

Management of the disposal of surplus NZDF housing

Report No. 16/2011

23 November 2011

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Executive summary

Introduction

- 1 Changes to the NZDF's accommodation policy, with the introduction in 2008 of a Universal Accommodation Component, have removed the need for the NZDF to provide housing for its personnel.
- 2 The NZDF established the Defence Housing Rationalisation Programme to reduce housing stock and make improvements to those houses it wishes to retain. The NZDF estimates that by 2015 it will require access to only 464 houses compared to the 2010 stock of around 2,400 houses.

Overview

- 3 Consultants have been engaged to manage the housing rationalisation and disposal. The programme is sponsored by the Director Housing and Property, who is assisted by a Programme Management Group and Project Liaison Group. The Infrastructure Committee of the Defence Force Leadership Board provides governance.
- 4 Houses are being sold in two phases. Activity is staged to avoid placing too many houses on the market at once. Phase One is disposing of 179 houses at Burnham, Linton and Waiouru camps, and 474 houses in Bulls, Papakura and Hobsonville. The expected revenue from Phase One is \$65.55 million. This is projected to result in annual savings of \$5.0 million in capital charge and \$3.3 million in maintenance.
- 5 Phase Two, which has yet to be approved, will be the disposal of 1831 houses across the NZDF.
- 6 The Programme is in general being conducted effectively and appears to be generating a better than expected average sale price per house.

Expectations

- 7 We established a set of expectations against which to measure the programme. These are set out in Annex A.

- 8 In summary, we found that:
- a disposal is being conducted in accordance with policy but the programme is not included in the NZDF's Programme Reporting System;
 - b houses were selected for disposal through robust processes;
 - c housing disposal is being efficiently managed and co-ordinated;
 - d sale processes are ethical and comply with legal requirements;
 - e project governance and management is appropriate;
 - f management and control of houses is adequate but security measures could be improved;
 - g communication within the programme is effective but communication with the wider NZDF is not up to date;
 - h risk management and health and safety considerations are appropriate; and
 - i disposal costs and proceeds are being recorded but improvements in the financial reporting process are awaited.

Recommendations

- 9 It is recommended that the NZDF:
- a registers the Defence Housing Rationalisation Programme in the Programme Reporting System;
 - b encourages purchasers to remove houses expeditiously;
 - c increases the monitoring of post-removal remediation work;
 - d improves internal communication about the programme;
 - e enhances security for vacant housing areas; and
 - f completes as a priority the development of cost reports.

Chief of Defence Force response

Chief of Defence Force response

- 1 The Defence Housing Rationalisation Programme commenced in 2009, after the introduction of the Universal Accommodation Component which allowed personnel individual choice in meeting their own accommodation needs. As a result of that policy change, increasing numbers of defence owned houses became vacant.
- 2 The initial housing stocks affected by phase one of this programme were at Linton, Burnham, Waiouru, with surplus houses for removal, and off-base land and houses at Ohakea. Phase One, temporarily halted as a response to the potential requirements for temporary accommodation to support the Canterbury earthquake relief efforts, recommenced in July 2011.
- 3 Phase Two of the Defence Housing Rationalisation Programme extends the opportunities for NZDF to exit from the provision of housing to service personnel, in line with the Accommodation Assistance policy. The overall intent is to drive the process which will see the disposal of the bulk of the NZDF stock in the next five years, subject to ongoing oversight to ensure the programme continues to meet its objective.
- 4 The disposal of houses on this scale is not usual business for the NZDF, therefore much of the work to manage the programme has been managed through outsourced providers. The benefit of this approach has been in the marketing processes, and the focus that has been able to be brought to bear on achievement of the programme. The shortcomings of this approach has been some disconnect between Camp and Base Command, Defence Shared Services, and the outsourced providers, which has been highlighted in this report. This has required a degree of management overhead to manage to relationships, negotiate responsibilities, and to ensure risks to the programme and to NZDF are actively managed. I am pleased to note the effort that has been made towards timely achievement of the programme in terms of sales values, numbers of houses disposed, and the continued focus on risk management.
- 5 I endorse and support the findings of the report and accept the recommendations.

Section 1

Introduction

Introduction

- 1.1 The NZDF introduced in 2008 a Universal Accommodation Component as part of remuneration, following a review of accommodation policy. The Universal Accommodation Component removed the need for the NZDF to provide service members with physical housing. Service members are able to make their own housing arrangements without being reliant on the availability of NZDF-owned property.
- 1.2 Since introduction of the Universal Accommodation Component demand for NZDF-owned housing has fallen. Some 25% of the total stock of around 2,400 houses is now vacant and further fall-off in demand is expected. The NZDF intends to stop providing housing for its employees except where there is no effective market source. The changing requirement for Service housing has presented an opportunity to reduce the cost of maintaining the housing stock and to improve the stock retained.
- 1.3 The NZDF in late 2009 began identifying and disposing of housing stock not needed. The NZDF established the Defence Housing Rationalisation Programme, under the oversight of the Director of Property and Housing, for this purpose. The aim of the Programme is to make the best use of housing stocks through disposal of vacant houses and to improve the quality and condition of those house that are required for long-term retention. Modelling of projected demand under the revised accommodation policy indicated that the NZDF would require access to only 464 houses by 2015.

Expectations

- 1.4 Our objective in conducting this evaluation was to assess the performance of the disposal process against the following expectations:
 - a Disposal of surplus housing is being conducted in accordance with policy.
 - b Robust decision-making processes exist to select houses for disposal.
 - c Housing disposal activities are efficiently managed and co-ordinated between HQ NZDF, Defence Shared Services and the Services.

- d Sale processes are ethical and meet statutory and regulatory requirements.
- e Appropriate project management, reporting and governance arrangements are in place.
- f Management, control and security of vacant houses are maintained during the disposal process.
- g There is an effective communication strategy.
- h Project management includes risk assessment and management, and appropriate health and safety considerations.
- i Disposal costs and proceeds from disposal have been forecast and actual costs and savings are being monitored against forecasts.

1.5 At Annex A we summarise our findings against these expectations.

Scope of rationalisation programme

1.6 The Defence Housing Rationalisation Programme includes:

- a the sale and removal of houses at Waiouru, Linton and Burnham;
- b the sale of land and houses at Hobsonville, Papakura and Bulls;¹
- c reallocation of tenancies where tenanted houses are identified for disposal; and
- d reinvestment in the remaining housing stock to improve standards.

1.7 Where houses are to be removed, the Programme coordinates disconnection of services and site clearance and remediation to a standard that allows mowing.

1.8 The NZDF has engaged property consultant Land Matters to manage the advertising and sale of houses, co-ordination of their removal.

1.9 In 2010, as part of the planning process, the NZDF categorised housing into four groups. Categorisation was to assist Defence Shared Service Property Group prioritise maintenance expenditure, and to reinforce internally that the NZDF had begun the process of disposal of housing. Houses were categorised as:

¹ Properties outside camp or base boundaries are being sold with the underlying land. House removal may not be required in these cases.

- a Red – houses identified for immediate sale.
- b Amber – houses identified for medium term sale and likely to move into the Red category within 2 to 5 years.
- c Green – houses to be retained, upgraded, and refurbished.
- d Blue – houses to be retained temporarily to mitigate barrack demand.

1.10 Fig 1.1 shows the status of housing in March 2010 as determined during the programme planning process.

Fig 1.1: NZDF housing stock as at March 2010

LOCATION	RED	AMBER	BLUE	GREEN
Burnham	59	45	14	212
Woodbourne	35	36		105
Trentham		75		
Linton	53	61	36	232
Ohakea (Bulls)	45	29	44	131
Waiouru	62	115	22	162
Papakura	49			7
Hobsonville	267			
Devonport		381		
Whenuapai	52	5		146
TOTAL	622	747	116	995

1.11 The programme is being conducted in two phases, with each phase comprising multiple stages. In each stage around 15 to 20 houses are being disposed of at each location, to avoid flooding the market.

Phase one

1.12 Phase One covers the disposal of Red houses at Waiouru, Linton, and Burnham (most of which were vacant) and off-base land and houses at Hobsonville, Papakura and Bulls. Phase One was temporarily suspended following the February 2011 Canterbury earthquake in case surplus houses were needed for relief accommodation. Phase One resumed in July 2011.

1.13 The NZDF anticipates the total proceeds from Phase One will be \$65.55 million, with annual savings of \$5 million in capital charge and \$3.3 million in maintenance.

Phase two

- 1.14 Phase Two will entail the removal of houses from Ohakea and Whenuapai, and disposal of houses and land adjacent to Burnham, Linton, Trentham and Waiouru camps, RNZAF Bases Woodbourne, Ohakea and Whenuapai, and the Naval Base. Some 1830 houses will be disposed of. The NZDF currently forecasts that Phase Two will generate \$268.11 million in revenue, with annual savings expected to be in the order of \$21.5 million in capital charge and \$9.2 million in maintenance costs. Planning for Phase Two is well advanced, but it has yet to be approved.

Section 2

Disposal process

Introduction

- 2.1 The identification of surplus housing was a collaborative process between the Directorate of Housing and Property, Defence Shared Services Property Group, local commanders, and local Defence Shared Services Service Delivery and Facilities Maintenance managers. The Programme Management Group initiated the preliminary identification of houses and consulted with local personnel.
- 2.2 The Programme Management Group coordinates disposals and uses commercial providers to meet Land Information New Zealand guidelines for disposal of Crown land.
- 2.3 Where a house selected for disposal has an existing tenant, the NZDF relocates the tenant before the sale and tender process commences.
- 2.4 We were told that initially there was local resistance to the programme, but that this diminished once a programme structure with defined responsibilities was established.

Project governance and management

- 2.5 The Defence Housing Rationalisation Programme was established in 2009, and is sponsored by the Director Housing and Property. The Infrastructure Committee of the Defence Force Leadership Board provides governance. As the Infrastructure Committee meets only infrequently, progress reporting is being made direct to committee members. A Programme Management Group provides strategic management. The Programme Management Group is required to meet fortnightly to review progress, programme risk, and risk mitigation activities. The Programme Management Group oversees pre-sale planning, the disposal tender programme, marketing, removal process, and adherence to compliance matters.
- 2.6 A Project Liaison Group, reporting to the Programme Management Group, oversees the programme, monitors action plans, risks and issues, and communicates with local Defence Shared Services managers.

- 2.7 The Programme Management Group includes external consultants, selected for their skills and experience to assist with establishing the programme. Programme Management Group members for Phase Two will be selected through more formal processes.
- 2.8 The NZDF has engaged the property consultancy firm Land Matters Ltd to manage the programme.
- 2.9 The Defence Shared Services Property Management Group supports the programme through Service Delivery managers and Facilities Maintenance managers at each affected location.
- 2.10 A Programme Management Plan has been issued. The plan is amended and adjusted as necessary.
- 2.11 We noted that the programme is not registered in the Programme Reporting System, as required by Defence Force Order 1/2006 *NZDF Programme Reporting System*.

Risk management

- 2.12 The Programme Management Group has a Business Project Manager who is responsible for the coordination and visibility of risk management. The Programme Management Group reviews the Programme Risk Register at each meeting. Members of the Project Liaison Group and Defence Shared Services receive updates. In July 2011 there were 17 active risks in the Risk Register.
- 2.13 Effective practices are in place to ensure adherence to health and safety compliance during the sale process. Purchasers are required to have appropriate health and safety and traffic management plans. A Buyer's Bond is held as collateral until the house is removed, to ensure the buyer complies with the conditions of the sale agreement.

Overview of sales process

- 2.14 The following discussion on the sale process reflects the situation at the end of June 2011.
- 2.15 The NZDF is selling surplus houses for either removal from NZDF land or as a sale of house plus land package.
- 2.16 The NZDF's agent, Land Matters, is conducting Phase One sales.
- 2.17 The NZDF has sold and removed under Phase One houses from Waiouru, Linton and Burnham at an average price of \$29,000 per house. The NZDF forecast the sale of 174 houses, at an average sale price of \$18,000, with net proceeds of \$3.155 million. Phase One has exceeded the forecast, with the generation of sales proceeds of \$3.3 million from the sale of 114 houses.

- 2.18 The NZDF received \$14.7 million for the sale of 72 houses and associated land at Hobsonville. The NZDF intends to transfer blocks of land and houses over a 5 year period to the Hobsonville Land Company, through Housing New Zealand Corporation. The Hobsonville Land Company acquired a previous release of housing following closure of the Hobsonville Air Base.
- 2.19 Phase One of the programme has demonstrated that there is a viable market for surplus NZDF housing. Revenue received so far from the sales process exceeds that forecast.

Sales activity

- 2.20 The selling agent, Land Matters, conducts all marketing and selling of houses selected for disposal in each stage.
- 2.21 A comprehensive work breakdown structure and timeline for the pre-sale process, marketing, sales and post sale process is set out in the Programme Management Plan. For each Stage of Phase One, the Programme Management Group established key programme dates and deliverables; advertising, open day, tender process, settlement and final sale for removal.
- 2.22 Local Facilities Management staff assist with the logistics of open homes, the disconnection of services, site health and safety, and co-ordination of house removal and site inspection.
- 2.23 Since November 2009, all listed houses at Waiouru have been sold. Sales at Linton have been less successful, but many houses that have not sold in the first offering have sold subsequently.
- 2.24 Fig 2.1 shows the progress with sales up to 30 June 2011. Fig 2.2 is a forecast of the properties that may be included in Phase Two. The detail of Phase Two has yet to be finalised.

Fig 2.1: Phase one estimated sales target and achievement to 30 June 2011

	ON-BASE HOUSES				OFF-BASE HOUSES			
	NUMBER		PROCEEDS \$ MILLION		NUMBER		PROCEEDS \$ MILLION	
	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL
Burnham	60	17	0.940	0.314				
Linton	56	49	1.680	1.504				
Waiouru	63	49	1.930	1.473				
Bulls					164		7	
Papakura					40		14	
Hobsonville					270	72	39	14.7
TOTAL	179	114	4.550	3.291	474	72	60	14.7

Fig 2.2: Phase two preliminary projections

	ON BASE		OFF BASE	
	NUMBER OF HOUSES	ESTIMATED PROCEEDS \$MILLION	NUMBER OF HOUSES	ESTIMATED PROCEEDS \$MILLION
Burnham			271	21.68
Woodbourne			176	17.6
Trentham			75	15
Linton			329	49.35
Ohakea	63	1.89	85	12.75
Waiouru			299	29.9
Whenuapai	56	1.68	96	19.2
Devonport			381	99.06
TOTAL	119	3.57	1,712	264.54

Site remediation

- 2.25 Following removal of houses, remediation of the site is necessary. This involves the removal and demolition of footings, concrete foundations, fences, paths, sheds, garages, driveways, and other structures to ground level; to enable re-grassing and to leave a mowable site. The intention is to integrate the land back within the camp facilities and to make it available for operational and training needs.
- 2.26 At Waiouru the contract for remediation work was let to a local contractor at an acceptable price. At Burnham the work was tendered and a competitive price obtained. Initial estimates of the cost of remediation at Linton were considered unacceptable. The contractor undertaking the work at Waiouru was invited to submit a price for the Linton work, which was accepted.
- 2.27 When Stage Two houses were sold at Linton, the Programme Management Group sought approval to award the remediation work to the same contractor. This was approved, but the Programme Management Group was advised that the total value of works at Linton had reached a level where any further remediation work would need to be competitively tendered.
- 2.28 The programme plan allows for six months between the initial Open Home and house removal. Defence Shared Services personnel told us that the 3 month period between Settlement Date and Final Removal Date is unnecessarily long and creates site health and safety concerns within the community. We acknowledge that sufficient time must be allowed to enable the purchaser to obtain relevant consents for the relocation of the house and to arrange removal, but think the NZDF should encourage purchases to remove houses expeditiously.

- 2.29 We viewed a sample of sites at both Linton and Waiouru and found that remediation was complete in most cases. However, some sites were incomplete, untidy, and lacked hazard control signage and warning tape. We think the NZDF needs to increase the monitoring of post sales remediation work.

Communications

- 2.30 The Defence Communications Group provides communications advice and tools to support the Defence Housing Rationalisation Programme. The present Communications Plan, established in March 2010, is now out dated. It needs review to reflect current CDF directives and Phase 2 of the Programme Management Plan.
- 2.31 The Defence Communications Group supports the programme by authorising media articles about the programme. A representative attends Programme Management Group meetings. There is a strong relationship between the Defence Communications Group and the Programme Management Group. The programme's Risk Register records communications and media risks.
- 2.32 We noted achievement of external objectives listed in the Communications Plan but not of some internal ones.
- 2.33 Local newsletters and other NZDF publications present information for internal audiences. The programme established a dedicated Intranet site with the intention that it be a centralised information source for latest updates and answers to questions. Updating of the site last occurred in October 2010. In its present state the NZDF Intranet site is not an effective communications tool.
- 2.34 The consultant, Land Matters, manages marketing and external 'sales focused' media coverage. External newspaper articles have extended the public awareness of the sales.
- 2.35 We heard some criticisms of the timeliness of communication with Defence Shared Services staff at some locations. While we understand that Defence Shared Services staff are included in the Programme Management Group and local project liaison groups, it seems there are some who feel they are not being given timely information about pending activities.
- 2.36 Overall we found effective external communications and house sale marketing. There is scope for improvement in internal NZDF communications.

Security

- 2.37 Defence Shared Services Facilities Maintenance is responsible for the security of vacant houses until settlement. After settlement date the purchaser takes over all responsibility and must insure the property.
- 2.38 In the early stages of the programme some houses were found unlocked before and after Open Homes, and items went missing between advertising and receipt of tenders. Mitigation steps were put in place to ensure houses were properly secured.
- 2.39 There has been theft and unauthorised removal of items from vacant houses. Items such as hot water cylinders, window latches, copper spouting and taps have been removed from the properties. Incidents include vandalism and broken windows. Theft affected presentation of the sale of 16 houses at Linton, as most of the houses had the copper spouting and hot water cylinders stolen. Flooding occurred when hot water cylinders were stolen from two houses where the water had not been disconnected. Some of these houses were withdrawn from sale and will be reoffered. The impact on likely sale proceeds is hard to determine.
- 2.40 Houses are advertised in an 'as-is' condition. If theft or damage occurs before the property is sold, prospective tenderers are advised. Any damage or theft following settlement is a risk for the purchaser.
- 2.41 NZDF personnel are not permitted to access any housing site that contains a vacant house or from which a house has been removed. This prohibition is published on the Defence Housing Rationalisation Programme intranet site and has been promulgated by local commanders.
- 2.42 While camp and base security personnel do patrol housing areas, enhanced security measures for vacant housing areas are necessary. The NZDF should address security arrangements in these areas.² Theft is noted as a risk in the programme's Risk Register but a closer focus is required to develop more effective prevention and mitigation strategies and rescue the reputational risk to the NZDF.

Recommendations

- 2.43 It is recommended that the NZDF:
- a registers the Defence Housing Rationalisation Programme in the Programme Reporting System;

² We acknowledge that in August 2011 closed circuit television cameras were installed in the Linton housing area.

- b encourages purchasers to remove houses expeditiously;
- c increases the monitoring of post-removal remediation work;
- d improves internal communication about the programme; and
- e enhances security for vacant housing areas.

Section 3

Financial performance

Introduction

- 3.1 The NZDF expects the reduction in housing stock will enable maintenance funds to be applied more effectively to remaining houses. The NZDF will return the revenue from housing sales to the Crown, and seek agreement to it counting retained Capital Charge towards the Defence Housing savings initiative target.
- 3.2 The NZDF estimates that at the completion of Phase One of the Programme it will have disposed of over 650 houses. With an average annual maintenance cost of \$5,000 per house, annual maintenance costs are expected to reduce by over \$3 million and capital charge by \$5 million.
- 3.3 Phase Two is expected to achieve revenue in the order of \$268 million. Annual maintenance costs are expected to reduce by over \$9 million and capital charge by over \$21 million.

Financial reporting

- 3.4 The Programme Sponsor authorises all programme costs. The NZDF uses a dedicated Land Rationalisation cost centre to capture all costs relating to the sale of property.
- 3.5 The programme has budgeted for operating costs and tenant relocation. The programme funds the re-location costs for those tenants who are required to move from a red house to facilitate its disposal.
- 3.6 Cost control is being monitored on the Risk Register. We noted the mitigation step of securing a cost report from SAP to review and monitor costs has been 'in progress' since August 2010 and still needs to be completed.
- 3.7 Overall the programme is meeting the original financial targets for revenue received from the house sale process. Although the programme is still in its early phases, we are satisfied that the revenue from sales should be sufficient to cover the costs of preparation, marketing, selling and site remediation. Confirmation of this will not be practical until the programme has advanced further.

Recommendations

- 3.8 It is recommended that the NZDF:
- a completes as a priority the development of cost reports.

Annex A

Expectations

EXPECTATION	ACHIEVED?	COMMENT
Disposal of surplus housing is being conducted in accordance with policy.	Partly achieved.	The Programme has not been registered in the NZDF Programme Reporting System.
Robust decision-making processes exist to select houses for disposal.	Achieved.	
Housing disposal activities are efficiently managed and co-ordinated between HQ NZDF, Defence Shared Services and the Services.	Achieved.	
Sale processes are ethical and meet statutory and regulatory requirements.	Achieved.	
Appropriate project management, reporting and governance arrangements are in place.	Partly achieved.	Project/programme reporting through the Programme Reporting System is not occurring.
Management, control and security of vacant houses are maintained during the disposal process.	Partly achieved.	Physical security of vacant properties has been inadequate but is being improved.
There is an effective communication strategy.	Partly achieved.	Up to date internal communication to the wider NZDF has not been maintained.
Project management includes risk assessment and management, and appropriate health and safety considerations.	Achieved.	
Disposal costs and proceeds from disposal have been forecast and actual costs and savings are being monitored against forecasts.	Partly achieved.	Development of a reporting process is awaited.

