

# VOTE *Housing*

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# Housing

## Overview

### Departmental Appropriations

Departmental operating appropriations sought for Vote Housing in 2006/07 total \$71.843 million. This is intended to be spent as follows:

- \$17.876 million (24.88% of departmental operating appropriations in this Vote) on providing services to tenants and landlords.
- \$5.662 million (7.88%) on providing sector and regulatory policy advice on the building and housing sector, and purchase and performance monitoring advice to Government in relation to Housing New Zealand Corporation.
- \$7.535 million (10.49%) on developing, implementing and maintaining registration and licensing regimes for building practitioners and electrical workers.
- \$16.928 million (23.56%) on the implementation of the Building Act 2004 and regulatory and control services for the building industry under the Building Act 2004.
- \$23.842 million (33.19%) on providing owners of dwelling houses affected by the leaky building syndrome with access to procedures for assessing and resolving claims relating to those buildings.

### Non-Departmental Appropriations

Non-departmental operating appropriations sought for Vote Housing in 2006/07 total \$459.353 million plus \$476.300 capital appropriations. This is intended to be spent as follows:

- \$2.912 million (0.31%) on the purchase of housing policy advice from Housing New Zealand Corporation.
- \$22.674 million (2.42%) on purchasing housing support services.
- \$417.452 million (44.62%) on IRR subsidies to Housing New Zealand Corporation.
- \$3.149 million (0.34%) on increase in provision for doubtful debts on IRR Debt.
- \$8.666 million (0.93%) on housing assistance payments.
- \$4.500 million (0.48%) on the community housing rent relief programme.
- \$476.300 million (50.90%) on capital expenditure of which \$476.255 million is for Housing New Zealand Corporation and \$45,000 is for a loan to the Architects Board to cover costs associated with implementing the Registered Architects Act 2005.

### Crown Revenue and Receipts

\$113.602 million of Crown revenue is forecast to be collected during 2006/07 and consists of:

- \$109.323 million interest on loans to Housing New Zealand Corporation.
- \$4.279 million dividend from Housing New Zealand Corporation.

Details of how the appropriations are to be applied appear in Parts B, C, D and E of this Vote. Details of Crown revenue appear in Part F.

## Terms and Definitions Used

HNZC	Housing New Zealand Corporation including all of its subsidiary companies
IRR	Income Related Rental
NECBOP	Northland, East Coast and Eastern Bay of Plenty
Third sector	Community based organisations including for example trusts and voluntary organisations

## Minister Portfolio Table

9	Minister for Building Issues
37	Minister of Housing

# Housing

VOTE MINISTER: Minister of Housing

ADMINISTERING DEPARTMENT: Department of Building and Housing

The Minister for Building Issues is the Responsible Minister for the Department of Building and Housing

## Part A - Statement of Objectives and Trends

### Part A1 - Objectives for Vote

#### *Related Government Goals*

The building and housing sector is a key part of the New Zealand economy and its performance is critical to achievement of Government's economic, social and environmental goals. The appropriations in Vote Housing fund the provision of advice and services aimed at ensuring that the people of New Zealand have access to quality homes and buildings that meet their needs and reflect our New Zealand environment.

The appropriations in Vote Housing will contribute to the following key Government priority areas:

- economic transformation
- families – young and old
- national identity.

The key priorities within Vote Housing are to:

- provide a range of social housing services
- increase the supply of state housing particularly in Auckland
- support local social housing initiatives that address housing need such as Community Renewal, Healthy Housing and operate the Housing Innovation Fund
- co-ordinate and monitor the implementation of the New Zealand Housing Strategy
- facilitate sustainable home ownership through the Mortgage Insurance Scheme, Low Deposit Rural Lending, and building maintenance and infrastructure loans
- ensure effective stewardship of state housing assets including maintaining, modernising and improving the state housing stock
- address the legacy of non-weathertight buildings, in addition to measures being put in place as part of the implementation of the Building Act 2004:
  - enhancing the performance of the Weathertight Homes Resolution Service by streamlining the management of the overall WHRS process, improving the assessment mediation and adjudication process, allowing home-owners to claim for all weathertightness damage to their houses, and introducing a 'class action' approach to disputes involving multi-unit dwellings
  - investigating mandatory home warranty insurance for new domestic dwellings and for significant repairs and renovations

- investigating professional indemnity insurance, to accompany the new occupational licensing regime
- running a consumer information campaign, to raise awareness of the weathertightness problem among home-owners and prospective home-owners, to provide advice on dispute resolution options and to assure home-owners that houses can be repaired
- making sure that non-weathertight houses are repaired early and that repair work is best practice
- implement the Building Act 2004, in particular:
  - a licensing regime for building practitioners to improve skills in the sector
  - an accreditation regime for territorial authorities for building consent functions
  - a product certification system that provides greater assurance around building product performance
  - a review of the building code to set standards for building work and building performance, including sustainable development and energy efficiency
  - a dam safety system to provide greater assurance around public and property safety.
- progress proposals to amend the Unit Titles Act, the Residential Tenancies Act and the Building Act, and implement the Retirement Villages Act
- implement a new service delivery approach for dispute resolution for Tenancy Services
- transfer of the electrical workers registration system from the Ministry of Economic Development to the Department of Building and Housing, from 1 September 2006
- complete an independent review of HNZC's Income Related Rental (IRR) subsidy
- build the capability the Department of Building and Housing through investment in core information and communications technology.

How the Government regulates the building and housing sector affects the sectors ability to contribute to New Zealand's economic performance and to social and environmental outcomes through the quality of buildings and the built environment. In 2006/07 the Departments strategies include:

- regulations and standards that better enable quality and innovation in building and housing practices
- better professional standards, skills and behaviours across the sector
- better awareness and understanding of building and housing issues
- more accessible and connected services
- working better with the sector and consumers
- increased support for responsible ministers to ensure appropriate governance and performance of crown entities and statutory boards.

Underpinning these strategies the Department is building its capability to fulfill its role. Organisational development and recruitment are key priorities.

The bulk of non-departmental funding in this Vote is provided to HNZC, in particular through capital contributions and the funding of the IRR subsidy. HNZC has a range of interventions in place to meet identified housing needs, particularly in Auckland. It acquires housing stock through a mix of redevelopment, building, purchasing and leasing, as well as continuing to modernise and improve its existing stock.

The funding is also used to assist people into homeownership. This is principally achieved through the Mortgage Insurance Scheme and a range of other products that aim to reduce financial and other barriers faced by people who may otherwise not be able to own their own home. The Corporation also works with communities to ensure that their housing needs are understood, that the most effective interventions are used to meet them and that this is sustainable over time. These interventions are essential elements in meeting Government housing priorities and goals.

The IRR subsidy plays an integral part in contributing to the Government's goals for housing by assisting people on low incomes to access social housing. The IRR subsidy ensures that those who most need financial assistance to remain in housing are able to get it and that it is a sustainable solution over time.

### *Links between Departmental Output Expenses and the Government's Priorities*

The following table shows the linkages between outputs being purchased from the Department of Building and Housing and the themes that constitute the Government's priorities for the next decade:

Output Expenses	Related Government Priorities
Residential Tenancy Services	Contributes to governments themes of economic transformation and families - young and old by providing access to residential tenancy information, advice, education and dispute resolution services, which ensure tenants and landlords: <ul style="list-style-type: none"> <li>• have access to the right information to make quality decisions and transact with confidence</li> <li>• have an understanding and awareness of their rights and obligations</li> <li>• can access services to resolve disputes and uphold and enforce their rights.</li> </ul>
Purchase and Monitoring Advice - Housing New Zealand Corporation	Contributes to the Government's families - young and old theme by providing purchase and monitoring advice in relation to Housing New Zealand Corporation with a focus on achieving the best social housing outcomes.
Sector and Regulatory Policy	Contributes to the Government's economic transformation, families - young and old and national identity themes by providing advice and information on the operation and regulation of the building and housing sector with a view to ensuring that it operates in an effective and efficient manner and delivers quality homes and buildings to the people of New Zealand that reflect our identity.
Occupational Licensing	Contributes to the Government's economic transformation theme by providing a regulatory regime that improves the skills and accountability of building practitioners; which in turn supports the provision of quality homes and buildings.
Building Act 2004 Implementation	Contributes to the Government's economic transformation and families - young and old themes by providing frameworks, advice and guidance on the new regulatory system to ensure that buildings and homes are built right first time and meet the needs of New Zealanders.
Building Regulation and Controls	Contributes to the Government's economic transformation, national identity and families - young and old themes through building controls that are focused on ensuring buildings and homes are built right first time, meet the needs of the people of New Zealand and reflect our New Zealand identity.
Weathertight Homes Resolution Service	Contributes to the Government's families - young and old theme by providing owners of dwelling houses affected by the leaky building syndrome with access to speedy, flexible and cost-effective procedures for assessment and resolution of claims relating to those buildings.

## *Links between the Non-Departmental Expenses and the Government's Priorities*

The links between the Government's key goals and non-departmental output expenses to be purchased from HNZC are:

Output Expenses	Related Government Priorities
Housing Policy Advice	Contributes to the Government's families - young and old theme through: <ul style="list-style-type: none"> <li>• strategic, sectoral and operational policy advice and research on housing issues, monitoring and evaluation of Government's rural housing programme and partnerships with third sector organisations, and</li> <li>• ministerial services to the Minister of Housing.</li> </ul>
Contracted Housing Support Services	Contributes to the Government's families – young and old theme through: <ul style="list-style-type: none"> <li>• purchasing education, information and capacity building services from the community sector to improve housing outcomes in areas where there is high concentration of state housing.</li> </ul>
HNZC Housing Support Services	Contributes to the Government's families - young and old theme through: <ul style="list-style-type: none"> <li>• housing and related services including capacity building with third sector housing providers, and</li> <li>• other key initiatives including Healthy Housing and Community Renewal programmes.</li> </ul>

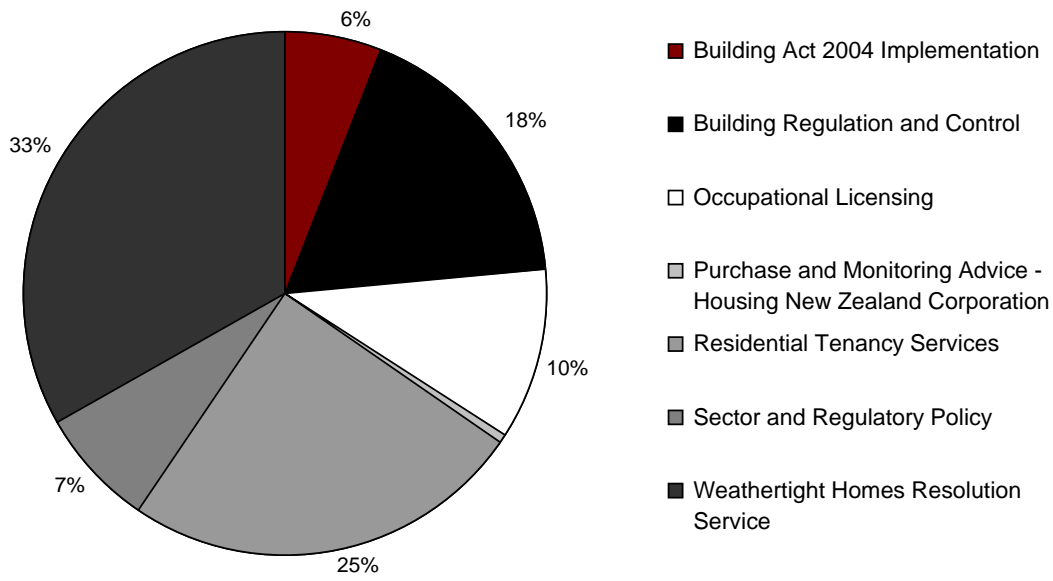
The links between themes that constitute the Government's priorities for the next decade and other non-departmental expenses are:

Other Non-Departmental Expenses	Related Government Priorities
Housing Assistance	Contributes to the Government's families – young and old theme through: <ul style="list-style-type: none"> <li>• assistance within communities and targeted rural areas to support sustainable housing solutions.</li> </ul>
Income-Related Rent Subsidy	Contributes to the Government's economic transformation, families and national identity themes through: <ul style="list-style-type: none"> <li>• access to reasonable quality, affordable state housing for at-risk and low-income tenants.</li> </ul>
Community Housing Rent Relief Programme	Contributes to the Government's families – young and old theme through: <ul style="list-style-type: none"> <li>• access to affordable housing for Community Groups.</li> </ul>

## **Vote Structure**

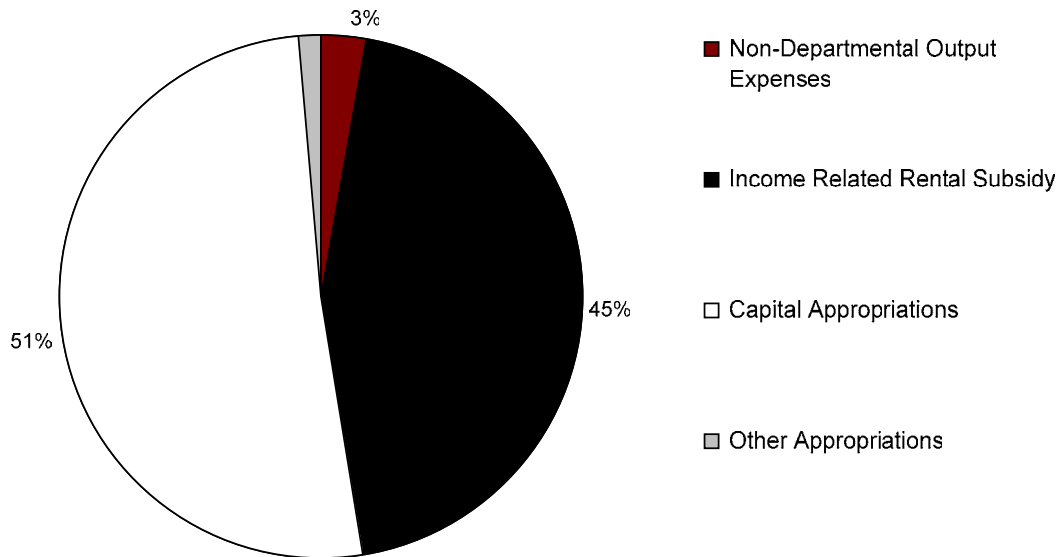
The graphs below display the structure of Vote Housing in terms of the level of annual appropriations and the proportion of each expense to the total appropriation for that class of expenses (departmental and non-departmental respectively) for 2006/07.

**Figure 1** – Department of Building and Housing departmental output expenses – 2006/07



Source: Department of Building and Housing

**Figure 2** – Non-departmental appropriations – 2006/07



Source: Department of Building and Housing

**Part A2 - Trends in Vote**

*Analysis by Appropriation Type*

**Departmental output expenses**

In 2002/03, \$588,000 was added to output classes Administration of Residential Tenancies Bond Monies and Residential Tenancies Information and Advice and Dispute Resolution to meet a substantial increase in demand for bond administration and a smaller increase in demand for dispute resolution services. This was funded partly from interest earned on the Tenancy bond fund.



During 2004/05 a review was carried out of the configuration of agencies and functions in the housing sector. After this review it was agreed to fold a range of regulatory and dispute resolution functions into an expanded and renamed Ministry of Housing, namely the Department of Building and Housing. The establishment of the new Department required output class structure changes to more accurately reflect the role of the new organisation

During 2004/05 the new output class, Residential Tenancy Services was created which was the amalgamation of the output classes Administration of Residential Tenancies Bond Monies and Residential Tenancies Information and Dispute Resolution.

The Building Act 2004 Implementation and Building Regulation and Controls output classes transferred from the Building Industry Authority. Occupational Licensing funding for the design, establishment and maintenance of the occupational licensing regime for building practitioners under the Building Act 2004 transferred from the Ministry of Economic Development.

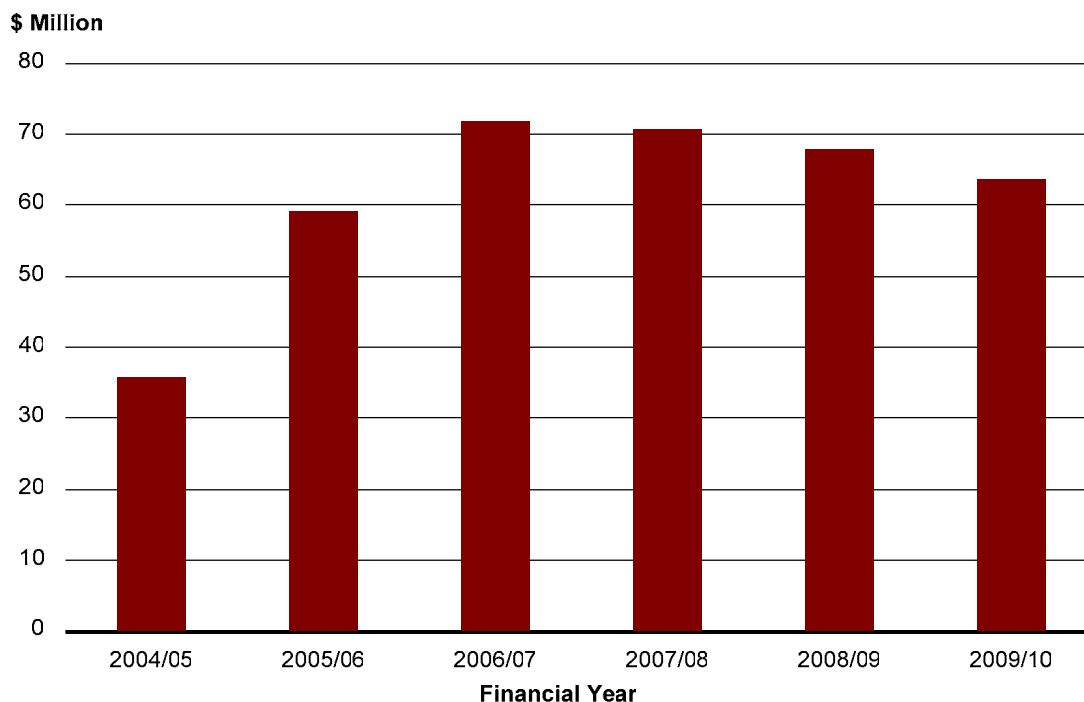
Additional appropriations in 2004/05 for these output classes totalled \$17.343 million.

In 2005/06 the Weathertight Homes Resolution Service transferred into the Department of Building and Housing from the Department of Internal Affairs with funding of \$17.689 million. The resolution service is provided to owners of dwelling houses affected by the leaky building syndrome.

The most significant developments in Budget 2006 are as follows:

- transfer of the electrical workers registration system from the Ministry of Economic Development (Vote Energy) from 1 September 2006
- additional funding to enhance the Weathertight Homes Resolution Service and for complementary initiatives - consumer education, the assessment and development of options for the introduction of home warranty insurance and professional indemnity insurance into New Zealand, and research to ensure that non-weathertight dwellings are repaired effectively, and
- capability funding to fund essential infrastructure resources for the recently formed Department of Building and Housing and, in particular, for core information and communications technology (ICT) systems and secondly, to provide a foundation for adequately maintaining an appropriate fixed asset base going forward.

The following chart shows the trend in departmental output expenses appropriations and reflects the establishment and ongoing formation of the Department of Building and Housing.

**Figure 3** – Trend in departmental output expenses appropriations from 2004/05 to 2009/10

Source: Department of Building and Housing

### Non-departmental output expenses

In 2001/02 funding for housing policy advice was transferred back to Vote Housing as a non-departmental output class. Since 1 July 2001 the housing policy advice function has been provided by HNZA, which was created from the restructure of three housing agencies.

In 2002/03 a new non-departmental output class: Contracted Housing Support Services was added. This output class contains housing services provided by third parties that previously were surplus-funded by HNZA.

In 2003/04 another new non-departmental output class: HNZA Housing Support Services was added. This output class contains housing services provided by HNZA, including capacity building of the third sector and operating funding associated with capital expenditure on HNZA assets.

In 2004/05, \$178,000 was added to support and enable HNZA to respond to increased demand for policy advice on housing issues and a further \$44,000 for the evaluation of the Government's housing response in the NECBOP regions. In addition \$267,000 was added to Contracted Housing Support Services to continue the fire safety campaign.

In 2005/06, a new non-departmental output expense: Registration Regime for Architects (\$225,000 for operating expenses and \$45,000 for capital contribution) was created for the establishment of a registration, monitoring and reporting regime for architects.

In 2005/06, \$7.500 million has been appropriated for the Rural Housing programme to continue addressing sub standard housing in rural areas, \$4.370 million to expand the current mortgage insurance scheme to assist people into homeownership, \$2.373 million to enable the continuation of the support for the Community Renewal programme. Additional appropriations include \$889,000 to enable the continuation of the support for the Healthy Housing programme; \$889,000 to implement a home ownership education programme, \$2.293 million to increase policy and research capability and \$444,000 to investigate a potential partnership arrangement between HNZA and Wellington City Council.

The most significant developments in Budget 2006 are as follows:

- implement a two year pilot loan assistance scheme for owners of non-weathertight homes, including loan guarantees of private sector loans, and Housing New Zealand Corporation (HNZC) direct lending products on commercial terms, and
- reprioritise the Mortgage Insurance Scheme (MIS, marketed as "Welcome Home Loans") underspends.

### **Benefits and Other Unrequited Expenses**

In 2004/05, \$4.500 million was added to the Housing Assistance appropriation to meet housing need in rural communities. This support was for one year only, with future funding decisions to be informed by evaluation and co-ordination work.

Changes to the IRR Subsidy are driven by forecasting changes. Forecasting changes comprise changes in the average subsidy rate and the number in force. The average subsidy rate forecast has increased as a result of an upward revision of market rents. This has been slightly offset by a reduction in the forecast number of tenants receiving an IRR subsidy (number in force).

### **Other expenses**

In 2001/02 the Non-departmental Other Expense: Community Housing Rent Relief Programme was transferred from the then Vote Social Services to Vote Housing.

The 2006 Budget provides for an appropriation for the increase in provision for doubtful debts on IRR Crown Debt. Prior to 2005/06, increases in debt provisions did not require an appropriation.

### **Capital expenditure**

In 2003/04, all capital contributions for HNZC were transferred from Vote Finance to Vote Housing. This comprises a mix of debt and equity funding paid by the Crown to HNZC.

In 2005/06 the capital injection includes \$10.000 million for the deinstitutionalisation of the Kimberley Centre and \$54 million to fund the transfer of Defence land at Hobsonville to HNZC.

From 2005/06 appropriations to refinance HNZC and Housing New Zealand Limited (HNZL) Crown debt were established and a \$30 million appropriation is included in 2005/06.

In Budget 2006 under spends in the Low Deposit Rural Lending Programme and savings in the Community-Owned Rural Rental Housing Loans (CORRHL) lending programme were identified and it agreed to reprioritise this capital funding within Vote Housing. This capital funding was redirected to the Third Sector and Local Government Housing Innovation Fund (HIF) lending programme, Housing Acquisitions, Housing Modernisations and a small proportion was assigned to the Department of Building and Housing to fund essential infrastructure resources and to provide a foundation for adequately maintaining an appropriate fixed asset base.

The \$476.300 million capital expenditure funding for 2006/07 comprises:

- \$183.106 million to HNZC to give effect to Government policy decisions around stock acquisitions (\$152.206 million), modernisations of existing housing stock (\$10 million) and refurbishment of Auckland City Council housing stock (\$20.9 million)
- \$259.342 million to cover the refinancing of HNZC's third party debt with Crown Debt
- \$45,000 provision for a loan to the Architects Board to cover costs associated with implementing the Registered Architects Act 2005 which will be repaid

- \$14.646 million for the Third Sector and Local Government Housing Innovation Fund (HIF) lending programme
- \$2.361 million to implement a two year pilot loan assistance scheme for owners of non-weathertight homes
- \$3 million for the Low Deposit Rural Lending (LDRL) programme
- \$2 million for the Community-Owned Rural Rental Housing Loans (CORRHL) lending programme, and
- \$11.800 million for community group housing acquisitions.

### **Crown revenue and receipts**

Interest income on loans and dividends are received from HNZC.

## New Policy Initiatives by Appropriation

Initiative	Appropriation as shown in Part B	\$000 increase/(decrease)				
		2005/06	2006/07	2007/08	2008/09	2009/10
Increasing the capability of the Department of Building and Housing	Departmental Output Expense - Residential Tenancy Services	-	64	576	668	664
	Departmental Output Expense - Sector and Regulatory Policy	-	16	143	167	166
	Departmental Output Expense - Building Act 2004 Implementation	-	15	-	-	-
	Departmental Output Expense - Occupational Licensing	-	27	264	311	309
	Departmental Output Expense - Purchase and Monitoring Advice - Housing New Zealand Corporation	-	1	13	15	15
	Departmental Output Expense - Weathertight Homes Resolution Service	-	58	505	579	576
	Departmental Output Expense - Building Regulation and Control	(600)	45	425	494	492
	Net Asset Schedule of Department of Building and Housing - Capital Injection	-	2,973	1,676	459	-
Department of Building and Housing Accommodation	Net Asset Schedule of Department of Building and Housing - Capital Transfer	570	(570)	-	-	-
Transfer of Electrical Workers Registration System from Vote Energy on 1 September 2006	Departmental Output Expense - Occupational Licensing	-	2,848	3,560	3,560	3,560
Building Code review	Departmental Output Expense - Building Act 2004 Implementation	-	-	780	-	-
Building consent authority accreditation	Departmental Output Expense - Building Act 2004 Implementation	-	396	505	-	-
	Departmental Output Expense - Building Regulation and Control	-	-	-	346	346
Weathertightness - Weathertight Homes Resolution Service and related initiatives	Departmental Output Expense - Building Regulation and Control	-	200	-	-	-
	Departmental Output Expense - Weathertight Homes Resolution Service	-	7,727	9,624	7,838	3,621
	Departmental Output Expense - Sector and Regulatory Policy	-	1,000	500	-	-
Financial assistance to owners of non-weathertight homes	Non-Departmental Output Expense - HNZC Housing Support Services	300	204	(24)	391	191
	Capital Expenditure - Capital Injections to Housing New Zealand Corporation for Housing Activities	-	2,361	2,597	(3,187)	(1,062)

Initiative	Appropriation as shown in Part B	\$000 increase/(decrease)				
		2005/06	2006/07	2007/08	2008/09	2009/10
Reprioritisation of the Welcome Home Loan programme	Non-Departmental Output Expense - HNZC Housing Support Services	(2,930)	(6,684)	(10,679)	(11,911)	(11,899)
IRR impact of Housing New Zealand Corporation housing acquisitions	Benefits and Other Unrequited Expenses - Income Related Rental Subsidy	-	(408)	(802)	(659)	(641)
IRR impact of Housing New Zealand Corporation modernisation work	Benefits and Other Unrequited Expenses - Income Related Rental Subsidy	-	(110)	324	2,054	3,067
Reprioritisation of Low Deposit Rural Lending programme	Capital Expenditure - Capital Injections to Housing New Zealand Corporation for Housing Activities	(12,000)	(17,000)	(17,000)	(20,000)	(20,000)
Increased funding for the Housing Innovation Fund lending programme partially offset by saving in the Community-Owned Rural Rental Housing Loans lending programme	Non-Departmental Output Expense - HNZC Housing Support Services	-	-	4,375	-	-
	Capital Expenditure - Capital Injections to Housing New Zealand Corporation for Housing Activities	(4,000)	-	12,000	-	-
Housing New Zealand Corporation housing acquisitions	Capital Expenditure - Capital Injections to Housing New Zealand Corporation for Housing Activities	-	2,000	28,000	32,000	-
Housing New Zealand Corporation housing modernisation work	Capital Expenditure - Capital Injections to Housing New Zealand Corporation for Housing Activities	-	10,000	-	-	-
<b>Total Initiatives</b>		<b>(18,660)</b>	<b>5,163</b>	<b>37,362</b>	<b>13,125</b>	<b>(20,595)</b>

# Part B - Statement of Appropriations

## Summary of Financial Activity

	2001/02	2002/03	2003/04	2004/05	2005/06		2006/07 Appropriations to be Used				2007/08	2008/09	2009/10	
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000	Estimated Actual \$000	By the Department Administering the Vote		For Non-Departmental Transactions		Total \$000	Estimated \$000	Estimated \$000	Estimated \$000
							Annual \$000	Other \$000	Annual \$000	Other \$000				
<b>Appropriations</b>														
Output Expenses	14,602	17,213	19,649	35,726	83,751	82,030	71,843	-	25,586	-	97,429	100,259	84,576	80,159
Benefits and Other Unrequited Expenses	279,144	301,464	347,463	383,602	402,897	402,897	N/A	N/A	426,118	-	426,118	442,785	460,470	480,084
Borrowing Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Other Expenses	4,500	4,500	4,500	4,500	7,101	7,101	-	-	7,649	-	7,649	8,620	9,133	9,334
Capital Expenditure	-	24,965	612,206	202,416	293,797	288,697	N/A	N/A	476,300	-	476,300	313,114	226,293	239,380
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	-	N/A	N/A	-	-	-	-
<b>Total Appropriations</b>	<b>298,246</b>	<b>348,142</b>	<b>983,818</b>	<b>626,244</b>	<b>787,546</b>	<b>780,725</b>	<b>71,843</b>	<b>-</b>	<b>935,653</b>	<b>-</b>	<b>1,007,496</b>	<b>864,778</b>	<b>780,472</b>	<b>808,957</b>
<b>Crown Revenue and Receipts</b>														
Tax Revenue	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
Non-Tax Revenue	-	-	226,488	129,244	112,030	112,030	N/A	N/A	N/A	N/A	113,602	120,329	123,408	123,870
Capital Receipts	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
<b>Total Crown Revenue and Receipts</b>	<b>-</b>	<b>-</b>	<b>226,488</b>	<b>129,244</b>	<b>112,030</b>	<b>112,030</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>113,602</b>	<b>120,329</b>	<b>123,408</b>	<b>123,870</b>

## Part B1 - Details of Appropriations

Appropriations	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
<b>Departmental Output Expenses (General)</b>							
Building Act 2004 Implementation (M9)	3,610	-	3,510	-	4,288	-	- To provide funding for the implementation of the Building Act 2004.  Reason for Change: The increase in appropriation relates to the phasing of expenditure for the implementation of the Building Act 2004, a project expected to be completed in 2007/08, and additional funding in Budget 2006 for the implementation of the Building Consent Authority accreditation scheme.
Building Regulation and Control (M9)	11,620	-	11,620	-	12,640	-	- To provide regulatory and control services for the building industry under the Building Act 2004.  Reason for Change: The increase in appropriation relates to a one-off expenditure saving in 2005/06, additional funding in the 2006 Budget to conduct research to define "best practice" in the repair of non-weathertight dwellings and higher level of funding for capability.
Occupational Licensing (M9)	4,105	-	2,844	-	7,535	-	- Developing, implementing and maintaining registration and licensing regimes for building practitioners and electrical workers.  Reason for Change: The increase in appropriation primarily relates to the transfer of the electrical workers registration system from Vote Energy on 1 September 2006.
Purchase and Monitoring Advice - Housing New Zealand Corporation (M37)	402	-	402	-	404	-	- Provision of purchase and performance monitoring advice to Government in relation to HNZC.
Residential Tenancy Services (M9)	17,762	-	17,762	-	17,876	-	- Administration of residential tenancies bond monies, including collecting and repaying bond monies, managing and investing bond monies, provision of mediation and dispute resolution services to tenants and landlords in relation to residential tenancies as required by Residential Tenancies Act 1986.  Reason for Change: The increase in appropriation is for the incorporation of the former State Housing Appeal Services output expense (\$67,000), higher level of funding for capability (\$79,000) offset by a change in State Sector Retirement Savings Scheme funding requirements (-\$32,000).



Appropriations	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Sector and Regulatory Policy (M9)	3,938	-	3,938	-	5,258	-	- To provide sector and regulatory policy advice on the building and housing sector.  Reason for Change: The increase in appropriation relates to the transfer of appropriation for the oversight of statutory boards from the Occupational Licensing output expense and additional funding in Budget 2006 for consumer education and insurance arrangements for non-weathertight dwellings.
State Housing Appeal Services (M9)	67	-	67	-	-	-	- Administration of the Appeal Authority, which hears appeals against decisions of HNZC on IRRs and housing allocations.  Reason for Change: This output expense has been subsumed into the Residential Tenancy output expense.
Weathertight Homes Resolution Service (M9)	17,739	-	17,739	-	23,842	-	- To provide owners of dwelling houses affected by the leaky building syndrome with access to speedy, flexible and cost-effective procedures for assessment and resolution of claims relating to those buildings.  Reason for Change: An increase in funding in Budget 2006 for a set of measures to enhance the effectiveness and efficiency of the Weathertight Homes Resolution Service.
<b>Total Departmental Output Expenses (General)</b>	59,243	-	57,882	-	71,843	-	
<b>Non-Departmental Output Expenses</b>							
Contracted Housing Support Services (M37)	9,857	-	9,857	-	11,183	-	- Purchase of education, support, capacity building and other services from third-party providers, by HNZC, to support target groups into improved housing outcomes including the Government's housing response in NECBOP areas.  Reason for Change: Primarily due to increased funding provided in Budget 2005 for the home ownership education programme.
HNZC Housing Support Services (M37)	10,597	-	10,597	-	11,491	-	- Purchase of housing related services from HNZC including capacity building with third sector providers, home ownership initiatives, Community Renewal and Healthy Housing.  Reason for Change: The net increase of \$894,000 is due to an increase in funding for the Mortgage Insurance Scheme (\$2.435 million), a decrease in the Third Sector and Local Government Housing Innovation Fund (-\$1.465 million), an increase in the Community Renewal programme (\$98,000), a decrease for Budget 2006 initiative Financial Assistance to Owners of Non-Weathertight Homes (-\$96,000) and decrease due to cessation of funding in 2005/06 for the low cost design initiative (-\$78,000).

	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
<b>Appropriations</b>							
<b>Non-Departmental Output Expenses - cont'd</b>							
Housing Policy Advice (M37)	3,829	-	3,469	-	2,912	-	- Purchase of housing policy advice, research and evaluation from HNZC.  Reason for Change: The 2005/06 figure includes one-off funding for the Centre for Housing Research Aotearoa New Zealand and a higher level of funding to HNZC policy capability.
Registration Regime for Architects (M9)	225	-	225	-	-	-	- To fund the introduction of a new registration, reporting and monitoring regime for Architects.  Reason for Change: One-off funding in 2005/06.
<b>Total Non-Departmental Output Expenses</b>	24,508	-	24,148	-	25,586	-	
<b>Benefits and Other Unrequited Expenses</b>							
Housing Assistance (M37)	7,664	-	7,664	-	8,666	-	- Payments made to HNZC and other mortgage providers to compensate for the difference between the cost of funds and rate at which funds are lent and provide write-offs for loans.  Reason for Change: The \$1.002 million increase in funding is made up of increases for NECBOP interest subsidy on loans (\$289,000) and Third Sector and Local Government Housing Innovation Fund programme (\$713,000).
Income Related Rental Subsidy (M37)	395,233	-	395,233	-	417,452	-	- Subsidy provided to HNZC to compensate for the difference between assessed income-related and market rentals.  Reason for Change: The increase is due to an upward revision of forecast market rents, slightly offset by a reduction in the forecast number of tenants receiving the IRR subsidy.
<b>Total Benefits and Other Unrequited Expenses</b>	402,897	-	402,897	-	426,118	-	
<b>Other Expenses to be Incurred by the Crown</b>							
Community Housing Rent Relief Programme (M37)	4,500	-	4,500	-	4,500	-	- Contestable rent relief fund for service provider tenants of Community Group Housing properties who face difficulties in meeting rental payments.
Increase in Debt Provision (M37)	2,601	-	2,601	-	3,149	-	- Increase in provision for doubtful debts on Income Related Rents Crown Debt.
<b>Total Other Expenses to be Incurred by the Crown</b>	7,101	-	7,101	-	7,649	-	
<b>Capital Expenditure</b>							
Activities for State Housing Purposes (M37)	54,000	-	54,000	-	-	-	- Activities undertaken for state housing purposes by HNZC as an agent for the Crown under the Housing Act 1955.  Reason for Change: One-off funding in 2005/06.

Appropriations	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Capital Injections to Housing New Zealand Corporation for Housing Activities (M37)	209,797	-	204,697	-	216,913	-	- Capital injections (debt or equity) to HNZN to give effect to Government policy decisions around stock acquisition, modernisation and other housing interventions.  Reason for Change: The \$7.116 million net increase comprises increases in funding for state house acquisitions (\$48.322 million), modernisation of ex Auckland City Council properties (\$4.5 million) and financial assistance to owners of non-weathertight homes (\$2.361 million) offset by decreases for Local Government and Third Sector Housing (-\$505,000), Community Housing (-\$12.9 million), Community-Owned Rural Rental Housing Loans (-\$6.162 million), for the Low Deposit Rural Lending programme (-\$5 million), and state house modernisations (-\$23.5 million).
Housing New Zealand Corporation - Loans to Refinance Third Party Debt (M37)	-	-	-	-	259,342	-	- Funding to cover the refinancing of HNZN's third party debt with Crown Debt.
Housing New Zealand Limited (HNZL) - Loans to Refinance Crown Debt (M37)	30,000	-	30,000	-	-	-	- Capital injections to HNZN for housing activities, for the purpose of refinancing HNZN's debt portfolio.
Loan to Registered Architects Board (M9)	-	-	-	-	45	-	- Loan to Architects Board to cover costs associated with implementing the Registered Architects Act 2005 which will be repaid.
<b>Total Capital Expenditure</b>	293,797	-	288,697	-	476,300	-	
<b>Total Appropriations</b>	787,546	-	780,725	-	1,007,496	-	

## Part C - Explanation of Appropriations for Output Expenses

### Part C1 - Departmental Output Expenses

#### *Residential Tenancies Services*

This output expense involves the administration of the Residential Tenancy Act 1986. It includes:

- the provision of dispute resolution services, information, education, and advice
- undertaking compliance activity
- the administration of residential tenancy bond monies, and
- the provision of administrative support to the State Housing Appeals Authority, an external appeals authority established to hear appeals against HNZC decisions on the assessment of IRRs and applicants' eligibility and need for HNZC housing.

#### *Purchase and Monitoring Advice - Housing New Zealand Corporation*

This output expense involves the provision of purchase and monitoring advice in relation to HNZC. In particular, this output expense involves:

- providing the Minister of Housing with purchase advice on the efficiency and effectiveness of Government spending and intervention in the housing sector, and
- providing Ministers of Housing and Finance with advice on the performance of HNZC.

#### *Sector and Regulatory Policy*

This output expense involves the provision of policy advice in relation to the building and housing sector in New Zealand. It includes the provision of policy advice on Government's regulation of the building and housing sector, monitoring the building and housing sector, and the provision of the regulatory framework for the building industry. In particular, this output expense involves:

- developing capability and capacity to monitor the building and housing sector
- providing policy advice on the building and housing sector and legislation regulating the sector, as requested
- improving the regulatory environment for business and the outcomes for building users
- developing regulations required to implement the Building Act 2004
- reviewing the Unit Titles Act 1972 and the Residential Tenancies Act 1986, and
- establishing a Building Advisory Panel to provide independent and specialist advice on building issues.

#### *Building Act 2004 Implementation*

This output class involves implementing provisions of the Building Act 2004 with supporting regulations. It includes establishing regulatory schemes and operational frameworks such as the Building Consent

Authority accreditation and registration scheme, providing advice and guidance on the new regulatory systems, and reviewing the Building Code. In particular, this output expense involves:

- developing the accreditation scheme for Building Consent Authorities
- reviewing the Building Code
- developing a Product Certification Scheme
- promoting awareness of key changes to the Building Act 2004 and building controls regime and the implications for consumers, and
- developing other associated processes to support the Building Act 2004.

### *Occupational Licensing*

This output expense involves developing, implementing and maintaining registration and licensing regimes for building practitioners and electrical workers. In particular, activities within this output expense include:

- Building practitioners
  - developing licensing regulations for Ministerial approval
  - developing rules including competency standards and assessment processes for Building Practitioner Board approval
  - developing operational policy and procedures for assessments, complaints, appeals, fees and levies, and
  - designing and developing information technology and business systems to support the licensing regime.
- Electrical workers
  - commencing implementation of the Energy Safety Review Bill when it is introduced into law, and
  - achieving a seamless transfer of the electrical workers registration system from the Ministry of Economic Development to the Department of Building and Housing, from 1 September 2006.

### *Building Regulation and Control*

This output expense involves delivering a regulatory regime that ensures buildings are built right first time and meet the needs of New Zealanders. It includes specifying the regulatory environment, setting standards for buildings and building sector capability, and providing advice and guidance about the regulations and standards. In particular, this output expense involves:

- delivering performance based building controls that achieve the optimal balance between societal expectations, innovation and cost imposition on the building industry
- ensuring adherence to building controls by the building industry through the effective operation and enforcement of the regulation by Territorial Authorities and building consent authorities
- monitoring performance outcomes of the building and construction industry to guide improvement in the regulatory building controls regime, and

- providing information and guidance to the sector and consumers on how to meet the requirements of the Building Code, make informed decisions and successfully navigate the building control process throughout a building project.

### *Weathertight Homes Resolution Service*

The purpose of the Weathertight Homes Resolution Services Act 2002 is to provide owners of dwelling houses that are leaky buildings with access to speedy, flexible, and cost-effective procedures for assessment and resolution of claims relating to those buildings.

The Weathertight Homes Resolution Service (WHRS), established in November 2002, provides assessment and dispute resolution services, either mediation or adjudication for homeowners whose homes are affected by the leaky building syndrome. The dispute resolution services are an alternative option to legal action through the court system.

- The Service assesses eligibility of claims under identified criteria set out in the WHRS Act 2002, and provides for an independent assessment of the specific technical issues of each claim, including remedial measures and cost.
- The Service provides a voluntary, confidential mediation service through which the claimant and other parties can express their perspectives and potentially agree on a settlement.

Where mediation is not the preferred option of the parties, or where a successful settlement is not achieved, the Service provides the option of an adjudication process. The adjudication service includes provision for compulsory involvement and for enforceable determinations by an adjudicator appointed by the Governor-General.

In Budget 2006 additional funding of \$7.727 million in 2006/07, \$9.624 million in 2007/08, \$7.838 million in 2008/09 and \$3.621 million in outyears has been provided to implement a set of measures to enhance the effectiveness and efficiency of the Weathertight Homes Resolution Service.

The measures will involve the Government purchasing improved quality of services, a reduction in the time taken to resolve claims, and a consequential reduction in legal costs for home-owners using the WHRS (and for the liable parties involved). These changes are intended to encourage more home-owners to resolve disputes, leading to an increase in the rate at which non-weathertight houses in New Zealand were repaired.

Specifically, Government will be purchasing (among other enhancements):

- more comprehensive and accurate assessment of houses
- more highly skilled assessors
- a process for benchmarking and moderating the work of different assessors, to improve quality and achieve greater consistency in technique
- introduction of a new approach to case management (focused on assisting home-owners to manage their claim and commence their repairs)
- more input from adjudicators at the outset (i.e. before mediation commences) to “gather” liable parties, set a time-table for mediation, and set ground-rules, and
- the resolution of a larger number of claims each year than in the past (resulting from increased demand for the WHRS).

## Part C2 - Non-Departmental Output Expenses

### *Housing Policy Advice*

This non-departmental output expense involves the purchase of housing policy advice from HNZC.

HNZC provides the Minister of Housing with policy advice, research and evaluation relating to the housing sector and housing outcomes.

### *Contracted Housing Support Services*

This non-departmental output expense involves the purchase of education including the home ownership education programme, information and capacity building services from the community sector by HNZC, to support target groups into improved housing outcomes and the Rural Housing programme to address sub-standard housing in rural areas.

### *HNZC Housing Support Services*

This non-departmental output expense involves the purchase of housing and related services from HNZC, to enable them to provide and work with other community organisations, iwi and local Government to provide appropriate housing solutions for New Zealanders with housing need. This includes capacity building with third sector providers and operating funding associated with Community Renewal and Healthy Housing programmes and the Mortgage Insurance Scheme to assist people into home ownership.

## Part D - Explanation of Appropriations for Other Operating Flows

### Part D1 - Benefits and Other Unrequited Expenses

#### *Income Related Rental Subsidy*

- Income Related Rentals for eligible HNZN tenants are governed by the Housing Restructuring (Income Related Rents) Amendment Act 2001.
- Those HNZN tenants on low incomes, that is income at or below the rate of New Zealand superannuation, will pay no more than 25% of their income on rent. Those with higher incomes will have an appropriate income related rent calculated using an abatement formula. The incomes assessed will be those of the signatories to the Tenancy Agreement and their partners. In no case shall the income related rent exceed the market rent for the property.

#### *Housing Assistance*

Housing Assistance includes:

- payments made to HNZN and other mortgage providers to compensate for the difference between the cost of funds and the rate at which funds are lent
- payments made to HNZN to provide funding for loan write-offs associated with conditional grants and the Housing Innovation Fund programme
- payments made to HNZN to provide funding for NECBOP and other programme loan write offs
- the decrease is due to the reclassification of Mortgage Insurance Scheme (to HNZN Housing Support Services) and Rural Housing programme (to Contracted Housing Support Services) appropriations.

### Part D3 - Other Expenses

#### *Community Housing Rent Relief Programme*

HNZN leases around 1,300 tenancies to community groups, which are contracted to provide support services to people with disabilities, women needing refuge and emergency housing. The rent relief fund provides assistance to these tenants who face difficulty meeting their rental costs.

#### *Increase in Debt Provision*

This appropriation was established in 2005/06 to recognise any increase in the provision for doubtful debts on IRR Debt. This is a new requirement under the Public Finance Act. Prior to 2005/06, increases in debt provisions did not require an appropriation.



## Part E - Explanation of Capital Flows

### Part E1 - Explanation of Movements in Departmental Net Asset Schedules

Details of Net Asset Schedule for Department of Building and Housing	Estimated Actual 2005/06 \$000	Projected 2006/07 \$000	Explanation of Projected Movements in 2006/07
Opening Balance	4,152	10,555	
Capital Injections	9,241	7,715	To fund a projected deficit in the Occupational Licensing memorandum account (\$3.254 million), a capital transfer from 2005/06 for development of a licensing system for building practitioners (\$905,000), a capital injection to fund essential infrastructure resources (\$2.973 million) and a net asset transfer from the Ministry of Economic Development for the electrical workers registration system (\$583,000).
Capital Withdrawals	(2,838)	(1,520)	Projected surplus in the Building Controls memorandum account.
Surplus to be Retained (Deficit Incurred)	-	(1,746)	
Other Movements	-	-	
Closing Balance	10,555	15,004	

### Part E2 - Statement of Estimated and Forecast Net Worth of Entities Owned

#### *Net Worth of Entities Owned*

##### Statement of Estimated and Forecast Net Worth

	Balance Date	Estimated Net Worth 2005 \$000	Forecast Net Worth 2006 \$000
Housing New Zealand Corporation	30 June	9,873	10,042

The increase in forecast net worth reflects Government policy decisions resulting in increases to the housing portfolio, and capital growth.

### Part E3 - Explanation of Appropriations for Capital Expenditure

#### *Capital Injections to Housing New Zealand Corporation for Housing Activities*

This appropriation enables HNZC to purchase and build additional state houses, reconfigure existing state houses and to build up its modernisation capacity to halt the long-term deterioration of state houses. The appropriation also enables HNZC to purchase and modify community houses, and fund third-sector housing innovation, appropriate rural borrowers and community based organisations.

### *Activities for State Housing Purposes*

Activities undertaken for state housing purposes by HNZN as agent for the Crown under the Housing Act 1955. The appropriation in 2005/06 enabled HNZN to purchase land at Hobsonville from the New Zealand Defence Force.

### *Loan to Architects Board*

Loan to the Architects Board to cover costs associated with implementing the Registered Architects Act 2005, which will be repaid.

### *Housing New Zealand Limited (HNZL) - Loans to Refinance Crown Debt*

Capital injections to HNZN for housing activities, for the purpose of refinancing Crown debt by HNZN.

## Part F - Crown Revenue and Receipts

### Part F1 - Current and Capital Revenue and Capital Receipts

	2005/06		2006/07	Description of 2006/07 Crown Revenue
	Budgeted \$000	Estimated Actual \$000	Budget \$000	
<b>Non-Tax Revenue</b>				
Dividend from HNZC	14,140	14,140	4,279	Dividend received from HNZC.  Reason for Change: The decrease from 2005/06 to 2006/07 is due to increased depreciation expense resulting from significant increases in property valuations at 30 June 2005.
Interest on Housing New Zealand Corporation Loans	97,890	97,890	109,323	Interest on loans to HNZC.  Reason for Change: The level of interest receipts varies with movements in interest rates and the level of Crown investments.
<b>Total Non-Tax Revenue</b>	112,030	112,030	113,602	
<b>Total Crown Revenue and Receipts</b>	112,030	112,030	113,602	

## Part G - Statement of Reconciliations

### Part G1 - Changes in Appropriation Categories

From 2006/07 the State Housing Appeals Services output expense has been subsumed into the Residential Tenancies Services output expense and the Revenue Crown funded activity for the oversight of statutory boards has been transferred from the Occupational Licensing output expense to the Sector and Regulatory Policy output expense.

2005/06 Cumulative Vote in Old (2005/06) Structure	\$000	Structure Changes	\$000	Cumulative Vote in New (2006/07) Structure	2005/06 \$000	2006/07 \$000
<b>Departmental Output Expenses</b>				<b>Departmental Output Expenses</b>		
State Housing Appeal Services	67	To Residential Tenancy Services	(67)		-	-
Residential Tenancy Services	17,762	From State Housing Appeal Services	67	Residential Tenancy Services	17,829	17,876
Sector and Regulatory Policy	3,938	From Occupational Licensing	249	Sector and Regulatory Policy	4,187	5,258
Occupational Licensing	4,105	To Sector and Regulatory Policy	(249)	Occupational Licensing	3,856	7,535
Other departmental output expenses	33,371				33,371	41,174
<b>Total Departmental Output Expenses</b>	<b>59,243</b>		<b>-</b>	<b>Total Departmental Output Expenses</b>	<b>59,243</b>	<b>71,843</b>