

Office of the Minister of Housing

Cabinet

Trial of Rental Housing Warrant of Fitness Options with Housing New Zealand Corporation

Proposal

- 1 This paper informs Cabinet that I intend to trial two options for a rental housing Warrant of Fitness scheme on Housing New Zealand Corporation (HNZ) properties. The benefits of such a trial will be for Government to lead by example in improving rental standards, information for Government on the quality of HNZ stock and testing of the practicality of the rental housing Warrant of Fitness.
- 2 The options are both designed to allow potential application in future to other social housing providers, and to private rentals, but I do not seek any decision on this at this time.

Executive summary

- 3 As indicated in Budget 2013, Housing New Zealand Corporation (HNZ) will trial options for a rental housing Warrant of Fitness from December 2013. The purpose is to improve the health and safety of tenants, particularly those on low incomes. Evidence shows that warmer, drier and safer houses can significantly reduce respiratory and other infectious diseases, and injuries at home.
- 4 The trial will assess the effectiveness of two options:
 - a minimum pass/fail standard only
 - a minimum pass/fail standard plus additional star ratings to provide incentives for landlords to improve property quality.
- 5 Almost all HNZ properties are expected to pass the minimum standard. If additional star ratings are added, the majority of HNZ properties are likely to receive two stars. Advice on the addition of an optional accessibility endorsement will be developed in 2014.
- 6 For both options, ceiling and underfloor insulation will be required in the minimum standard. The level of insulation proposed is approximately equivalent to 1978 requirements. This is lower than the standards achieved through Warm Up New Zealand retrofits.
- 7 This is to enable a pragmatic balance between benefits from improving rental properties with no insulation, and costs of addressing the greater number of properties which have some insulation but not to current standards. Installation of heating will not be required except where retrofitting insulation is impractical due to property design.

- 8 HNZ will trial the two options as part of their existing asset management programme. Initial results for approximately 60,000 properties will be available by July 2014. These results will use existing data gathered through business-as-usual asset surveys, and will be verified by assessing a representative sample of 500 properties against the Warrant of Fitness criteria. All properties will then be assessed using the Warrant of Fitness criteria over a three-year cycle from 2015/16.
- 9 Total additional costs for HNZ over 2013/14 and 2014/15 are expected to be approximately \$0.500 million and will be met from within existing funding.
- 10 Because nearly all HNZ properties are expected to meet the minimum standard, the benefits are in practical testing of the Warrant of Fitness minimum and providing improved information on the quality of state housing stock on an ongoing basis. A Technical Advisory Group will be established to provide advice on specific aspects.
- 11 Officials will report back to Cabinet in July-August 2014, advising on:
 - indicative feasibility and cost findings from the two options trialed
 - the likely cost range to improve the average star rating for the HNZ portfolio
 - the applicability of the two options to private sector rental properties, and potential costs and benefits
 - regulatory options, should Government wish to apply a Warrant of Fitness to private sector rental properties in future.

Background

- 12 In December 2012, the Children's Commissioner's Advisory Group Report on Solutions to Child Poverty identified that poor quality and inadequately insulated rental housing is endangering the health of children, particularly those in low income families. It recommended that a Warrant of Fitness be implemented to set minimum health and safety standards for rental accommodation.
- 13 Subsequently as part of Budget 2013, Government announced the development of a rental Warrant of Fitness, to initially be applied to HNZ properties.

Improving rental housing quality

- 14 New Zealand has 1.7 million occupied residential dwellings. 480,000 of these are rental properties, of which around 69,000 are owned or leased by HNZ.
- 15 The quality of housing and its link to health is today better understood. A significant proportion of low-income families with children rent homes in either the private or state rental sector. Children under five are particularly vulnerable because they spend more of their daily lives at home.
- 16 Data on the condition of New Zealand housing is limited but, from the 2010 BRANZ house condition assessment, it can be inferred that around 200,000 rental properties are in poor overall condition¹.
- 17 Typical issues include lack of ventilation and insulation (causing exposure to cold, dampness and mould), poor condition of external cladding and internal linings, and plumbing and wiring issues. The BRANZ assessment found that close to three

¹ BRANZ assessors undertook physical inspections of each house in the sample and then made a subjective assessment that each house was in good, moderate or poor condition. The BRANZ sample is relatively small and was extrapolated to form a view of the wider housing market.

quarters of all rental housing had mould, as did just over half of owner-occupied housing.

- 18 It is now well recognised that there are significant safety gains to be made from improved housing quality. Annually, injuries in and around the home cost ACC over \$500 million. Slips, trips and falls make up the biggest single cause (45% of home injuries). It is estimated that around 30% of home injuries are caused by environmental factors such as slippery surfaces, paths, steps and stairs as well as poor lighting and maintenance.²
- 19 Studies have also identified that exposure to inadequately warmed and damp homes can have adverse health consequences for their occupants during winter, placing particular stress on older people and children. Respiratory diseases such as asthma, flu and bronchitis, cardio vascular disease, and infectious diseases like gastro enteritis and meningitis are all affected by cold and damp homes. Damp and cold indoor temperatures may also contribute to overcrowded sleeping conditions, which are a risk factor for infectious diseases such as rheumatic fever in children^{3,4}.
- 20 In 2012, the Government set a five-year target of reducing the incidence of hospitalisations for acute rheumatic fever by two thirds to 1.4 cases per 100,000 people per year by June 2017 as part of the Better Public Services (BPS) programme.
- 21 On 7 August 2013, Cabinet agreed [SOC Min (13) 17/4] to amend HNZ needs assessment processes to 'fast-track' households at risk of rheumatic fever to the top of the waiting list for a state house. The changes were implemented on 1 October 2013 in Auckland, along-side the Auckland-wide Healthy Homes Initiative being developed by the Ministry of Health.
- 22 Insulation can significantly improve health by allowing households to heat their homes to healthy temperatures. Evaluation of the EECA-administered Warm Up New Zealand: Heat Smart insulation retrofit funding programme showed a net public benefit of \$1.375 billion with estimated health sector savings of at least \$4 for every \$1 spent on insulation retrofits.
- 23 However, there has been limited⁵ uptake of insulation retrofit funding by landlords. Budget 2013 funding for the Warm Up New Zealand: Healthy Homes programme will support the further uptake of insulation from landlords with low income tenants by providing insulation retrofits at low or no cost for landlords.⁶

Warrant of Fitness principles and high-level design

- 24 Aspects of housing which have the greatest impact on health are often not readily visible to tenants (for example insulation), or only become apparent over time (for example persistent dampness). The Warrant of Fitness trial options set out below are designed to improve the information available to tenants about how healthy and safe a property is.

² Kool B, Ameratunga S, Hazell A, 2010 Unintentional falls at home among young and middle-aged New Zealanders resulting in hospital admission or death: The NZ Medical Journal

³ Jaine, R, Baker, M and Venugopal, K. Acute rheumatic fever associated with household crowding in a developed country. Paediatric Infectious Disease Journal 2011.

⁴ Lennon, D et al. Longitudinal study of post streptococcal disease in Auckland; rheumatic fever, glomerulonephritis, epidemiology and M typing 1981-86. N Z Med J; 1988; 101 (Pt 2): 396-398.

⁵ Insulation retrofits for rentals through Warm Up New Zealand: Heat Smart have only been around 14% of total retrofits.

⁶ Since 2009, the Government has committed \$347 million for Warm Up New Zealand: Heat Smart to fund ceiling and underfloor insulation and a further \$100 million was committed in Budget 2013 to fund the insulation retrofit of 46,000 homes over the next three years. Over 230,000 properties have been insulated, and this funding has raised the market's awareness of the benefits of insulation.

25 The design is based on six principles:

- Practicality: the Warrant of Fitness must be suited to New Zealand conditions, and be able to be readily applied with consistent results.
- Cost effectiveness: aim to maximise total benefits (to tenants, taxpayers/wider public, landlords) for minimum total costs (to landlords, tenants, taxpayers/wider public).
- Easily understood/"reasonable": the Warrant of Fitness concept and results must be able to be easily understood, and set standards which are generally seen to be "reasonable".
- Evidence-based: design should be based on best available evidence and practice with regard to health and safety outcomes, and building standards.
- Transparency: assessment criteria must be readily available to tenants and landlords and not subject to change without adequate notice.
- Housing market impact: potential adverse impacts of the Warrant of Fitness regime on the housing market in terms of cost and supply should be minimised.

26 These principles need to be balanced. For example, setting a very high minimum standard based on evidence of health benefits might result in a large number of tenants having to find alternative accommodation.

27 Both options set out below focus primarily on property features which improve health, injury and safety outcomes. There may be some additional 'sustainability' benefits (for example energy savings), but these are not the primary focus. Existing market tools such as Homestar assess sustainability and energy efficiency.

28 Neither of the options take into account relative condition of a property, as long as elements are 'functional'. For example, a brand-new bathroom with an extractor fan for ventilation would not do better than an older bathroom with an extractor fan. I believe that tenants are able to make their own aesthetic judgements. The options are designed to improve information available to tenants on less visible aspects of quality which affect health and safety.

29 The options also do not duplicate other regulatory processes applying to building health and safety, in particular earthquake proneness and building consent processes. These separate processes will continue to apply as appropriate.

Options

30 I propose trialling two options for a Warrant of Fitness on HNZ properties, as set out below.

Option one: minimum pass/fail standard only

31 The intention of the minimum standard is to ensure all rental properties meet basic requirements, to reduce the risk of housing-related illness and injury.

Pass/fail criteria

32 Criteria for the minimum Warrant of Fitness standard are based on New Zealand and international research showing how different aspects of housing quality affect health and safety. They also take into account information available on rental property quality and the relative costs and benefits of different upgrade/maintenance interventions for landlords, tenants and the wider public.

33 The criteria are grouped into three areas:

- 'insulated and dry', including insulation, ventilation and no obvious leaks in the roof or cladding
- 'safe and secure', including for example smoke alarms, handrails on stairs, hot water set at a safe temperature
- 'essential services and amenities', including for example functioning power points, food preparation facilities, and a functioning bath/shower and toilet.

34 Taken together, the criteria represent what I consider to be a minimum acceptable standard for a rental property in New Zealand. They are more comprehensive than the standards proposed in the Healthy Homes Guarantee Bill proposed by the Labour Party.⁷ (Some requirements, including insulation, will vary for apartments compared to houses).

Insulation and heating

35 The level of insulation required for the Warrant of Fitness is a key issue. As a generalisation, ceiling and underfloor insulation each provide approximately the same level of health benefits,⁸ for similar costs.⁹ Retrofitting wall insulation provides further benefits, but is typically not cost-effective unless wall linings are being replaced anyway.

36 I propose that ceiling and underfloor insulation be required. The level of insulation which I propose is approximately equivalent to 1978 requirements when insulation was first required nationwide. This is lower than the current Building Code and the standards achieved through Warm Up New Zealand retrofits. Where a property does not meet the minimum standard and requires insulation to be retrofitted, it would be cost-effective to do so to the current Building Code standard.

37 This is to enable a balance between benefits from improving those rental properties with no insulation, and costs of addressing the greater number of properties which have some insulation but not to current Building Code standards. I consider this to be a pragmatic starting point.

38 In some properties the roof design makes it impractical to install ceiling insulation. In this case I propose that an appropriate heat source for the local climate must be installed instead to meet the minimum standard. The same requirement would apply where the lack of access prevents installation of underfloor insulation. An unflued gas heater would not be acceptable in this case.¹⁰

39 Otherwise I do not propose requiring heating appliances to be supplied for the minimum standard. Additional requirements for heating could potentially be introduced over time.

⁷ The Healthy Homes Guarantee Bill proposed by the Honourable Phil Twyford was drawn from the members ballot on 24 October 2013.

⁸ Ceiling insulation has the greatest impact on heat loss. Underfloor insulation further reduces heat loss but also increases the surface temperature of the floor, and reduces draughts, increasing the temperature as felt by the occupants. This applies particularly where young children spend a significant amount of time playing on the floor.

⁹ Around \$1700 (excluding GST) each for ceiling and underfloor insulation (based on the average Warm Up New Zealand installation of 96 m²). The average total cost for an insulation retrofit completed through Warm Up New Zealand: Heat Smart is \$2,818 ex GST. This average covers a wide range of situations and also includes other costs such as a post-installation audit.

¹⁰ A 2009 review for the Ministry of Economic Development recommended that unflued gas heaters not be banned, but be subject to stricter labelling requirements and approval processes prior to sale in New Zealand. Government announced these new requirements in 2010.

Bedrooms and living area

40 I propose that the Warrant of Fitness include a minimum size for a room to be used as a single or double bedroom (currently specified in the Housing Improvement Regulations 1947), and a minimum size for the combined kitchen/dining/living area, dependent on the number of bedrooms.¹¹

Areas out of scope

41 Some elements are deliberately excluded: I consider it the responsibility of tenants to replace indoor light bulbs and smoke alarm batteries as necessary. (It is now an offence under the Residential Tenancies Act to remove smoke alarm batteries).¹²

42 The proposed Warrant of Fitness also excludes outdoor spaces, other than requiring safe access to the front door and allowing extra points for an external clothesline. I have made this decision because a scheme that is overly complex will not be practical.

43 The Warrant of Fitness will also not address occupant behaviour which contributes to poor health, for example dampness from lack of ventilation through not opening windows.

44 Improved insulation and ventilation may reduce levels of 'functional' overcrowding (people sleeping in one room as it is the only one they can afford to heat). There is a need to continue improving the information available to the public about healthy practices at home.

Option 2: a minimum pass/fail standard plus additional star ratings

45 The purpose of allowing for additional star-ratings is to provide incentives for landlords to improve property quality beyond the minimum. It also allows landlords who already provide healthy, safe rentals to differentiate their properties.

46 In addition, the star ratings would provide a simple reporting framework for HNZ properties, with Government able to set targets for HNZ to improve their stock beyond the minimum. It would also allow comparison of the HNZ portfolio by region and over time.

Criteria for star-ratings

47 The criteria for one star will be the same as the criteria for a pass under option one. Allocation of star ratings will involve:

- assessment against higher standards for some of the elements included in the minimum (for example a greater level of ceiling or floor insulation would give a property extra points towards additional stars)
- assessment against additional elements under each of the three main categories (for example security stays on windows to prevent falls and allow all-day ventilation, wall insulation, efficient heat sources, external clothesline, dedicated storage space to reduce tripping hazards).

Optional accessibility endorsement

48 The 2011 agreement between the Māori Party and the Government requires HNZ new-builds and leased new-builds to meet lifetime design principles and include acceptable disability access standards where practical and appropriate. For tenants with disabilities in existing HNZ properties, funding for modifications is provided

¹¹ Based on standards used by HNZ.

¹² HNZ tenancy managers replace smoke alarm batteries.

through the Ministry of Health's Equipment Modification Services programme or through ACC.

- 49 I propose that an optional accessibility endorsement for the Warrant of Fitness be developed during 2014, including appropriate consultation with stakeholders. This would improve information available to people with disabilities looking for a rental property, and provide incentives for property owners to improve accessibility.

Housing New Zealand Corporation trial

50 I have three reasons for trialling the Warrant of Fitness scheme with HNZ:

- allowing Government to lead by example in improving rental quality (HNZ makes up 15% of total rental stock in New Zealand and houses some of the most vulnerable tenants)
- from Government's ownership perspective, providing simpler information on quality of HNZ stock
- testing the practicality of the proposed options.

51 A Technical Advisory Group to be convened by officials will advise on detailed elements (for example how to assess different types of insulation), and on information to be collected to monitor implementation. The group will include expertise in building performance, retrofits for existing housing, and health and safety impacts of housing.

The group will also include a representative from Local Government New Zealand and from the New Zealand Property Investors Federation to provide technical advice from a social housing and private rental perspective.

Implementation process and timeframe

52 No regulatory change is necessary to trial a Warrant of Fitness for HNZ. HNZ has an asset management programme in place, which includes regular property assessments and maintenance. As part of this programme, HNZ will trial the Warrant of Fitness options from December 2013.

53 Subject to a Cabinet decision on 2 December 2013 to commence the trial, initial results for approximately 60,000 properties (i.e. the whole HNZ portfolio excluding properties in Christchurch and leased properties) will be available by July 2014. These results will use existing data gathered through HNZ's existing asset surveys, and will be verified by assessing a representative sample of 500 properties against the Warrant of Fitness criteria.

54 From July 2015, HNZ will reassess all properties using the Warrant of Fitness criteria over a three year cycle. Results for Christchurch properties (once repaired) and leased properties will be available by February 2016.

55 Approximately 1,500 properties are owned by HNZ and leased to community housing providers. HNZ will be responsible for applying the Warrant of Fitness to these properties over time. HNZ also lease approximately 3,000 properties from private sector landlords. Existing leases would not be affected, but new leases in future would be subject to meeting Warrant of Fitness requirements.

Expected Warrant of Fitness results for HNZ stock

56 With installation of appropriate heating in a small number of properties which cannot be practically insulated, a sample indicates that almost all HNZ properties are expected to meet the indicative Warrant of Fitness minimum standard.

57 If a property fails to meet the minimum standard, HNZ will determine the best asset management intervention for the property. Urgent health and safety items would be

repaired immediately, but less urgent items will be considered as part of the broader optimal investment decision to be made on the property.

- 58 Based on desk-top analysis of a sample of current HNZ property information, under the star-rating option the majority of HNZ properties would be expected to receive two stars. A smaller number of HNZ properties would receive three stars or above (with four stars being roughly equivalent to a newly built house to current Building Code).
- 59 I am comfortable that this rating spread reflects the expectations that Government and New Zealanders have for social housing. Nevertheless, I would expect to see an improvement in the average star rating of HNZ properties over time.
- 60 I propose reporting to Cabinet in July-August 2014 on initial findings from the HNZ trial, including advising on the likely cost range to improve the average star rating for the HNZ portfolio. By this point almost all HNZ properties will have been assessed, providing indicative information on the practicality of the scheme, and costs.

Potential impact on private sector rental market

- 61 At this point I am not seeking Cabinet agreement for implementation beyond HNZ; implementation of a Warrant of Fitness in the private rental sector would require significant further analysis and be subject to future Cabinet decisions.
- 62 I propose that the July-August 2014 report-back to Cabinet will also assess how the two options being trialled on HNZ properties could be applied in the private rental market, and likely costs and benefits of doing so.
- 63 Implementing a Warrant of Fitness in the private rental market would require amendments to the Residential Tenancies Act 1986, to allow Warrant of Fitness requirements to be set by regulation.
- 64 Currently, detailed health and safety standards for both rental and owner occupied housing are set out in the Housing Improvement Regulations 1947, under the Health Act. Local authorities contacted by officials were unclear about the status of these regulations and their interaction with the Building Act, and do not enforce them proactively or consistently. There is an opportunity to update and clarify the legislative framework.
- 65 I propose that the July-August 2014 report-back also include regulatory options, should Government wish to consider implementing a Warrant of Fitness in the private rental market.

Consultation

- 66 The following departments were consulted on the version of this paper considered by Cabinet on Monday 25 November 2013: the Ministry of Health, Ministry of Social Development (including the Office of Disability Issues), Treasury, Te Puni Kokiri, Ministry of Pacific Island Affairs. The Department of Prime Minister and Cabinet has been informed.
- 67 The Accident Compensation Corporation, the Office of the Children's Commissioner and the Energy Efficiency and Conservation Authority (EECA) have been consulted. EECA recommends that insulation requirements for the Warrant of Fitness minimum be equivalent to current Building Code levels but acknowledges that a proposed lower standard is a considerable improvement compared to no insulation, and is a pragmatic starting point.

Financial implications

- 68 HNZ has an asset management programme in place, which includes regular property assessments and maintenance. Development and implementation of the Warrant of Fitness will incur some additional upfront costs, including survey development costs, supporting the Technical Advisory Group, data analysis and IT changes.
- 69 Over 2013/14 and 2014/15 these costs are expected to be less than \$0.5 million in total and will be met from existing HNZ budgets and MBIE baselines. From 2015/16 any additional Warrant of Fitness survey costs will be small, as HNZ would have been undertaking other asset management surveys anyway.
- 70 The Warrant of Fitness is not expected to identify significant repairs/maintenance in addition to that which HNZ would have undertaken anyway. Any additional repairs will be prioritised alongside other maintenance and met from existing budgets.

Human rights

- 71 This proposal is not in any way inconsistent with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Legislative implications

- 72 No legislative change is required to trial a Warrant of Fitness and star ratings for Housing New Zealand Corporation properties.

Regulatory impact analysis

- 73 A Regulatory Impact Statement is not required.

Gender implications

- 74 This policy proposal has no gender implications.

Disability perspective

- 75 Disabled people, and families with disabled members, including children, have a critical need for housing which is safe and healthy. They are also more likely to live in rental housing due to low incomes. Where disabled people, including people with age-related disabilities, rent unsafe and inaccessible housing they are more likely to experience accidents and injuries.

Publicity

- 76 I plan to issue a press release announcing the HNZ Warrant of Fitness trial.

Recommendations

77 The Minister of Housing recommends that the Committee:

- 1 **note** that as part of Budget 2013, Government announced that it would develop a rental housing Warrant of Fitness, for initial implementation in Housing New Zealand Corporation (HNZ) properties
- 2 **note** that the purpose of the proposed Warrant of Fitness is to set a minimum acceptable standard for rental housing, to improve the health and safety of tenants, particularly those on low incomes
- 3 **note** that HNZ will trial two Warrant of Fitness scheme options:
 - 3.1. a pass/fail minimum standard (the 'Warrant of Fitness', where a pass equals one star)
 - 3.2. a pass/fail minimum standard plus additional star ratings (2-5 stars), to provide an incentive for landlords to improve properties beyond minimum standard
- 4 **note** that under the second option, the majority of HNZ properties are expected to receive two stars, with four stars being approximately equivalent to a new property built to current Building Code
- 5 **note** that the Warrant of Fitness is designed to allow potential application in the future to other social housing providers, and to private rentals where tenants receive government-funded accommodation assistance
- 6 **note** that a Warrant of Fitness will not address tenant behaviour which results in poor health outcomes, or overcrowding
- 7 **note** that as a pragmatic starting point, the minimum standard of ceiling and floor insulation is proposed as being approximately 1978 requirements
- 8 **note** that HNZ will trial the proposed Warrant of Fitness and star rating options from December 2013, within its existing three-year asset management programme
- 9 **note** that additional development and implementation costs for HNZ are expected to be less than \$0.500 million in total over 2013/14 and 2014/15, and will be met from within existing funding
- 10 **note** that because almost all HNZ properties are expected to meet the minimum standard, benefits of the trial will be primarily in providing better information for Government about HNZ stock quality and feasibility of the Warrant of Fitness standard and star rating options
- 11 **note** that a Technical Advisory Group will be convened by officials to advise on detailed elements of the proposed Warrant of Fitness standard and star rating option, and on information to be collected to monitor the trial
- 12 **note** that officials will report back in July-August 2014:
 - 12.1. reviewing HNZ trial results on approximately 60,000 properties
 - 12.2. advising on indicative feasibility and cost findings from the two options being trialled
 - 12.3. advising on the likely cost range to improve the average star rating for the HNZ portfolio
 - 12.4. assessing the applicability of the two options to private sector rental properties, and potential costs and benefits

12.5. advising on regulatory options, should Government wish to apply a Warrant of Fitness to private sector rental properties in future.

Hon Dr Nick Smith
Minister of Housing

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