be recognised already in the work that the Auckland Regional Growth Forum has done on housing).

This will, nonetheless, be quite a significant challenge for the local government sector. The logic suggests that work on housing related outcomes should generally be undertaken primarily at a regional level. However, as compared with most district councils, regional councils have comparatively little experience or capability in dealing with the range of issues that would be encompassed within a comprehensive housing strategy. This follows from the fact that, under the Local Government Act 1974, regional councils had a quite narrowly constrained range of functions with a principal focus on environmental management and catchment control (other than in Wellington and Auckland where the regional councils had a somewhat wider range of responsibility).

Accordingly, although regional councils have the scale and financial and organisational resources that would underpin such a role, they may have significant difficulty, even as compared with most district councils, in quickly building the capability required.

This may suggest that, as is happening in different parts of the country, the outcomes process should be managed/developed at a regional level but, perhaps, co-ordinated by one or more district councils working in conjunction with the regional council.

A further factor which also points to the importance of the strategy/leadership role of local government is the relative absence, in New Zealand, of any third sector housing. New Zealand simply lacks the equivalent of (say) the National Housing Federation in England (which represents Registered Social Landlords), the Community Housing Federation in Australia, or the Local Initiatives Support Corporation in the US. This is recognised in Housing New Zealand Corporation's Housing Innovation Fund, with its provision for funding to establish a third sector housing organisation.

One of the potential roles for local government, at least at the regional/local level, is providing the focal point for co-ordinating social housing initiatives and providers. It is possible that this could also see local government taking the lead role in sponsoring a national third sector-housing organisation.

## **FUNDING**

Generally, New Zealand local authorities have taken the stance that funding affordable housing is government's responsibility, with its access to the principal tax bases, rather than a role for local government. All of the authorities reviewed in this study expect their housing portfolios to be self-funding. Even the City of Christchurch, which is generally recognised as having the strongest commitment to the provision of affordable housing, adopts the same principle that the housing function should not involve any form of ratepayer funding (other than the acceptance that the ratepayer does not receive a return on the capital invested in the housing portfolio).

Accordingly, MDL would not expect local authorities to welcome any suggestion that ratepayers should be required to contribute to the cost of providing affordable funding. Indeed, we have observed a strong negative reaction, in the course of presentations by the Housing New Zealand Corporation on its Housing Innovation Fund, to any suggestions that the ratepayer should be a contributor.

There is, though, one possible exception. There are parts of the country where it is clear that specific industry sectors are being held back because of the lack of affordable housing for staff. One obvious example is the hospitality industry in Queenstown which is dependent on attracting relatively low paid non-resident workers for staffing many of its facilities. The relatively high costs of property in Queenstown (exacerbated by recent price increases) makes it extremely difficult for low paid workers to find affordable accommodation. This suggests that the provision of affordable accommodation should be seen, by the hospitality sector, as simply part of the cost of doing business in Queenstown. There are, however barriers. First, few if any individual businesses are likely themselves to want to provide accommodation to meet the needs of their employees – and even if some did so, it would not solve the difficulty for the sector as a whole. Secondly, the alternative of the sector banding together to provide affordable accommodation runs into the usual problems of transaction costs, including the potential for free riding.



This may suggest an opportunity for local government, using the funding instruments it has available, to address the funding problem. A targeted rate, imposed on all properties in the hospitality industry, could be put in place to assist fund the provision of affordable housing (such rates are already used, for example, for funding main street programs or, as in Wellington, to fund activities designed to promote the central business district).

Apart from what are really "one off" situations of this type, it is unlikely that local government will want to undertake a significant funding role in the provision of affordable housing.

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## 7. Options for Future Action

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In this section we propose two initiatives for consideration by local government that we believe would make a significant contribution to meeting New Zealanders' needs for affordable housing. One concerns provision and the other strategy/leadership.

### PROVISION

Generally, in New Zealand, the social housing sector outside of the Housing New Zealand Corporation is characterised by a range of relatively small providers, including local authorities, who lack the capability required for effective management of a social housing portfolio under current conditions.

Even the larger portfolios (Christchurch, Dunedin, Wellington) may not be best placed under local authority management, if this limits the ability to apply specialist skills in dealing with high need tenants, and managing the portfolio to achieve social outcomes for tenants, rather than (or as well as) shelter outcomes, and co-ordinating effectively with other agencies also working with those same tenants.

MDL is aware that a number of local authorities, from time to time, have looked at different options for the ownership and/or management of their housing portfolios. Two within the current study, Western Bay of Plenty and Wellington, have been doing so as part of a review of their role in social housing. Neither has yet found an acceptable option.

Social housing providers, outside local government, may face somewhat greater difficulties than local government itself both in terms of scale and expertise, especially if they are dealing with high need tenants.

As part of the fieldwork for this report, MDL interviewed a number of social housing providers in the Western Bay of Plenty sub-region. We found a genuine willingness to consider greater co-ordination amongst social housing providers including the possibility of developing a single management structure, provided that this did not undermine the core outcomes each of those organisations valued (which were typically around the type of tenants they wish to serve).

One of the difficulties both for local authorities and/or other social housing providers in reviewing options is that, at the moment, they do it in isolation. Accordingly, issues of best practice, optimal structures etc, cannot be tested against sector wide perceptions or understandings. Instead, they tend to be tested against the particular views, prejudices or experience of those responsible for governance of the organisation undertaking the review.

A related factor, because of the general antipathy which local authorities have towards permitting ratepayer funding to support affordable housing, is that there appears to be very little innovation taking place within at least the local authority owned part of the sector. This should not be surprising. Normally, innovation requires an environment in which people have a measure of discretion and encouragement to experiment: this appears not normally to be the case within local government owned housing.

The Housing New Zealand Corporation has given a strong signal that it wishes to encourage innovation in the social housing sector both in provision (in the sense of developing additional stock) and in management.

This suggests that the local government sector should respond by taking the lead in developing options for the future ownership and management of social housing that could be used as exemplars for local authority and other social housing providers. This could include ways of combining the management of local authority and other social housing – perhaps as a step in the development of a genuine third sector – so long as the objectives of the partners in such an approach were not compromised. At the moment, there appears to be an opportunity in the Bay of Plenty for the establishment of a joint local government/community sector management organisation that could become responsible for then bulk, if not all, of local government and community sector housing in the Bay. We recommend that local government in the Bay of Plenty explore this option further, ideally in partnership with the Housing New Zealand Corporation.

## **STRATEGY/LEADERSHIP**

In the previous section we identified this as a key role for local government but also highlighted some of the difficulties which we expect will arise. We believe that, if developing this role is left solely to the initiative of individual councils (whether district or regional) then at best progress is likely to be slow. This is especially the case as different councils quite clearly have very different understandings of the nature and extent of both the obligations and the potential of LGA 2002. As an example, in another context MDL has been told by a regional council that one of the obstacles in adopting a broad approach to community outcomes is that this is not consistent with the traditional role of regional councils.

As a statement of the need for organisational change, that view is certainly correct. As a statement of the legal obligations of the regional council, it is quite clearly wrong – LGA 2002 has clearly shifted the traditional role of regional councils.

MDL considers that there is a strong case for Local Government New Zealand, again perhaps in co-ordination with the Housing New Zealand Corporation, taking the lead in developing a template for the creation of a housing strategy within the framework of the community outcomes process. LGNZ should also be well placed to seek the support of national bodies representing other social housing providers (for example, the New Zealand Council of Christian Social Services and the New Zealand Federation of Voluntary Welfare Organisations).

## **RECOMMENDATIONS**

We recommend that Local Government New Zealand:

- Take a lead role in acting as a clearing house for local government on the role of local government in the provision of social housing including ownership, management, funding, and the co-ordination of social housing provision and supportive services for high needs tenants and that this include creating/funding a dedicated resource to undertake this responsibility.
- Develop and, as required, update guidelines on the preparation of housing strategies at regional and district levels within the framework established by the community outcomes/LTCCP process in LGA 2002. Those guidelines should recognise the diversity of need and circumstance within different areas of New

Zealand and also be sensitive to the resourcing and other issues that individual local authorities are required to deal with in adjusting to the new requirements established by LGA 2002. Ideally this should be done in partnership with the Housing New Zealand Corporation.

- Take/create opportunities for the effective dissemination of the information and recommendations in this report through means such as inclusion in its proposed seminar on the four well beings, the delivery of a workshop at the forthcoming Local Government New Zealand conference, and presentations at zone meetings.

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## International Experience

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This appendix examines experience with affordable housing in four international jurisdictions: England, Australia, Canada and the United States. Examination is necessarily brief (in relation to the richness of experience and initiatives) and concentrates on experiences of particular relevance for New Zealand.

The examination commences with England as, of the four jurisdictions, it is the one in which local government has played the most significant role. It then turns to experience in Australia, especially in Victoria and New South Wales, which are often looked to as exemplars for New Zealand policy development and finally considers Canada and the United States looking primarily at their experience in enabling third sector housing and partnerships between federal/provincial (or state) governments and local government.

### ENGLAND

For most of the twentieth century, the local authority sector was by far the principal provider of affordable rental housing in England. This reflected:

- A central government commitment to the provision of affordable rental housing.
- The English practice of delivering major social services through local government (but typically under very tight central control).

Today, the local government sector still remains the principal owner of affordable rental housing but:

- Its role is significantly less than it was in the mid-twentieth century.
- It is continuing to decline with government clearly giving priority to provision through Registered Social Landlords (RSLs) – not for profit providers such as housing associations, co-operatives etc.

At its peak, local government rental housing was by far the dominant provider of rented social housing in England. It presented the usual apparent advantage of providing tenants with secure long-term affordable accommodation. It also became seen, increasingly, as a barrier to social and geographic mobility. Tenants enjoyed highly subsidised accommodation but at a cost: they had limited rights of transfer within the district of the local authority which was their landlord and no rights of transfer outside that district. As economic growth within England increasingly favoured the South East at the expense of the North East in particular, two phenomena became increasingly significant:

- Many local authority tenants appeared trapped in areas of high unemployment as moving to areas where jobs were available meant losing housing security with little opportunity of securing an acceptable alternative (given conditions in the areas where jobs were available).
- In areas of high demand, such as London and the South East, providing affordable housing for low-income households was becoming an increasingly difficult task.

In 1980, the newly elected Thatcher-led conservative government started quite radical reform with the introduction of the *Right to Buy*. Under that scheme, local authority tenants of at least two years standing were entitled to purchase their homes at a discounted price, with the discount increasing in rough proportion to the years for which they had been tenants.

By March 2000, some 1.4 million dwellings across England had been sold under this scheme returning a total of approximately 20 billion pounds and significantly enriching a number of tenants – as an indication of this, in 1998 the government cut the maximum cash limit on the Right To Buy discount from £50,000 per sale to £38,000 in London and the South East and to £22,000 in the North East. One reason for this reduction was a concern that the Right To Buy program was significantly undermining the ability to meet the demand for affordable rental housing (although Right To Buy proceeds were supposed to be used primarily for repaying debt and financing further capital expenditure, the difference between sale price and the cost of new provision meant that even with reinvestment the total stock was being rundown very considerably)<sup>57</sup>.

This initiative was followed by a further one targeted towards people who, for one reason or another, were unable to or did not wish to exercise the Right To Buy but wanted a choice of landlord: the Stock Transfer Scheme.

Under that scheme, all or part of a local authority's rental housing stock can be transferred to a new landlord subject to a ballot of the tenants involved. The new landlord must be what is known as a "Registered Social Landlord" (RSL), (a not for profit landlord), usually a housing association, subject to regulation by the Housing Corporation (a government agency whose primary responsibility is oversight of Registered Social Landlords, including provision of government funding for that sector).

The move was widely seen as a further attack on local authority ownership as such, consistent with the Thatcher government's "smaller government" ideology.

It also had one other motivation which reflected UK public management practices. Because such a large proportion of local authority expenditure in England (and the rest of the United Kingdom) is taxpayer funded (consistent with the fact that much of local authority activity is concerned with major social services such as education and welfare), local authority borrowing is treated as an integral part of public sector borrowing for fiscal management purposes. Accordingly, it comes within what is known as the Public Sector Borrowing Requirement (PSBR) which operates as a cap on the annual total that the public sector may borrow.

Registered Social Landlords receive some funding through the Housing Corporation but are encouraged, indeed expected, to borrow most of their capital requirements from the private sector. As they are not treated as part of the public sector, their borrowing, unlike that of local authorities, does not form part of the PSBR. Accordingly, use of RSLs has been seen as a way of taking funding for affordable rental housing outside the constraints of the PSBR.

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<sup>57</sup> Office of the Deputy Prime Minister (b)

Since the introduction of the Stock Transfer Scheme, approximately 650,000 units have been transferred by local government to RSLs, principally housing associations. The National Housing Federation, the body representing RSLs, regards the Stock Transfer scheme as an unqualified success. In a recent review, *Action for Better Homes: 14 Years of Stock Transfer Success* (available at [www.housing.org.uk/information/index.asp](http://www.housing.org.uk/information/index.asp)), the Federation reports a number of significant benefits including additional investment, reduced management costs, increased tenant satisfaction, better performance on repairs and increased involvement by tenants in governance.

When it came into office, the Blair Labour government introduced a number of relatively minor refinements to the Right To Buy scheme. In terms of impact, the most significant was the Home Buy Scheme introduced in April 1999 which enables tenants of Registered Social Landlords and local authorities to purchase a home on the open market with the help of an interest free equity loan<sup>58</sup> equal to 25% of the purchase price. One purpose of this scheme is to encourage tenants to release existing social lettings which then can be re-let to people in housing need. Use of the scheme is discretionary and tends to be concentrated on areas where there is a shortage of social housing.

As well as incentives targeted on existing tenants in social housing, planning policy in England also seeks to encourage the provision of affordable housing by developers.

*Planning Gain and Affordable Housing: Making it Count*, a report prepared by the University of Cambridge in 2002 with support from the Joseph Rowntree Foundation, described the policy background as follows:

"Local authorities had been experimenting with ways of using the planning system to secure affordable housing in a number of areas in England in the 1970s, but official government endorsement first came in 1979 when the rural exceptions policy was announced. This enables rural planning authorities to grant planning consent for housing on sites that would not otherwise receive permission, provided that only affordable housing is developed on them.

"The approach was more widely sanctioned to enable affordable housing to be secured on all larger housing developments in 1981 and subsequently included in all Planning Policy Guidance on housing (PPG3) issued since then (DETR, 2000). Provided that local planning authorities have policies in their adopted statutory development plans that assess the need for new affordable housing in their districts, they may require private developers to contribute to meeting this need. They may also set specific targets to be achieved on sites allocated for new housing in adopted plans. When developers agree to make contributions these are made legally binding contracts, where they enter into agreements with the relevant planning authority under section 106 of the 1990 Town and Country Planning Act as part of the process of securing planning permission"<sup>59</sup>.

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<sup>58</sup> The loan is interest free and repayable when the property is sold. The required repayment is 25% of the value at the time of sale, hence the "equity" reference in the description of the loan.

<sup>59</sup> Crook, T et al (2002) p1

The purpose of that report, in a context in which “almost everyone agrees that we need more affordable housing in England – and that there is an overall shortage of housing in many parts of the country”, was to assess the effectiveness of the way in which planning policy had been used to encourage additional provision.

The issue is an important one as, superficially at least, the use of the planning system to encourage (or require) the provision of affordable housing appears to be an approach that could increase supply without calling on either the taxpayer or the ratepayer to meet the cost.

The report sought to assess effectiveness by:

- Clarifying the numbers of additional affordable houses secured in England through the planning system, and regional and other variations in these numbers.
- Assessing the effectiveness of the processes by which affordable housing is secured.
- Looking at the costs involved and who pays for the affordable housing provided.
- Evaluating how much the use of a planning obligation approach is helping to achieve the objectives of housing policies.

The report’s conclusions are somewhat equivocal, partly because of the extraordinary complexity associated with determining final costs and where they fall. It concludes that approximately 12,000 units of affordable housing are produced annually within the framework of section 106 planning agreements, the majority within London and the South East. What the researchers were unable to make a final judgment on is:

- Who bears the actual cost?
- Whether the units are genuinely additional.

Their difficulties in assessing the impact of the planning contributions policy follows from the fact that, at least in London and the South East, virtually all of the additional housing goes into the rental stock owned by Registered Social Landlords. There is at least a suggestion that the main consequence of the discount negotiated through the planning contributions process is to bring the cost of the additional units within the limits set by the Housing Corporation for properties that attract a social housing grant. There is thus an implication that rather than the developer’s contribution producing more units of affordable housing than would otherwise have been produced, a social housing grant is being diverted to higher cost properties with the assistance of a discount from the developer.

The report also makes the point that additional provision is concentrated in areas where the cost of land is high driven by a buoyant housing market and limited supply. In addition, although the developer’s contribution may appear to be relatively high as a percentage of the cost of the units that go into affordable housing, as a percentage of the total cost of the development of which they form part, the cost is normally in the range of 2%-4%.

Nor is it clear who actually bears this cost. Interviews with landowners and developers suggested that, in the majority of cases, it is the landowner who bears the cost rather than the developer (but the developer can often be both the landowner and the



developer). All in all, the report carries with it an implication that the major source of the cost of planning contribution is the premium associated with development land because of shortage of supply – so that both landowners and developers are prepared to pay some of this away as part of the process of obtaining development approval.

Overall, the report is not a compelling argument that there are genuine gains to be had from the use of planning tools.

The UK government still believes that there is potential in the use of the planning obligations approach. Late in 2003 the Office of the Deputy Prime Minister issued a consultation paper *Contributing to Sustainable Communities – A New Approach to Planning Obligations*. That paper started by identifying a number of problems with the current approach including:

- Some agreements take an unacceptably long time to negotiate and they can involve unnecessarily high legal costs.
- Negotiation of planning obligations can frustrate or delay development.
- There is a lack of clarity about what sort of contributions can be sought because of the distinction between existing policy and case law.
- Contributions may not accurately reflect the true impact of development on services and infrastructure<sup>60</sup>.

To deal with these difficulties the government proposes a two pronged approach. First, it proposes publishing a revised policy on how local authorities and developers should use planning obligations<sup>61</sup>. Secondly, the government intends legislating to establish a new optional planning charge which could be used as an alternative to negotiated planning obligations. Developers will be given a choice between negotiating under new guidelines, or opting for the statutory charge. It is likely that the charge will vary for different types of development – such as brownfield and greenfield development or for residential and commercial development. The government clearly hopes that by clarifying the current uncertainties around the planning obligations process, and providing for an optional non-negotiated charge, it will improve the effectiveness of the planning obligations process and generate an increased contribution towards the provision of affordable housing.

2003 has seen a number of significant reports and/or initiatives by the UK government seeking to address what is now recognised as something of a crisis in the supply of affordable housing. Amongst the initiatives it has taken or reinforced are:

- The creation of nine regional housing boards following publication in February 2003 of the report *Sustainable Communities: Building for the Future*. The role of the boards includes the preparation of regional housing strategies and making recommendations to ministers for investment in housing within their regions. The previous separation between funding for Registered Social Landlords and funding for local authority housing stock will go and be replaced by a single regional housing capital “pot” to finance both sectors of social housing.

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<sup>60</sup> Office of the Deputy Prime Minister (2003g)

<sup>61</sup> In England, much of the legal framework for planning is set by policy guidelines issued by the government. This is the approach proposed for putting the new guidance in place.

- The government is setting aside at least £1 billion for key worker housing. The focus is on London, the South East and other “housing hotspots”. The scheme targets groups such as teachers, social workers and police who, without special assistance, have difficulty in purchasing their own home (the main means of assistance is equity loans).

The Labour government has also continued the process, started by the previous Conservative government, of reducing the role of the local authority sector in the delivery of social housing services. It has continued the Stock Transfer Scheme started by the Conservatives. Perhaps more interestingly, it has queried whether the actual delivery of housing services is an appropriate role for local authorities, concluding that the proper role of local authorities is housing strategy with the delivery of housing services best undertaken by special purpose bodies.

In December 2000, the then Department of the Environment, Transport and the Regions released *Arms Length Management of Local Authority Housing: A Consultation Paper*. The paper itself followed on from a government Green Paper *Quality and Choice: A Decent Home for all*.

The Green Paper sets out the government’s view of the main strands of a local authority’s strategic role for housing as:

- “Assessing the needs of local communities, balancing those needs with national priorities, and producing a clear strategy for tackling problems across all types of housing in the area, based on wide consultation.
- Identifying, co-ordinating and facilitating all the resources and agencies that can contribute to the delivery of the strategy.
- Co-ordinating and planning for the provision and development of additional housing, both in the private and social sectors, helping to create sustainable communities, acting as a housing service provider (including the administration of lettings schemes and housing benefit) and commissioning housing and services from other agencies as appropriate.
- Linking housing with wider policies for the social, economic and environmental wellbeing of the area, including the regeneration of deprived neighbourhoods.
- Operating and facilitating local partnership schemes to encourage best practice amongst providers of housing and housing services.
- Enforcing and raising standards; consulting and empowering the local community.
- Providing and commissioning advice and assistance, for example to help homeless people to find suitable housing.
- Taking action to tackle anti-social behaviour, including racial harassment, across all tenures.
- Working with neighbouring authorities and other agencies to meet housing need and tackle housing problems across wider areas in the region.
- Monitoring and evaluating the strategy and revising it where necessary<sup>62</sup>.

These are important functions that are clearly appropriate to a multi-functional body with direct democratic accountability to the community which it serves. The functions of a

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<sup>62</sup> Department for the Environment, Transport and the Regions (2000) Chapter 3

landlord of social housing are different in nature. They are primarily focussed on ensuring that rental income is collected; that stock is kept in good repair and is well managed; that all the housing related needs of the tenants are met; and, that tenant participation is facilitated.

Ministers recognise the close links between the strategic and the management roles. But they believe that there are significant benefits to be gained in making a clear separation between them. The consultation paper stated these as:

- A clear focus on the management role as a result of an organisational framework for housing management which is distinct from that required to deliver an authority's strategic functions.
- The involvement of a more diverse range of people (including tenants) in decision making, helping to encourage innovative and radical thinking.
- As a result, a more business-like and modern management of the stock, concentrating on delivering high-quality services which represent value for money and meet the aspirations of tenants.

The government's view that local authorities should concentrate on their strategic role, rather than on the management of housing services as such, has now been entrenched in its funding policy. Its February 2003 consultation paper *Sustainable Communities: Building for the Future*, discussed the framework for social housing, and set out the options for local authorities seeking increased investment in their housing stock in the following terms:

"Local authorities will be able to choose the right approach for additional investment in housing stock which they own from the three existing options: stock transfer; the Private Finance Initiative (PFI); and, for high performing authorities, Arms Length Housing Management Organisations (ALMOs). Authorities that do not use these options cannot expect increased investment in their stock above that from the Housing Investment Programme. Authorities can use different options from this list for different parts of their stock, as part of an overarching strategy"<sup>63</sup>.

The Stock Transfer and Arms Length Management Organisation options have already been discussed. Under the Private Finance Initiative the local authority retains ownership of the stock and the tenants retain their secure tenancies. A consortium of private sector firms (usually consisting of a bank, a housing association and a building contractor) raise capital to refurbish homes under a contract negotiated with the local authority. The consortium then provides repairs, maintenance and a range of housing management services to the stock as part of the same contract. Resources to support the capital element of the projects is provided by central government in the form of PFI credits which deliver additional subsidy to housing revenue accounts. The revenue element of projects are supported by the local authority via the management and maintenance allowance. The private consortium is paid a performance-based unitary charge. Performance is measured against the local authority's output specification for the stock,

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<sup>63</sup> Office of the Deputy Prime Minister (2003e) p15

which describes the desired level of service. The private consortium is only paid in full when the agreed standards are met.<sup>64</sup>

Currently, the major emphasis seems to be placed on the creation of Arms Length Management Organisations (ALMOs). The *Sustainable Communities* paper set out the government's intended investment in different housing programs. Provision for investment in housing managed by Arms Length Management Organisations is to rise from £59 million in 2002/2003 to £323 million in 2003/2004 and £851 million in 2004/2005.

Although the ALMO program has been developed as part of the government's housing initiatives, in context it is part of the Best Value strategy which the government has been pursuing for some years as a means of improving local government performance. This is emphasised by the paper on guidance for ALMOs which states that ALMOs should provide high standards of service and that, in order to qualify for additional resources, the services must be rated as either excellent or good by the Housing Inspectorate<sup>65</sup>. In this respect, the UK government is using a process that has no New Zealand parallel. It is not only incentivising the use of separate delivery mechanisms (and ones that have a requirement for tenant involvement) through financial incentives: it is also making it clear those will only be available if organisations meet the government's performance expectations.

Despite the very significant activity in England, in dealing with housing policy, ranging as we have seen from structural change to new financial programs, there is a growing sense that England faces a crisis in affordable housing. In April 2003, the Chancellor of the Exchequer and the Deputy Prime Minister established a review of housing supply (known as the Barker Review after the name of the reviewer) with the following terms of reference:

- "Conduct a review of issues underlying the lack of supply and responsiveness of housing in the UK.
- In particular to consider:
  - the role of competition, capacity, technology and finance of the house building industry; and
  - the interaction of these factors with the planning system and the government's sustainable development objectives.
- Consult with key stakeholders to establish views and form analysis; and
- If appropriate, identify options for government action, including the use of fiscal instruments"<sup>66</sup>.

In December 2003 the reviewer released her interim report. The foreword to that report began:

"The long-term upward trend in house prices and recent problems of affordability are the clearest manifestations of a housing shortage in the UK. In some regions

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<sup>64</sup> Sourced from a guidance note issued by the Office of the Deputy Prime Minister for local authorities new to the PFI.

<sup>65</sup> Office of the Deputy Prime Minister (2003f)

<sup>66</sup> Barker, Kate (2003) p1-2

and localities there is a mismatch between the nature of the houses available and what is required to meet the needs and aspirations of that area. The consequence of these shortages is not simply a matter of unmet housing need. Housing has profound and often unappreciated impacts upon our lives. It directly affects our quality of life, our health and well being; it determines our transport needs and often our choice of work; it affects our family structures and our friendship networks. Housing also affects our national economic well being: the rate of economic growth and our prosperity. It also influences the distribution of resources between regions, individuals and generations<sup>67</sup>.

A number of the factors identified in the interim report have no parallel in New Zealand such as the extent to which large areas of the South East of England are protected against further development, and the cost of remediating brownfield sites<sup>68</sup>. Nonetheless, the report contains some very useful insights, for example, on the question of who benefits and suffers from under-supply with the comment "low output in the short-run appears to suit many players – local authorities, home owners and arguably the industry. The only people it does not suit are the homeless, first time buyers and those inadequately housed. In the long run, as argued above, there are negative impacts on the economy"<sup>69</sup>.

## AUSTRALIA

Australia provides a significant contrast with England. Specifically:

- England has operated very much as a unitary state, with strong central government direction over local government. Australia is a federal state with the legislative framework for local government set at the state level.
- In England, local government has served as a major delivery arm for central government funded social services. This has not been the case in Australia.

In Australia, local governments vary substantially in size and in the functions they undertake. This is not only a consequence of different approaches by state governments. It also reflects the nature of Australian geography – with most of the population concentrated in or around five major cities, and large parts of the country very sparsely populated.

A good overview of the present structure of Australian local government is provided in the October 2003 report of the House of Representatives standing committee on economics, finance and public administration *Rates and Taxes: A Fair Share for Responsible Local Government*. Its overview of the power and functions of local government bodies (LGBs) reads as follows:

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<sup>67</sup> Barker, Kate (2003) p1

<sup>68</sup> Typically, these are sites that were formerly used for industrial purposes and are likely to have significant soil contamination. Whilst they may often be the most logical site for housing development, the costs of dealing with outstanding environmental concerns often act as a deterrent to development.

<sup>69</sup> Barker, Kate (2003) p14

"State and Territory Local Government legislation imposes few limitations on what services local government can provide. The Acts give local government wide ranging powers to carry out almost all functions. The intent of these Acts are to provide LGBs with the ability to provide services in response to the changing needs of their communities.

"To a significant extent, what individual councils do is a function of their own policy choices. Local government's functions and services often include engineering, recreation, health, welfare, security, building, planning and development, administration, culture and education.

"The major differences in form, governance and responsibilities between the States and the NT reflect that:

- A major source of revenue for LGBs in all States is taxes on properties (municipal rates) but the basis upon which the rate is calculated varies between States;
- Water supply and sewerage is a local government function in Queensland, Tasmania and rural NSW, but a State responsibility elsewhere; and
- LGBs in Victoria, Queensland, WA and Tasmania cover virtually the whole of the State, whereas there are large unincorporated areas in NSW, SA and the NT"<sup>70</sup>.

Generally, the provision of housing has not been a significant role for Australian local government. Illustrative of this, the City of Port Phillip, in metropolitan Melbourne, claims that its community housing program is the largest local government-housing program in Australia. Including housing currently under construction, this program provides a total of 371 units. The city has undertaken other initiatives including joint venture activity with private sector developers<sup>71</sup>.

The Australian housing market, especially in major metropolitan centres, has been marked in recent years by substantial increases in the cost of housing. In September 2003, the Community Housing Federation of Australia commenced a process of consultation with its members as part of developing a policy position on affordable housing. The consultation document, *Our Future in Affordable Housing*, gave the following overview of the current state of the housing system:

- "There are 250,000 households in housing stress. This will rise to 1 million on current trends by 2020.
- Despite a national net gain of 34% in private rental stock between 1986 and 1996, the proportion of affordable rental housing stock fell by 28%.
- Households in the bottom 20% of incomes spend on average 64% of their income on housing costs.
- In 2000 no low-income household could afford to buy a three-bedroom house in Adelaide, Melbourne or Sydney and only a tiny percent [0%, 9% and 3% respectively] could afford to rent a three-bedroom house.

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<sup>70</sup> House of Representatives Standing Committee on Economics, Finance and Public Administration p6

<sup>71</sup> City of Port Phillip

- There is a shortage of 150,000 units of affordable housing, requiring an additional \$27 billion in new investment.
- Public housing waiting lists have grown by 15%, from 195,000 in 1990 to 223,290 in 2001.
- Public housing has fallen from 6.2% of the nation's housing stock in 1994 to 4.7% in 2001. (Queensland predicts that, on current trends, it will decline to 1.8% by 2023).
- The Commonwealth's tax relief and expenditure on housing is at least \$21 billion a year.
- A homebuyer in the top 20% of incomes will receive an average annual subsidy of \$4,200 while a public housing tenant will receive an annual average subsidy of \$4,000<sup>72</sup>.

The Federal Government responded to public concerns regarding affordability by requesting the Productivity Commission to undertake an enquiry to evaluate the affordability and availability of housing for first home buyers.

The terms of reference are:

"Recognising that home ownership is very highly valued by families and individuals, and is central to social and family stability, for the purposes of this evaluation the Commission should:

- Identify and analyse all components of the cost and price of housing, including new and existing housing for those endeavouring to become first homeowners.
- Identify mechanisms to improve the efficiency of the supply of housing and associated infrastructure and
- Identify any impediments to first home ownership, and assess the feasibility and implications of reducing or removing such impediments.

"Particular attention should be given to the following matters as they affect the cost and availability of residential land and housing in both metropolitan and rural areas:

- The identification, release and development of land and the provision of basic related infrastructure.
- The efficiency and transparency of different planning and approval processes for residential land.
- The efficiency and transparency of taxes, levies and charges imposed at all stages of the housing supply chain.
- The efficiency, structure and role of the land development industry and its relationship with the dwelling construction industry and how this may be affected by government regulations.
- The effect of standards, specifications, approval and title requirements on costs and choice in new dwelling construction and
- The operation of the total housing market, with specific reference to the availability of a range of public and private housing types, the demand for housing, and the efficiency of use of the existing residential housing stock<sup>73</sup>.

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<sup>72</sup> Community Housing Federation of Australia (2003) p3

The inquiry will also identify and examine mechanisms available to improve the ability of households, particularly low income households, to benefit from owner-occupied housing. This will include an assessment of rent and direct ownership subsidies, loan guarantees and shared equity initiatives.

The inquiry released its interim report on 18 December 2003. As the terms of reference required, the main focus of the inquiry was on home ownership but it also has some quite useful comments on the role of affordable rental housing, including an assessment of the benefits of home ownership versus rental, comments which are of considerable relevance for the current New Zealand situation.

As regards the role of rental housing, the inquiry states:

“However, it is important to remember that affordable rental housing also provides social and distributional benefits. Indeed, because of the additional flexibility that rental accommodation can offer, most people will prefer to rent for at least part of their lives. For many prospective first homeowners, a period of renting will also be necessary to accumulate a housing deposit. Hence, policies to assist homebuyers must have regard to any costs imposed on those in private rental, public or other forms of community housing. As outlined in box 1.1, policies to promote home ownership can also have wider economic and social costs which must similarly be included in the policy calculus”<sup>74</sup>.

The inquiry’s commentary on the social benefits of home ownership argues that the benefits it offers are superior to those that result from rental housing. The principal benefits of home ownership are identified as:

#### **“1.1 The social benefits of home ownership**

Access to affordable and quality housing is central to community well being. Apart from meeting the basic need for shelter, it provides a foundation for family and social stability, and contributes to improved health and educational outcomes and a productive workforce. Thus it enhances both economic performance and social capital.

“While many of the social benefits will be provided by affordable, high quality rental housing, the literature (see Rohe et al 2000) suggests that they are larger for home ownership. For example:

- Because the value of their housing assets is directly affected by what happens in the surrounding community, homeowners are likely to have stronger incentives than renters for civic involvement.
- Home ownership provides greater security of tenure, reinforcing incentives for community participation. Less frequent relocation also minimises disruption to established social networks and children’s education.

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<sup>73</sup> The Productivity Commission (2003) iv

<sup>74</sup> The Productivity Commission (2003) p2



- By giving occupiers more control over their living space, home ownership can enhance self-esteem, in turn reducing the incidence of socially disruptive behaviour, promoting physical well being, etc.

“In addition, home ownership is often viewed as a form of ‘forced’ saving, which can reduce the extent of welfare dependency later in life.

“Such social benefits provide a rationale for governments to facilitate home ownership.

“In Australia, governments provide various tax concessions to owner-occupiers and first home buyers (see chapter 5). Also, they directly subsidise purchases by some homebuyers (see chapter 10). This support is in addition to the provision of public housing and rent assistance for low-income households.

“However, government support for home ownership is not without costs for others in the community. For example:

- Initiatives to make home ownership more affordable can sometimes disadvantage those in rental accommodation.
- Such initiatives will inevitably see more of the community’s resources invested in housing, and less in other, possibly more productive, activities.
- Where support involves subsidies or tax concessions, there are costs for taxpayers and/or potential beneficiaries of alternative government programs.
- Increased investment in housing can have negative social or environmental effects: concerns about the adverse consequences of urban sprawl on the one hand, and higher density living on the other, are two examples.

“Given such costs, seeking to achieve ever increasing levels of home ownership would not be equitable or efficient”<sup>75</sup>.

Generally, the interim report suggests that there is not a strong case for government to subsidise first home ownership. To the extent that there is, the inquiry argues access to any subsidy should be restricted to ensure that it is targeted primarily to people who would not otherwise be able to afford home purchase. In part, this approach results from analysis that demonstrates that the existing provision to encourage home ownership, the First Home Ownership Subsidy, goes primarily to people who would be able to afford home purchase in the short term in any event. The inquiry states its key points on the case for direct assistance measures as:

- “Home ownership is widely perceived to promote family and social stability and thereby benefit the community generally. However, government support for home ownership is not without costs, and seeking to achieve ever-increasing levels of home ownership would neither be efficient nor equitable.
- Policies to promote home ownership can be grouped into those that boost the purchasing power of households (demand-side) and those that seek to increase the supply of ‘low-cost’ housing (supply-side). While many of the

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<sup>75</sup> The Productivity Commission (2003) p3

- effects are common, demand-side policies generally can be targeted more directly at households at the margin of home ownership.
- If governments wish to continue to subsidise first home buyers, a scheme along the lines of the existing First Home Owner Scheme (FHOS) provides an appropriate means of delivering that support. However, higher returns to the community could be achieved if that assistance were targeted to those potential first homebuyers on lower incomes.
  - The test of the viability of 'shared-equity' arrangements (as considered by the recent Home Ownership Taskforce) is whether the home lending market can develop products which are attractive to both borrowers and lenders. It is not clear that either start-up money or ongoing support from government would provide a bigger boost to home ownership than a modified FHOS, particularly given the complexity of shared-equity arrangements.
  - Administrative complexities and uncertainties about the effects on home ownership levels also militate against government support for major new 'lifeline' assistance - a proposed loan facility for families in short term financial stress. There are already mechanisms in place that help households cope with these problems.
  - More broadly, Australia's high rate of home ownership, the likelihood of a cyclical softening in prices and the existing tax preferences accorded to owner-occupiers, mean that the case for direct assistance to promote home ownership is not compelling.
  - Current support provided through the FHOS and other arrangements might provide a greater return to the community were it redirected into other measures to support the housing needs of low income households or, more broadly, to the reduction of stamp duties on property transactions<sup>76</sup>.

Public sector funding for housing in Australia comes substantially from the Federal Government through the Commonwealth State Housing Agreement. The current agreement (to operate for five years from 1 July 2003) provides for base funding of \$725.230 million which is largely allocated on an equal per capita basis. A further approximately \$200 million is provided for specific programs of which the most significant is the Aboriginal Housing program.

The agreement also commits each state to make a funding contribution equivalent to 48.95% of the base funding which that state receives<sup>77</sup>.

Generally, the actual provision of affordable housing in Australia is through state government related entities (in New Zealand they would be seen as Crown entities) or government departments.

South Australia provides an example of the former approach: Victoria of the latter. In South Australia, the South Australian Housing Trust manages a portfolio in excess of 47,000 units. This is complemented by the South Australian Community Housing Authority, also effectively a Crown entity. Its role is to fund and regulate the community housing sector which comprises:

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<sup>76</sup> The Productivity Commission (2003) p143

<sup>77</sup> Commonwealth Department of Family and Community Services (2003)

- 46 housing associations managing some 2,300 dwellings.
- 88 housing co-operatives with a total of 1,500 properties<sup>78</sup>.

In Victoria, the principal provider is the Office of Housing, a division of the state government's Department of Human Services. Its portfolio is approximately 75,000 housing units.

The state government also supports community housing. Approximately 6,000 of the dwellings owned by the Office of Housing are community managed rental housing<sup>79</sup>. As in South Australia (and other Australian states) this housing is managed by a variety of community based organisations, effectively combining state (public sector) funding for ownership with community input into management.

The community housing sector in Australia plays a much more significant role than is the case in New Zealand. In Australia, federal or state government funded housing, managed outside the government sector, is managed by community organisations rather than, as is typically the case in New Zealand, by local government. The sector is quite diverse and will be an obvious reference point as New Zealand seeks to develop an effective third sector in housing. Recognising its significance, Appendix II of this report provides an overview of the Australian community housing sector.

The Victorian state government is currently consulting on a strategy for the development of housing associations, a policy which it describes as building "on the \$94.5 million Social Housing Innovation Project funding". From the description in the consultation document, it appears that the intended policy is modelled very closely on the English equivalent, including an emphasis on a mix of public and private funding designed to leverage the maximum amount of capital investment from the private sector.

Despite what appears to be the general reluctance of Australian local authorities to become involved in the provision of social housing, state governments have been exploring means of encouraging greater participation. In New South Wales the Local Government Association of NSW and the Shire Association of NSW jointly employ a housing policy officer, a position funded by the New South Wales Department of Housing. The housing policy officer is responsible for promoting greater local government involvement in the provision of appropriate and affordable housing. This includes researching the benefits of local government involvement, initiating and monitoring policy development, facilitating linkages between councils and advocating local government's role in planning and provision of housing (sourced from the website for the Local Government Association of New South Wales) (see [www.lgsa.org.au](http://www.lgsa.org.au)).

The Department of Housing also funds the Centre for Affordable Housing. The centre is designed to work with local and state government, non profit organisations and private companies to bring about better responses to decreasing housing affordability (see [http://www.housing.nsw.gov.au/DOH\\_AR/2002-2003/section4.htm](http://www.housing.nsw.gov.au/DOH_AR/2002-2003/section4.htm)).

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<sup>78</sup> Community Housing Council of South Australia

<sup>79</sup> Department of Human Services Office of Housing (2003b)

In Australia, as in England, there have been a number of initiatives tried in recent years with the objective of increasing the supply of affordable housing. We review two that may be of particular interest from a New Zealand perspective: the Victorian state government's Social Housing Innovation Fund (SHIP) and the emergence of not for profit-housing companies backed by the public sector.

## **SOCIAL HOUSING INNOVATION FUND**

The fund made available \$94.5 million over a three year period (2000 – 2003) to fund capital projects. One third of the fund was to provide additional state government owned public housing. The remaining two thirds was intended for joint ventures between the state government and third party providers (local government: community organisations). This part of the fund had two primary objectives:

- Leveraging resources additional to those provided by the state government for investment in social housing.
- Encouraging the emergence of innovative approaches to the development and management of social housing.

Agencies interested in accessing the fund were required to provide a minimum of 25% of the capital cost of a project from their own resources. Typically, contributions were expected to be in the form of either cash and/or land. Title to developments under SHIP is held by the agencies putting up the 25% non-state contribution. The state secures its 75% contribution by way of suspensory mortgage which is written off over a forty year period.

Approximately 80 joint ventures were funded by SHIP over the three year program period including thirteen or fourteen involving a local council in some way. Typically, councils partnered with a community organisation, with the council being responsible for ownership and the provision of the 25% contribution and the community organisation providing the ongoing management.

The state government regards the program as successful in that it:

- Generated 200 more units of additional social housing than the state government would have expected to achieve through direct investment.
- Increased the involvement of local government in the provision of affordable housing, including both direct provision and planning/facilitating provision.

In the course of preparing this report, MDL spoke with council officers and others, in the state of Victoria, who had been involved both with the development of the SHIP program overall, and with individual projects. Whilst recognising the achievements of the program, they pointed to a number of difficulties including:

- For many councils, the requirement to provide 25% of the capital cost from their own resources represented a very real barrier to participation. In a number of instances, councils lacked the resources to take part. In others, there was quite strong ratepayer resistance.
- For council participants, there were very significant costs over and above the 25% capital contribution. These costs were associated with planning and project

management and appeared to have been seen, by at least some councils, as a further imposition by the state on local government.

- There were some reservations over whether the creation of approximately 200 additional units of social housing through the program, compared with the number the state could have achieved by using SHIP funds for additional state owned public housing, represented a real gain. In essence, people making this point were querying whether the cost to local government and community organisations of their capital and other contributions generated equivalent value or whether this was, in reality, an expensive way of achieving an additional 200 units.

## **NOT FOR PROFIT HOUSING COMPANIES**

There is a growing interest in Australia in the use of public sector owned not for profit companies for the development of affordable rental housing.

The first to be established was City West Housing Pty Limited which was formed in 1994 by the New South Wales state government.

It was established as part of measures for the comprehensive redevelopment of the Ultimo-Pyrmont Precinct in Sydney which had been an industrial area serving the Port of Sydney. As part of a comprehensive redevelopment program, the state and commonwealth governments entered into an agreement to secure the provision of 600 units of affordable housing. Of these, 200 were to be funded by commonwealth contributions under the Building Better Cities Program, 200 by revenue earned from state government land sales and 200 from contributions from private development. In essence, the development plan for the precinct included provision for a development levy which developers could satisfy either by payment in cash or provision of units of affordable housing.

The role of City West Housing Pty Limited is to develop and manage the housing involved. The housing is available to households on very low to moderate household income who meet other eligibility criteria including social or employment ties to the area.

Three other public sector owned not for profits have been established. They are Community Housing Canberra Limited (owned by the territory's government) the Brisbane Housing Company (a joint venture between the state government and the Brisbane City Council) and the Inner City Social Housing Co owned by the Melbourne City Council.

Of these, currently the best known is the Brisbane Housing Company. This is capitalised by funding of \$A50 million from the Queensland state government and \$A10 million from the Brisbane City Council. Its current program envisages the development of some 600 units (boarding, transitional, affordable) of housing over a four year period<sup>80</sup>.

Common to each of these four companies is an expertise based approach to governance and management, carrying with it the implication that governments expect to get better results, in developing affordable housing, through using arms length expertise based organisations rather than working through traditional public sector structures.

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<sup>80</sup> Shelter Western Australia (2003) p4

In practice, it may be difficult to assess the effectiveness of this approach because of the significant subsidy and other support that each of these companies receives from the public sector. This includes:

- Provision of initial capital by commonwealth and/or state governments, typically with an expectation that any profit will be retained by the company and reinvested.
- Access to charitable status which means a refund of any input tax credits (GST) and exemption from income tax, capital gains and fringe benefit tax.
- Availability of commonwealth rent assistance for tenants.

As a partial offset to these benefits, and to ensure affordability, rentals may not exceed 75% of market rent.

## **CANADA**

Canada has a relatively strong reputation, internationally, as a welfare based society (certainly in comparison with its nearest neighbour the United States). Its publicly funded health care system is often looked to as a leading example of this type of commitment.

Its record in affordable housing provides a marked contrast. Canada has one of the western developed world's smallest social housing sectors with only 5% of Canadian households living in non-market social housing compared with 40% in the Netherlands, 22% in the United Kingdom, 15% in France and 2% in the United States<sup>81</sup>.

Federal government support for affordable housing has fluctuated significantly. In the 20 years following the Second World War, federal government funding supported a social housing program that produced about 850 units a year across the country. In 1964 the federal government launched a public housing program that created about 200,000 units over the next 10 years. In 1973 further programs were introduced to encourage affordable housing<sup>82</sup>.

Federal government support for affordable housing lasted until the early 1980s when the Conservative government led by Brian Mulroney took power. That government gradually phased out support for affordable housing, reducing it to zero by 1993. A principal factor behind the withdrawal from the funding of social housing was the government's concern with the level of the federal deficit which was widely seen, at that time, as having reached an unmanageable level.

The current federal government does recognise affordable housing as "one of the biggest challenges affecting economic competitiveness and quality of life"<sup>83</sup>. In 2001 it introduced the Affordable Housing Initiative. This program provides approximately \$1 billion over a 5 year period. It requires co-funding at a provincial or territorial level,

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<sup>81</sup> Hulchanski, David (2002) p9

<sup>82</sup> Ibid iii

<sup>83</sup> Ibid iv

either from the provincial or territory government, or from other parties including private developers.

From material which MDL has perused, there appears to be a quite widespread view that the initiative was intended more as a public relations exercise responding to mounting public concern over homelessness, than as a genuine attempt to resolve problems with affordable housing.

It also seems that, despite the program's title, the federal government has not insisted that the affordable housing agreements it signs with provinces and territories require that funding is committed to the social housing sector and on terms that meet affordability requirements. In Ontario, the provincial government was successful in negotiating an affordable housing program with the federal government under which:

- The province would contribute only \$20 million of the \$245 million provincial share with the balance coming from municipalities and project sponsors.
- All rents would be set at market.
- Program rules favoured private sector developers over community based developers (including the province's quite strong co-operative sector).<sup>84</sup>

The main emphasis in Canadian housing policy in recent years has been on home ownership through the Canada Mortgage and Housing Corporation. Its services include a significant mortgage guarantee scheme and the securitisation of mortgages through its Canada Mortgage Bonds initiative.

As a measure of the extent of current housing need, a recent publication of the Federation of Canadian Municipalities (*a National Affordable Housing Strategy*) reports:

"Canada Mortgage and Housing Corporation estimates Canada will need 45,000 new rental units each year for the next 10 years just to keep up with current demand: at least half of these will have to be affordable units. At the same time, construction of new rental units has plummeted from 25,000 to fewer than 8,400 per year in the last decade"<sup>85</sup>.

Despite the apparently poor record of the federal government in affordable housing, there are two areas in which Canada does have experience which could be relevant for New Zealand: the use of planning mechanisms to encourage the development of affordable housing and the development of housing co-operatives.

## **PLANNING MECHANISMS**

Since 1988, the City of Vancouver has required developers of major projects to set aside 20% of sites for non-market housing. The price paid to the developer is based on typical construction and land costs in the region. These are used to set the maximum budget

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<sup>84</sup> Sourced from "News Briefs", A Publication of the Co-operative Housing Federation of Canada.

<sup>85</sup> Federation of Canadian Municipalities (2000) p3

for land and building. The payment the developer receives for the land is that budget limit less the cost of developing the housing<sup>86</sup>.

Typically, the housing will be held under a 60 year lease from the city to a not-for-profit housing organisation which in turn rents it to tenants who qualify as eligible for affordable housing assistance.

Essentially, the city is using the fact that developments require planning approval as a means of extracting a contribution for affordable housing. It is clear that this does depend on the planning process creating a premium such that, after meeting the affordable housing contribution, the developer can still achieve its required rate of return.

Indeed, the city acknowledges that it cannot impose the 20% requirement in every instance: in some cases, the economics of the project will not sustain the full contribution.

The program does seem to be the product of an activist approach by a municipality which has made a long-term commitment to the provision of affordable housing, making maximum use of federal and provincial funding (when available).

## **CO-OPERATIVE HOUSING**

Canada has a long tradition of co-operative activity spanning finance, agriculture, retail, worker and housing co-operatives. As an indication of scale, the Canadian Credit Union movement holds deposits in excess of \$CAD70 billion on behalf of 4.5 million members<sup>87</sup>.

The development of housing co-operatives began within the ambit of the Canada Mortgage and Housing Corporation's student-housing program in 1963. In 1966 the first permanent housing co-operative for families, Willow Park Housing Co-operative in Winnipeg, Manitoba, was established<sup>88</sup>.

The growth of the housing co-operative movement was strongly supported both by the Credit Union movement and the Canadian Labour Congress with the parent body of the co-operative housing sector, the Co-operative Housing Federation of Canada, being established in 1968 as a joint initiative of those two bodies.

An important feature of the support by the Credit Union and Labour movements was the provision of expertise (and through the Credit Union movement, access to capital). In this respect, the Canadian Housing Co-operative movement mirrored experience of housing co-operatives in other countries, where sponsorship by a strong external entity able to provide expertise and stability, has been an important factor.

In other respects, the Canadian co-operative housing sector has evolved in its own unique way.

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<sup>86</sup> Ibid Chapter 4

<sup>87</sup> Credit Union Central of Canada

<sup>88</sup> Co-operative Housing Federation of Canada



Internationally, housing co-operatives take different forms reflecting different philosophies regarding ownership rights, a difference that can have important implications for the members of housing co-operatives.

Typically, housing co-operatives are very substantially debt funded, often with public sector support. This may consist of subsidised lending: it may consist of a subsidy to the rent paid by residents with the rent itself set at a level sufficient to amortise mortgage debt and meet operating costs.

Under either approach, housing co-operatives will eventually pay off their debt, raising, for residents, the quite important question of entitlement to the equity within the co-operative.

Different models have developed over time. One form is the so-called equity co-operative under which equity is shared between individual residents and the co-operative as a permanent body. The purpose of this is to give residents some of the benefits that a home owner would receive from reducing debt whilst ensuring that the co-operative itself retains a core financial capability enabling it to continue to provide low cost accommodation.

Other co-operative movements, Sweden provides the leading example, come very close to attributing the whole of the equity to individual residents. In the Swedish example, this is done by giving residents what amounts to a permanent tenancy with the right to assign it. In economic terms, once the co-operative debt has been repaid, this is virtually the equivalent of an unencumbered title.

The Canadian co-operative movement has taken a strongly opposite stance. It is ideologically committed to keeping social housing out of the market. Tenants have permanent tenancy but no rights to assign. As the co-operative's outgoings reduce (as debt is reduced and finally repaid) so does the tenant's "rent" – which is normally set to cover outgoings. Long-term tenants may find that they have low cost accommodation (meeting only costs such as insurance, property tax and maintenance) but at the cost of a major constraint on mobility. If they shift elsewhere they take nothing with them and are back into the normal housing market.

This attitude extends to prohibiting the use of the equity in individual co-operatives as the security for the creation of new co-operatives.

Accordingly, the continued growth of the co-operative housing movement in Canada has been crucially dependent on the availability of concessional funding either through the federal government (under a series of co-operative housing programs administered by the Canada Mortgage and Housing Corporation) or provincial governments. When those funds have not been available, as was the case for nearly a decade after 1993, the development of housing co-operatives has ceased.

Canada's co-operatives are self managed, that is, tenants are responsible for the selection of boards of management and they exercise control over the co-operative. A major role of the Co-operative Housing Federation of Canada has been the development of member training, equipping people to undertake the different roles required for effective management within a co-operative, and the development of procedures,

manuals etc to facilitate this<sup>89</sup>. Their work provides a very valuable resource for other jurisdictions considering the development of co-operative housing.

## THE UNITED STATES

Despite the fact that public housing, in the United States, is a relatively small percentage of overall housing stock, it has a very rich and diverse body of experience in the development and management of public housing stock. In part, this reflects the federal structure of the United States, with significant responsibilities for social service program delivery being held at the state and/or municipal level, with the federal government acting primarily as a funder rather than a service delivery agency.

The provision of social housing is made more complex by the strong United States tradition of community involvement through the development of community based organisations, often linking a combination of business and voluntary interests, and drawing on a mix of subsidised loans, tax breaks, foundation/charitable grants and other sources as means of funding.

In December 2003 the Brookings Institute Center on Urban and Metropolitan Policy and the Urban Institute published *Rethinking Local Affordable Housing Strategies: Lessons from 70 Years of Policy and Practice*<sup>90</sup>. That report provides a comprehensive overview of America's experience with affordable housing strategies with a focus on learning from experience in designing the policies and strategies to cope with today's housing challenges.

In this part of this report, we draw extensively on the Brookings/Urban Institute report and provide one or two other examples of the kind of community based approach that may have relevance for New Zealand.

The context for the report is a growing concern with access to (supply of) affordable housing, reflecting broadly the same concerns as are being expressed in the other countries considered in this report. The report states this concern as:

"Since the middle of the 1980s, the nation's affordable housing policies and programs have undergone a profound transformation. After decades of initiatives that were designed by Washington and administered by the U.S. Department of Housing and Urban Development (HUD) and its predecessors, a palpable shift toward state and local control has dominated federal thinking. With the enactment of the Low-Income Housing Tax Credit (LIHTC) program in 1986 and the HOME program in 1990, federal policymakers have essentially devolved responsibility for the design and implementation of affordable housing initiatives to a myriad of state and local housing agencies, the development community, and community groups.

"As with other domestic policies, devolution remains a work in progress. Across the nation, state and local government leaders and their partners—in the corporate,

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<sup>89</sup> Co-operative Housing Federation of Canada

<sup>90</sup> Information quoted from the Brookings paper contains references from other sources. These references can be found in the Brookings paper bibliography pages 120-138.

civic, real estate, and non-profit communities—are struggling to implement an array of affordable housing and homeownership programs to better meet the needs of low-income and working families.

“This challenge is made more urgent because the affordable housing crisis in the country has worsened despite new housing policy innovations and the strong economy during the 1990s. From 1991—when the economic expansion began—to 1999, the number of families paying more than 50 percent of their income for rent rose by 600,000, an increase of 12 percent. By 1999, these renter families with “worst case housing needs” totalled at least 4.9 million households, a record level (HUD 2001). Not surprisingly, as the economy has slowed, these figures have grown starker. According to the National Housing Conference, more than 4 million working families lived in decent housing but spent more than half of their income for rent or mortgages in 2001. This represented a 30 percent increase from 1999 and a 68 percent jump from 1997 (Lipman 2002)<sup>91</sup>.

The two programs referred to in the first paragraph from the quotation are the main current means of funding affordable housing. Under the Low Income Housing Tax Credit Program, 58 state and local agencies across the US have delegated authority to allocate tax credit funding. Allocation is by negotiation with individual developers with tax credits being made available to reduce the net present value of the cost of the developer’s investment. In return, the developer commits to manage the resultant housing on affordable housing principles for a defined period. Under the Home Investment Partnerships Program, grants are made to states and local authorities to fund housing programs to meet local needs and priorities – which may be for renters, new home owners or existing home owners.

Both programs are genuinely devolution in the sense that very little data is held centrally and the federal government, through the Department of Housing and Urban Development, essentially relies on the agencies involved to ensure that funding is applied in accordance with the requirements of the programs.

The report draws a number of lessons which it believes should guide policy makers in the future development and implementation of affordable housing strategies. First, it makes the point that affordable housing is not just about the provision of housing. It observes that, in the past, “many housing programs try to achieve one or two goals (e.g. provide housing that is affordable) but at the expense of another (e.g. promote economic diversity and housing choice)”. Reflecting what we have seen in other jurisdictions, it recognises that affordable housing needs to serve a number of different goals if it is to be effective. It presumes that the ultimate goal of an effective affordable housing policy should be “**housing that supports and promotes healthy families and communities**”. Within this it identifies seven goals:

1. Preserve and expand the supply of good quality housing units.
2. Make housing more affordable and more readily available.
3. Promote racial and economic diversity in residential neighbourhoods.
4. Help households build wealth.
5. Strengthen families.

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<sup>91</sup> Katz, B et al (2003) p1

6. Link housing with essential supportive services.
7. Promote balanced metropolitan growth<sup>92</sup>.

Some of these goals reflect circumstances that are either specific to, or have more serious consequences, in America than (say) in New Zealand. It reflects real concern, for example, at the effects of housing policies which have:

- Concentrated families in need of housing assistance in districts with high levels of poverty – which typically means districts with little opportunity for gainful employment, good education, access to well funded social services etc.
- In practice, continued to promote segregation.

The goal of linking housing with essential supportive services is a particularly interesting one, given the extent to which much local authority housing in New Zealand is now providing a service for people with disabilities. The brief justification for this goal is stated as:

“Linking supportive services to housing programs is another important objective, since some people cannot take advantage of affordable housing opportunities without such aid. For example, a household with a physically disabled member might need a housing unit with wheelchair accessibility or on-site staff who can provide occasional assistance. A frail elderly couple might need daily meals and health monitoring. And many homeless individuals and families face multiple barriers to finding and sustaining themselves in permanent housing. Providing adequately for low and moderate-income households with special needs calls for programs that link housing with essential supportive services for individuals and families who need extra help”<sup>93</sup>.

The report argues for this goal not just as a desirable objective from a social justice perspective but as one that makes very good economic sense. It cites an assessment of a New York program which created 3,600 community based permanent housing units for homeless individuals with severe mental illness. Looking at grants involved with the program during the four year span (two years prior to placement through to two years after), the researchers found “significant declines in the mean number of shelter days; use of state psychiatric hospitals, city public hospitals, inpatient services reimbursed by Medicaid, Veterans Administration hospitals, state prisons, and city jails; and days spent incarcerated. All told, the authors show a \$16,282 net reduction in health, corrections, and shelter use annually per supportive housing unit. Similar findings were realised in a study of supportive housing programs in Minneapolis. Hart-Shegos (1999) found that supportive housing programs in the Twin Cities were far less costly (showing a savings of 52 percent in one case) than services provided by public agencies (foster care, medical care, and other emergency services used by homeless families). A study of HUD’s Shelter Plus Care Program found that program grantees reported a reduction in the participants’ needs for services, including emergency room use, inpatient care in hospitals, substance abuse treatment centers, and jail time (Fosburg et al. 1997)”<sup>94</sup>.

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<sup>92</sup> Katz, B et al (2003) p3

<sup>93</sup> Katz, B et al (2003) p4

<sup>94</sup> Katz, B et al (2003) p22

The report draws a number of lessons that are worth considering not just in the US but in a New Zealand context. Amongst these are:

- Although home ownership may be generally a preferred objective (this reflects the property-based nature of US society), it should not always be seen as the best option. In a region which is undergoing strong economic growth, with increasing land and house prices, home ownership will often be the better option and certainly contribute to the objective of increasing household wealth (provided that home ownership is affordable). However, in regions that are in decline, home ownership may have negative impacts, including trapping families unable to move because they own a house that cannot be sold other than perhaps, at a loss that the household cannot sustain.
- Planning regulations can be either a very strong tool for encouraging the protection of affordable housing, or a barrier effectively excluding affordable housing. The report sites examples of both approaches.

The report has an extensive and very useful discussion of zoning impacts, looking at research dealing with both “exclusionary” and “inclusionary” zoning. We quote from it at length:

“While land use and zoning regulations no longer directly create and maintain racial and economic segregation, many still indirectly (and sometimes intentionally) have this result. As summarised recently by Nelson et al., land use regulations “work indirectly by shaping local housing markets, encouraging or prohibiting the construction of certain types of housing, and thereby conditioning the tenure (rent versus own) and price of housing.” (Nelson et al. 2002).

“For instance, subdivision regulations that mandate large lot sizes and costly amenities, zoning provisions that limit areas where multifamily housing can be developed, building codes that require costly materials or construction techniques, and development fees imposed to help pay for new infrastructure all discourage the production of housing that is affordable for low and moderate income households (Lowry and Ferguson 1992).

“Some jurisdictions have practised “exclusionary zoning” by preventing affordable housing construction through restrictive policies like outright bans on multifamily housing (Jackson 2000). These policies are usually justified as promoting community amenities, quality of life, safety, and property values, but often they also reflect residents’ fears of crime or lower property values, which they associate with economic or racial integration. Local policymakers may assume that residents of affordable housing will demand expensive social services and cause a strain on local budgets, or policymakers may simply favour higher-end residential or commercial development for the high property tax revenues they yield (Choppin 1994). Local opposition to affordable housing development is often called “NIMBYism,” an acronym for “Not In My Back Yard” (U.S. Department of Housing and Urban Development 1991a). NIMBYism is frequently a major driver for exclusionary zoning.

"The most blatant exclusionary practices are "large-lot zoning, inadequate provision in the zoning code for affordable housing types, large lot width and setback requirements for subdivisions, and high impact fees" (Choppin 1994). Other practices include minimum house size requirements, prohibition of multifamily housing, and prohibition of mobile homes. Local zoning regulations that restrict medium-density, walk-up multifamily housing, for instance, can also severely limit affordable housing development. Requirements for design features such as side yards and large lots can also add greatly to housing development costs (Lowry and Ferguson 1992). Arguably, the most famous court case with regard to exclusionary zoning policies was decided in 1975. In that case, the New Jersey Supreme Court declared that the township of Mount Laurel's zoning laws were unconstitutional because they precluded the opportunity for construction of affordable units. The ruling stunned local government officials who, until then, considered exclusionary zoning to be their "natural prerogative" (*Harvard Law Review* 2003).

"States, regions, and local governments have employed "inclusionary zoning" and other regulatory reforms aimed at increasing the number of affordable units—for both ownership and rental—especially in areas where they are traditionally scarce (such as more affluent suburbs). Using a combination of mandates and incentives, inclusionary zoning can help compensate for past local exclusionary practices or can balance the effects of growth controls and other regulatory policies that may indirectly limit affordable development (Downs 1999).

"Among the most frequently used tools of inclusionary zoning are "developer set-asides." These programs require developers to make a certain percentage of units in a new residential development affordable and available to low- and moderate-income households. Set-aside programs may be voluntary or mandatory. They generally provide some form of developer incentives, such as "density bonuses," which permit more units to be built than otherwise would be allowed under conventional zoning. Such incentives may also reduce impact fees, thereby cutting development costs. Some jurisdictions allow developers to build affordable housing off site or contribute cash to an affordable housing fund in lieu of including affordable units in the new development. In some set-a-side programs, county or local housing authorities and non-profit organisations buy a percentage of the affordable units and operate them as a sort of scattered-site public housing program (Brown 2001). For example, Montgomery County, MD, an affluent suburb in the Washington, D.C. metropolitan area, has for decades required that all new housing developments larger than 50 units include 12.5 percent to 15 percent of units to be affordable for households at or below the county's median income. Over 25 years, this requirement has resulted in the production of 10,600 affordable housing units, integrated throughout more affluent communities. In addition, the county's public housing authority retains the right to purchase some of these "inclusionary" units so that they can be made affordable for the poorest households (Brown 2001).

"In addition to developer set-asides, some communities have used "development allocation plans" to explicitly include affordable housing. Development allocation plans enable jurisdictions with strict growth controls to authorise at least some affordable units. For example, Thousand Oaks, CA, evaluates development proposals using a point system that favours projects including affordable housing

(Landis 1992). The city of Davis, CA, limits residential construction to an average of 500 units annually over a period of 20 years, holding “what one developer described as a beauty contest to award permits on the basis of developers’ proposals, considering...inclusion of affordable housing” as one of the factors for awarding a permit (Lowry and Ferguson 1992). A system based on development agreements, on the other hand, does not have a structured point system for allocating permits but allows different interests (local residents, developers, planners, and environmental advocates, for example) to enter a structured negotiation about the amount, types, and location of residential development to be permitted locally (White 1992)<sup>95</sup>.

As well as these supply side initiatives, the federal government also funds a demand side initiative known as Housing Choice Vouchers. This initiative is intended to target basically the same need as the New Zealand accommodation supplement, but operates rather differently.

Program recipients are required to find a suitable housing unit and a landlord willing to participate in the voucher program. The program requires that units must meet a minimum set of housing quality standards. They are inspected before occupation and inspections occur periodically during a household’s tenure. According to research reviewed by the Brookings/Urban Institute study, evidence indicates that these policies lead to program participants occupying housing of a higher quality than unassisted renters do.

Under the voucher program, renter households are expected to pay 30% of their income in rental with the balance over and above that paid to the landlord by the voucher program administrator (as with the accommodation supplement, local maxima apply to the rental that will be subsidised). The principal difference between the voucher program and the accommodation supplement is the active involvement of the program administrator in inspecting units to ensure that they meet agreed standards and in paying the voucher entitlement direct to the landlord.

The picture presented by the Brookings/Urban Institute report of the impact of housing vouchers is generally favourable. However, other research presents a different picture. In a paper by Scott Susin, *Rent Vouchers and the Price of Low-income Housing*, published in the *Journal of Public Economics*, volume 83: 109-152, the author notes:

“Another way to characterise the size of the results is to calculate the redistributive effect of vouchers; the ‘leakiness of the bucket,’ to borrow Arthur Okun’s metaphor. Some simple calculations ... suggest that vouchers do little to redistribute, in the aggregate. Specifically, vouchers cover about two-thirds of recipients’ rent, costing \$5.8 billion dollars in total (excluding administrative costs). There are about 9.6 million households in the lower third of the private rental market, whose rents have been increased by 16 percent as a result of the voucher program. ... In total, therefore, while vouchers transfer \$5.8 billion to

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<sup>95</sup> Katz, B et al (2003) p68-70

recipients, they cost similarly impoverished non-recipients \$8.2 billion dollars. The net transfer is \$2.4 billion, which goes from poor households to landlords<sup>96</sup>.

## **OTHER INITIATIVES**

As noted, the United States social housing market is characterised by a very wide range of different initiatives taking advantage of the various forms of assistance available for the development of social housing. Two, which may be of interest in New Zealand, are Community Development Corporations (CDCs) and Community Land Trusts (CLTs).

### **COMMUNITY DEVELOPMENT CORPORATIONS**

CDCs are defined as non-profit organisations organised exclusively for charitable, literary and educational purposes as defined in section 501(3) of the US Internal Revenue Code.

They were typically formed as local initiatives in response to economic, social and/or community development needs. Governance is normally a combination of representatives of the local authority, the business community and voluntary and community sector interests.

Nationally, CDCs are supported by what is described as the US's largest community development intermediary, the Local Initiatives Support Corporation (LISC) ([www.lisc.org](http://www.lisc.org)). LISC provides a range of resources and training, including significant financial support by way of grants and loans<sup>97</sup>. LISC works with CDCs to encourage balanced redevelopment of communities. As well as assisting CDCs with affordable housing development, it also encourages commercial and retail development taking the view that, especially in run down communities, good outcomes require a comprehensive approach rather than simply (say) refurbished housing.

LISC itself is a valuable source of information on tools and techniques for community and economic development with the one caveat that their programs are designed to maximise the leverage available, in the US, through federal, state and local tax breaks and subsidies, and through the support of various charitable foundations.

### **COMMUNITY LAND TRUSTS**

The Institute for Community Economics ([www.iceclt.org](http://www.iceclt.org)), a Massachusetts based but nationally active community development organisation specialising in community investment, defines a Community Land Trust as "a private, non-profit corporation created to acquire and hold land for the benefit of a community in order to provide secure affordable access to land and housing for community residents".

Typically, a Community Land Trust will own the land beneath a dwelling or dwellings and lease the land to the owner(s) of the dwelling(s) for a nominal rental but on terms which ensure that, if the dwelling is ever sold, it is to a low income household at an affordable price.

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<sup>96</sup> Susin, Scott (1999)

<sup>97</sup> Most of LISC's funding comes from federal grants and from foundations.



Essentially, what CLTs are doing is providing a stepping stone into home ownership for people who cannot afford the cost of purchasing a property for its full market value.

Most CLTs are governed democratically by an open membership and an elected board of trustees.

Not surprisingly, funding is one of the main challenges that CLTs face. Funds come from a variety of sources including local housing trust funds, government programs, philanthropic donations, loans and grants through the Department of Housing and Urban Development, state controlled housing funds, tax credit dollars, pension fund investments and local government (often in the form of land that the CLT can use for housing).

As with Community Development Corporations, Community Land Trusts represent an innovative approach to dealing with aspects of local economic and social development. They are, however, heavily dependent on the American environment, including tax credits and subsidies that can be triggered by local or regional initiatives, coupled with the traditional commitment within the United States to philanthropy on both an individual and an institutional basis.

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## Community Housing in Australia

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The Community Housing Federation of Australia (CHFA) (see [http://www.chfa.com.au/about\\_CHFA/index.asp](http://www.chfa.com.au/about_CHFA/index.asp)) describes community housing providers as:

“committed to the growth of secure, affordable, appropriate rental housing provided by not-for-profit community organisations on a basis which:

- Is respectful of tenants’ rights;
- Provides opportunities for tenants to have control over their housing and environment through participation in management;
- Meets the needs of individuals and families;
- Is linked with the development of a community”<sup>98</sup>.

The CHFA states that the community housing sector provides around 66,000 dwellings in Australia. Around 28,000 are funded through the Commonwealth State Housing Agreement (CSHA) and around 14,000 non-CSHA funded. In addition there are approximately 20,000 indigenous community housing dwellings and around 4,000 units of crisis accommodation. The 66,000 units represent approximately 20% of all social housing provision in Australia<sup>99</sup>.

The CHFA claims there are around 2,000 community housing organisations in Australia which fall into the following categories:

- Housing Associations.
- Housing Co-operatives.
- Local governments.
- Community service organisations.<sup>100</sup>

In 2000, the National Community Housing Forum (NCHF) published “Mapping Community Housing in Australia” (see <http://www.nchf.org.au/downloads/execsummap.pdf>). This document gave a broad overview of the key aspects of community housing in Australia, based on a survey undertaken in 1998.

An overview of the findings showed:

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<sup>98</sup> Community Housing Federation of Australia

<sup>99</sup> Community Housing Federation of Australia (2001) p2

<sup>100</sup> Ibid

- Of the community housing organisations, 27% were in Queensland, 25% in Victoria, 16% in New South Wales, 14% in Western Australia, 10% in South Australia, 6% in Tasmania, 1% in the ACT and 1% in the Northern Territory.
- 25% of organisations were specific community housing associations, 14% community housing co-operatives, 27% other welfare or not-for-profit organisations, 17% church based organisations and 16% local government organisations.
- There were differences between CSHA funded and non-CSHA funded organisations, for example:
  - Title: held by 29% of CSHA funded and 82% of non-CSHA funded organisations.
  - Tenant participation policies: 76% of CSHA funded and 60% of non-CSHA funded organisations.
  - Dwelling style: 69% of CSHA funded dwellings were detached or semi-detached and 39% of non-CSHA funded.
- The average community housing organisation managed 36 tenancies.
- The largest 11% of organisations manage 58% of all tenancies and have an average of 199 tenancies.
- 14% received support from a local government<sup>101</sup>.

The NCHF (see <http://www.nchf.org.au/downloads/regvol2.doc>) states that community housing assets in Australia currently are held in a variety of ownership models, including:

- Organisation-held title.
- Government-held title, headleased to an organisation on varying bases such as peppercorn rental or market rent payable.
- Government-held title with properties managed by an organisation on an agency basis.
- Private investor-held title headleased to an organisation.
- Joint venture arrangements between an organisation and private investors.
- Hybrid models where title is held by structures in which government is represented such as City West Housing (proprietary company).
- Privately held title where an organisation headleases properties from the private rental market<sup>102</sup>.

Funding is provided to organisations via the Commonwealth State Housing Agreement (CSHA). The states and territories have various community housing programs where community housing organisations can apply for funding, for example:

- The Department of Housing (Queensland) has the Long Term Community Housing Program. This program was designed to involve local government and not-for-profit community organisations in the provision of locally managed long-term rental housing for low income earners whose needs are not adequately met by other housing options. Funds are provided on a conditional basis to organisations that qualify, and can be used for construction, acquisition and/or modification/upgrading of housing. (see [http://www.housing.qld.gov.au/ch\\_online/support\\_and\\_funding/longterm\\_housing.htm](http://www.housing.qld.gov.au/ch_online/support_and_funding/longterm_housing.htm))
- The Department of Housing and Works (Western Australia) has the Community Housing Program (CAP) and the Joint Venture Program. The CAP provides funding for

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<sup>101</sup> National Community Housing Forum (2000)

<sup>102</sup> Kennedy, Robyn (2001b) p63-64

the construction, purchase or renovation of properties for long-term rental housing. In the Joint Venture Program, the government meets the majority of the construction costs, and the joint venture organisation contributes land, cash and other in-kind services.

(see [http://www.dhw.wa.gov.au/homes/homes\\_commfundprop.cfm](http://www.dhw.wa.gov.au/homes/homes_commfundprop.cfm))

- The Office of Community Housing (New South Wales) has a Community Housing Assistance Program (CHAP), and a Community Development and Resourcing Grant. The CHAP provides additional capital properties for community housing providers in two ways: on redevelopment sites and by purchasing properties on the private market. The Community Development and Resourcing Grant provides funds for small, one-off short-term projects that will help public housing tenants to work together with tenant organisations, housing providers and other agencies to address local housing issues. (see [http://www.housing.nsw.gov.au/tenant\\_part/tenpart.htm](http://www.housing.nsw.gov.au/tenant_part/tenpart.htm))

### *Strengths and weaknesses*

In a 2003 consultation document "Our Future in Affordable Housing" (available at <http://www.communityhousing.com.au/pdfs/Our%20Future%20in%20Affordable%20Housing%20September%2003.pdf>) the CHFA stated that:

"the community housing sector is positioning itself as a key player in this emerging affordable housing market.

"In order for our sector to support an expansion into the affordable housing market, we need to clarify a range of issues, while continuing to address the on-going growth and viability of the overall community housing sector"<sup>103</sup>.

One of their concerns was that government will create new models, for example the Brisbane Housing Company, rather than use the community housing sector models already in place.

Other issues are capacity and growth. The CHFA states that although some organisations have good financial, project design and development, asset management and tenancy management capacity, many struggle with long term business planning, managing and capturing mixed funding, designing housing projects or managing development processes. Sustainability, viability, and options for financing housing (including changes in public funding) are high profile issues in the community housing sector<sup>104</sup>.

However, the CHFA see one of the greatest strengths of the sector as the "diversity of models that reflect local needs and deliver local solutions". CHFA also mention the contribution that community housing makes to broader social outcomes (enhancement of employment opportunities, building stronger communities), its connection to local communities and its potential to tap into both public and private finance<sup>105</sup>.

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<sup>103</sup> Community Housing Federation of Australia (2003) p1

<sup>104</sup> *Ibid* p10

<sup>105</sup> Community Housing Federation of Australia (2001) p2

### *Community Housing Agencies*

The National Community Housing Forum (NCHF) and the Community Housing Federation of Australia (CHFA) are two national organisations representing the community housing sector in Australia. The NCHF describes itself as a meeting place for stakeholders interested in community housing. The CHFA looks at public policy development and advocates community housing issues to government.

The CHFA's policy document "Community Housing: Building on Success" (available at [http://www.chfa.com.au/clearinghouse/docs\\_type\\_index.asp](http://www.chfa.com.au/clearinghouse/docs_type_index.asp)) was developed in consultation with the sector. In the document, they advocate a national housing strategy and a strong Commonwealth leadership role. It also includes a set of financial and institutional arrangements required to enable community housing to grow<sup>106</sup>.

As well as the national community housing organisations, there are a number of state organisations to support and advocate for the sector. These include the NSW Federation of Housing Associations, Queensland Community Housing Coalition, the Federation of Housing Collectives and Shelter.

### *National Community Housing Standards*

In 1997-1998, the Commonwealth Government of Australia provided funding for the development of national service standards for community housing providers. The aim of the standards was to cover all the elements that constitute high quality housing service for tenants in community housing. The standards had input from tenants, government and community housing providers in all states and territories. Part of this work was to develop methods of evaluating services using the standards, and to look at options for accrediting services on the basis of the evaluations.

A national organisation, the Interim National Community Housing Accreditation Council (INCHAC), was established in 2000 to:

- Develop service standards and accreditation systems.
- Ensure national consistency.
- Ensure systems provide continuous quality improvement.
- Provide quality assurance to tenants and stakeholders.
- Collect national data to identify strengths and weaknesses.

The NCHF acts as a secretariat to the Council.

The national service standards have now been endorsed by every state and territory. According to the NCHF, accreditation systems have been established in two states (Queensland and NSW), with other states looking at options to establish or access an accreditation system. The Standards and Accreditation Unit in New South Wales currently has 20 accredited organisations. There are 10 accredited organisations in Queensland. Participation is voluntary.

The National Community Housing Standards Manual (1998) covers 7 main areas:

- Tenancy management.

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<sup>106</sup> Community Housing Federation of Australia (2001)

- Asset management.
- Tenant rights and participation.
- Working with the community.
- Organisational management.
- Evaluation planning and service development.
- Human resource management.<sup>107</sup>

Within each section are broad statements of the expectation, and 2-6 standards. For each standard there is a list of indicators for the achievement of each standard. The standards are applicable to the wide range of organisations involved in community housing. The manual is available at <http://www.nchf.org.au/manual.htm>. The standards were last reviewed in 2002, and a second edition was recently released (but not yet published on-line).

The core indicators are indicators that must be met in order for an organisation to be accredited. These are:

“Does the organisation have a means of ranking eligible tenants?

Does the policy and procedure on breach of agreement leading to eviction include:

- Following due legal process;
- Provision of information to tenants on their rights and how to access advocates;
- Demonstrated attempts to resolve the breach;
- Good monitoring systems and clear communication; and
- Notification to board/management committee of all eviction decisions?

Does the organisation budget for responsive maintenance and repairs and is the amount adequate?

Are there written statements on the rights of tenants which include the right to:

- fair and non-discriminatory treatment;
- be treated with respect;
- have access to safe and secure housing;
- be consulted on housing needs and preferences;
- maintenance of confidentiality of personal information provided;
- be consulted on substantial changes in the way the tenancy is managed;
- security of tenure within the terms of the tenancy agreement, funding guidelines and their rules;
- complain and appeal against decisions;
- use an advocate;
- be informed of how to participate in the organisation and to contribute to decision making; and
- have access to their own information held by the organisation on file?

Are board/management committee members aware of their legal responsibilities and liabilities in managing the organisation?

Do members of the board/management committee and staff minimise the conflicts of interest which could arise in carrying out the organisation's work by having written policy which requires:

- disclosing in a public register all financial and personal interests and relationships connected in any way to their position or the work of the organisation;

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<sup>107</sup> NSW Department of Housing/Commonwealth Department of Family and Community Services (1999)

- ensuring that no special treatment or favours are granted to them, or their relatives or friends as a result of their positions;
- ensuring they do not receive gratuities or personal gifts as a result of their position; and
- not participating in decisions where they may have a conflict of interest?

Does the organisation have the appropriate checks and balances to ensure that funds are not mismanaged?

Does the organisation have sound financial management practices that ensure its ongoing financial viability?

Are staff satisfied that the system delivers accurate and timely payment of salaries and records of other entitlements?

Has the organisation done an occupational health and safety audit and addressed any safety hazards it identified?"<sup>108</sup>.

The Community Housing Accreditation Assessment Panel decides on the accreditation status (full – 3 years, partial or not accredited). To be considered, the organisation must undergo an accreditation evaluation.

### *Regulation and community housing*

In their 2001 report "A Regulatory Framework for Community Housing in Australia (Volume 1)" (see <http://www.nchf.org.au/downloads/regvol1.doc>) the National Community Housing Forum states that the regulation of community housing in Australia is relatively under-developed. It states that only South Australia provides specific enabling and regulatory powers, whereas in other states/territories regulation is primarily via funding agreements. The report aims to provide a range of regulatory options for community housing, and was in response to discussion in the sector about the change in the role of government. This change was from a government that focused on providing direct support for community housing organisations and compliance with contractual arrangements, to the role of assessing and minimising risk through a regulatory approach and funding in accordance with this.

The report considered regulatory options: legislation, registration and licensing, codes of practice and standards, accreditation and funding agreements. Although there was recognition for the National Community Housing Standards (mentioned above), the standards were primarily considered a quality of performance tool, as opposed to a regulatory tool. One of the main reasons for this was because the standards were voluntary<sup>109</sup>.

The 2002 Australian Housing and Urban Institute (AHURI) report *Stakeholder requirements for enabling regulatory arrangements for community housing in Australia* (see [http://www.ahuri.edu.au/attachments/pp\\_stakerequirements.pdf](http://www.ahuri.edu.au/attachments/pp_stakerequirements.pdf) - p2) reinforced the need for an effective regulatory framework:

"...an effective regulatory framework is required as a precondition for enabling providers to take more effective control of their business and, hence, as a precondition for community housing playing a larger role in

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<sup>108</sup> Department of Housing, Queensland Government (a)

<sup>109</sup> Kennedy, Robyn (2001a)

the social and affordable housing system. It is also acknowledged that the lack of regulation also constrains the achievement of other conditions for growth: the development of a robust market for mortgage finance for investment in community housing, and effective partnerships for development projects"<sup>110</sup>.

The report briefly summarised the three states that are investigating regulation:

- Victoria: the Social Housing Innovation Project report recommended "a legislative framework for the sector which establishes a Community Housing Authority with regulative functions and powers".
- NSW: the Office of Community Housing is looking at a Performance Management Framework that is outcome focussed and aims to introduce greater flexibility and innovation.
- Queensland: a new Housing Act which enables the Departments to develop regulations for housing agencies (which can focus on attracting additional resources to the sector).

### *Conclusion*

Community housing is emerging as a key player in the social housing sector in Australia. Challenges facing the sector are growth, sustainability and viability. Access to government funding has been a key driver in the sector. The strengths of the sector, however, are an ability to effectively respond to local needs and to contribute to broader social outcomes.

Regulation of the sector is in its development stage in most states of Australia. However, there has been work on quality improvement of community housing organisations nationally, through the National Community Housing Standards.

The profile of the sector differs from New Zealand, as Housing Associations and Housing Co-operatives make up a substantial percentage of the total sector (39% in 2000<sup>111</sup>). The community housing sector is well supported in Australia, by organisations (both national and state), such as the National Community Housing Forum.

In New Zealand, local government housing has historically been the alternative to public housing (whereas in Australia the alternative has been community housing). The experiences in Australia, such as funding programs to encourage the sector, ownership models, and support organisations, offer a rich learning source for community housing in New Zealand.

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<sup>110</sup> Clough, R et al (2002) p2

<sup>111</sup> National Community Housing Forum (2000)



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