

Vote: Housing
Title: Line by Line Savings - Non-departmental
Author: Housing New Zealand Corporation

Brief Description:

This report outlines the Corporation's response to the Minister of Finance's letter dated 22 December 2008 addressed to the Chair, Housing New Zealand Corporation Board. The Corporation has identified savings, including definite savings that the Corporation can make and savings that are possible but which the Corporation believes have risks associated with giving up the appropriation.

Initiative Type: Savings

Priority Area:

Initiative Ranking: 2

Funding sought (\$ thousands)

\$000	2008/09	2009/10	2010/11	2011/12	2012/13
Offsetting savings/revenue	26,365	6,990	6,992	6,661	6,661
Net operating impact (GST excl)	-26,365	-6,990	-6,992	-6,661	-6,661
Offsetting capital saving	14,469	14,083	0	0	0
Net capital impact	-14,469	-14,083	0	0	0

Performance Specification:

Table 1 Confirmed Savings based on reduced demand and Ministers' decisions

Programme	Appropriation 2008/09 \$m	Est Surplus 2008/09 \$m	Est Surplus Out years \$m	Rationale	Appropriation type
Housing Innovation Fund – Capacity Grants	1.871	1.464	Nil	Ministerial decision to cease grants	Non-Departmental Output Expense
Community Owned Rural rental Housing Loans and Special Housing Action Zones bridging finance	1.500	0.300	Nil	Reduction in market interest rates and delays in funding	Benefits and Other Unrequited Expenses
Housing Innovation Fund – interest subsidy	9.371	1.483	6.122 (2009/10), 6.054 (2010/11), 5.793 (2011/12) 5.793 (2012/13)	Reduction in market interest rates, delays in funding and transfer of HIF loans to Crown Balance Sheet	Benefits and Other Unrequited Expenses
Home Ownership Education (Low Deposit Rural Loan Education and Support (LDRL))	0.868	0.868	0.868	Insufficient demand	Non-Departmental Output Expense

Home Ownership – Welcome Home Loan Mortgage Insurance	7.580	3.300	Possible, See table 2	Insufficient demand due to market conditions	Non- Departmental Output Expense
Home Ownership – Non-Weathertight Homes (administration costs)	0.240	0.200	Nil	Demand reduced	Non- Departmental Output Expense
Community Group Housing – Rent Support (additional funding to cover alignment with market rates)	0.500	0.500	Nil	Ministerial decision not to charge market rents	Other Expenses
Home Ownership – Shared Equity	18.469	14.469	14.083 (2009/10)	Programme over funded for demand profile	Capital
Total confirmed savings		22.584	21.073 (2009/10)		

Table 2 Confirmed savings available from internal budget for 2008/09

Areas of savings in the current financial year	\$ million
Maintenance	13.2
Interest	1.5
Salaries	1.0
Travel	0.7
Consultants	0.8
Projects	0.9
Marketing and Communications	0.15
Total	18.25

Please see attached Housing New Zealand Corporation briefing in response to all other information requirements.

Please note that due to tight timeframes for submissions received, the Department and the Corporation agreed that the Corporation's submission for the Line by Line Expenditure Review would be appended in full.

Housing New Zealand Corporation

BN/09/

2 February 2009

Minister of Housing

Budget 2009: Housing Corporation Review of Programmes Identifying Savings and Expenditure for Reprioritisation

Recommendations

1 It is recommended that you:

- | | |
|---|--------|
| a) note that actual savings of \$22.584 million in 2008/2009 and \$21.073 million in 2009/2010 have been identified in programmes funded through appropriations of Vote Housing. | Yes/No |
| b) <i>[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i> | Yes/No |
| c) provide direction on the future of programmes including Community Group Housing - rent support , Welcome Home Loan Mortgage Insurance and the Shared Equity scheme. | Yes/No |
| d) note that savings identified in the Hobsonville development arise from timing differences due to the deferral of acquisitions to outyears. | Yes/No |
| e) agree with respect to the savings identified for the Hobsonville development either: <ul style="list-style-type: none">– the deferred capital expenditure should be carried forward for funding the 2012/2013 year; or– the deferred capital expenditure be released as savings in this line by line review of appropriations. | |
| f) <i>[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i> | Yes/No |
| g) agree in principle subject to the Minister of Finance's approval that the savings be reinvested in the Corporation's state house modernisation programme. | |

- h) **note** the funding risks identified in respect of the HAA, the Gateway programme, and the Housing Innovation Fund operating expenditure and **provide direction** on the future of these programmes. Yes/No

Executive summary

- 2 This report outlines the Corporation's response to the Minister of Finance's letter dated 22 December 2008 addressed to the Chair, Housing New Zealand Corporation Board. In the Minister's letter he expressed the Government's expectation that the Corporation review its current policies for alignment with the current Government's policies. The Minister also directed Crown entities to work with monitoring departments to develop a process for reviewing performance and output delivery with a focus on ensuring value for money.
- 3 Following our meeting with you and the Department of Building and Housing (DBH) on 27 January the Corporation has reviewed the savings identified in the report dated 21 January 2009. The outcome of this further review is summarised in Table 1 and Table 2 below. Table 1 includes definite savings that the Corporation can make. Table 2 highlights savings that are possible but have risks associated with giving up the appropriation, some of which require Ministerial policy decisions around the programmes.

Table 3 Confirmed Savings based on reduced demand and Ministers' decisions

Programme	Appropriation-2008/09 \$m	Est Surplus – 2008/09 \$m	Est Surplus – Out years \$m	Rationale	Appropriation type
Housing Innovation Fund – Capacity Grants	1.871	1.464	Nil	Ministerial decision to cease grants	Non-Departmental Output Expense
Community Owned Rural rental Housing Loans and Special Housing Action Zones bridging finance	1.500	0.300	Nil	Reduction in market interest rates and delays in funding	Benefits and Other Unrequited Expenses
Housing Innovation Fund – interest subsidy	9.371	1.483	6.122 (2009/10), 6.054 (2010/11), 5.793 (2011/12) 5.793 (2012/13)	Reduction in market interest rates, delays in funding and transfer of HIF loans to Crown Balance Sheet	Benefits and Other Unrequited Expenses
Home Ownership Education (Low Deposit Rural Loan Education and	0.868	0.868	0.868	Insufficient demand	Non-Departmental Output Expense

Support (LDRL)					
Home Ownership – Welcome Home Loan Mortgage Insurance	7.580	3.300	Possible, See table 2	Insufficient demand due to market conditions	Non-Departmental Output Expense
Home Ownership – Non-Weathertight Homes (administration costs)	0.240	0.200	Nil	Demand reduced	Non-Departmental Output Expense
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Table 4 Further savings possible subject to identified risks or contingent on policy decisions by Ministers

[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

- 4 Programmes that the Corporation has identified as having inherent risks for additional funding; are contingent on decisions regarding the scope, and, or continuation, are as follows:
- **Housing Innovation Fund (HIF)** - funding the administration of HIF (approximately *[deleted – confidentiality of advice]*) and funding Community Housing Aotearoa (*[deleted – confidentiality of advice]*). This operational funding has been identified as additional to the \$20 million capital funding and operational funding for loan writeoffs being sought in Budget 2009.
 - *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

 - **Housing Agency Account (HAA)** – development of Crown land for the purpose of providing state housing and, or affordable housing, estimated at between *[deleted – confidentiality of advice]* per year. *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

 - **Gateway Programme** – Government policy to provide Crown leasehold land for affordable housing. Policy is still being developed and subject to Cabinet consideration of a report due in February 2009. Development and implementation of this programme will most likely require upwards of *[deleted – confidentiality of advice]* funding per year.

Background

- 5 The Minister of Finance has requested Departments complete a line-by-line review of Crown-funded expenditure to identify savings within their Votes. This review was to incorporate the following:
- Savings that can be freed up for Budget 2009
 - Programmes that are inconsistent with this *Government's priorities* that should be discontinued
 - Programmes that may be inconsistent with this *Government's priorities* and should be looked into
 - Programmes and expenditure that are not *efficient or effective*

- Areas where performance information is insufficient to make a judgement about efficiency and effectiveness, and actions agencies should take to make improvements by the next review period.
- 6 A report detailing the outcome of the line-by-line review is to be forwarded to the Minister of Finance together with all other Budget 2009 submissions by Thursday 5 February 2009.
 - 7 This report identifies potential savings and under-spends in currently appropriated programmes that could be reprioritised to fund other initiatives identified by HNZA that are consistent with the Government's policy commitments. In addition the report identifies on an exception basis, programmes that are inconsistent with the Government's priorities and programmes that are not efficient or effective.
 - 8 The savings identified in this report are on an exceptions basis. Where there were no savings identified within existing programmes or appropriations then these have not been reported or commented on.
 - 9 The Corporation's Vote Housing Budget 2009 package to the Minister of Finance due on 5 February 2009 will include the following three budget bids covering:
 - The Housing Innovation Fund;
 - State Housing Upgrades programme; and
 - Addressing substandard housing through partnerships with Iwi *[deleted – confidentiality of advice]*.

Discussion

- 10 A summary of the savings for reprioritisation identified through the Corporation's line-by-line review of current programmes are presented in Table 3 and Table 4 below.
- 11 Expenditure that could be reprioritised is identified as confirmed savings based on Ministers' decisions or certain information. Other potential savings are contingent on decisions by Ministers regarding the future of the programmes, or subject to consumer demand.
- 12 Most programmes are considered consistent with Government priorities and should be continued. Programmes that are considered inconsistent with Government priorities are noted on an exceptions basis. Overall, within existing policy parameters, all programmes are considered to be delivered efficiently.

Confirmed Savings based on Reduced Demand and Ministers' Decisions

Table 5 Confirmed Savings based on Reduced Demand and Ministers' decisions

Programme	Appropriation-2008/09 \$m	Est Surplus – 2008/09 \$m	Est Surplus – Out years \$m	Rationale	Appropriation type
Housing Innovation Fund – Capacity Grants	1.871	1.464	Nil	Ministerial decision to cease grants	Non-Departmental Output Expense

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Home Ownership – Shared Equity	18.469	14.469	14.083 (2009/10)	Programme over funded for demand profile	Capital
Total confirmed savings		22.584	21.073 (2009/10)		
Total Operating savings		8.115	6.990		
Total Capital savings		14.469	14.083		

Housing Innovation Fund – Capacity Grants

- 13 In line with our discussion with you on 27 January 2009, the Corporation is now proposing that \$0.250m be retained from unspent appropriations for the 2008/09 year to fund Maori demonstration projects. Allowing for the \$0.250m, the Corporation has approximately \$1.464m in 2008/2009 in unspent appropriations available for reprioritisation. The appropriation of \$1.871m is for 2008/2009 only.
- 14 *[Information deleted in order to protect the commercial position of the person who supplied the information, or who is the subject of the information]*

Community Owned Rural Rental Housing

- 15 This appropriation provides for the interest subsidy, bridging finance, and suspensory loan write offs for rural rental housing. The review of funding requirements in 2008/2009 has identified surpluses from this appropriation arising from:
- a reduction in market interest rates
 - delays in paying out loan monies for building projects.

Housing Innovation Fund – interest subsidy

- 16 This appropriation provides for the interest subsidy of Housing Innovation Fund (HIF) Loans made to Community Organisations and Local Authorities for the provision of social housing. The subsidy commences one year after the loans have been fully paid out. The review of funding requirements in 2008/2009 has identified surpluses from this appropriation arising from:
- a reduction in market interest rates
 - delays in paying out loan monies for building projects. The delays are due to a combination of available housing stock for purchase, building consents, and building contract expertise.
- 17 *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 18 The decision to move the Housing Innovation Fund loans from the Corporation to the Crown balance sheet means that the Corporation will no longer require operating funding for the interest subsidy. Therefore savings of over \$5.793 million per annum have been identified in outyears. *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Home Ownership – Low Deposit Rural Loan Education and Support (LDRL)

- 19 This programme is funded by an appropriation of \$3.378m for 2008/2009 including \$0.868m per annum. The Corporation had originally intended to seek to have this funding transferred to the Welcome Home First Steps Programme (WHFS) specifically to provide assistance to prospective home buyers through the home buying process, as well as providing support and advice to existing home owners facing financial strain. However, even if a decision is made in the near future to expand the WHFS it is unlikely that the entire appropriation would be required.

- 20 Therefore \$0.868m per annum in funding is now identified as part of the savings available.

Home Ownership – Welcome Home Loan Insurance

- 21 This programme is funded by an appropriation of \$7.580m in 2008/2009 to cover operating costs including a provision for loan guarantees at 2% of the value of loans issued under the programme.
- 22 It is anticipated for 2008/2009 the appropriation will be under spent by \$3.3m. The original forecast was completed several years ago, based on an anticipated acceleration in the programme including amendments to the lending criteria increasing the number of annual loans. However, as the criteria have not changed, the overall volume of loans has remained largely constant, although it fluctuates in line with market conditions.

Home Ownership – Non-Weathertight Homes - Operating

- 23 This has an operating cost appropriation of \$0.240m for 2008/2009 only. For the first six month period operating costs have been \$0.010m. Based on current and projected expenditure it is anticipated that there will be a surplus of \$0.2m on 31 March 2009.
- 24 *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Community Group Housing – Rent Support

- 25 The \$5.0m appropriation for 2008/2009 includes \$0.5m allocated to cover the alignment of rents with market rates for community groups who are renting Corporation houses. Subsequent to the funding being appropriated it was decided not to implement market rents and therefore the funding is no longer required. There are no current appropriations for implementing market rents in the out years.

Home Ownership – Shared Equity

- 26 This is funded by a capital appropriation of \$18.469m for 2008/2009 and \$20.083m for 2009/2010 only. For the first six months of 2008/2009 actual expenditure has been \$1.136m.
- 27 The Corporation has estimated that the appropriation for 2008/2009 be reduced from \$18.469m to \$4.0m and the appropriation for 2009/2010 be reduced from \$20.083m to \$6.0m. The low take up results from market changes since the entry criteria for the scheme was established and cessation of promotion of the scheme prior to the election. You previously advised the Corporation that although the scheme should continue to be available for the two year pilot period, it should not be actively marketed.

Further Savings subject to Identified Risks or Contingent on Policy Decisions by Ministers

- 28 The following programmes have been identified as areas where expenditure could be reprioritised contingent on Ministerial decisions in relation to the programmes or on the uptake of the programmes.

Table 6 Further savings possible subject to identified risks or contingent on policy decisions by Ministers

[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

[deleted – confidentiality of advice]

29 *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

[deleted – confidentiality of advice]

30 *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

[deleted – confidentiality of advice]

31 *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

32 *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

[deleted – confidentiality of advice]

33 *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

34 *[deleted – confidentiality of advice]*

[deleted – confidentiality of advice]

35 *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Table 7 *[deleted – commercial activities]*

[Information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]

36 *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*

37 *[Information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

- 38 *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*
- 39 *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Identification of risks for additional funding

- 40 Identified savings could be applied to fund budget initiatives submitted for Budget 2009. The Corporation considers that the modernisation of state houses is the highest priority area for reinvestment of savings or reprioritisation of existing programme expenditure. An estimated \$2 billion of unfunded work is required to bring the state housing portfolio up to modern standards. The Government has committed to increasing current funding for energy efficiency retrofits to \$15 m per year so a significant shortfall still remains unfunded. This programme could absorb all the identified savings.
- 41 While recommending that the identified savings be used for funding the State House Modernisation Programme or other budget initiatives, the Corporation has identified the following areas which potentially require additional funding or decisions by Ministers regarding the level of funding that could be committed.

Housing Agency Account (HAA)

- 42 Additional operating funding of \$0.500 million per year is required to manage and develop properties held under the Housing Agency Account for both state housing purposes and potentially to deliver the Government's commitment to the Gateway programme as a means to provide affordable housing.
- 43 Under current legislation no further capital works other than Hobsonville can be undertaken in the HAA from 2009/2010 without Crown funding. *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 44 No budget initiative has been submitted at this stage however the Corporation recommends that you consider the funding requirements for the HAA and provide the Corporation direction on the development of Crown land held in HAA for the purpose of providing state housing and or affordable housing.
- 45 As discussed above, there is no appropriated funding for the Hobsonville development in 2012/2013 and outyears, and if the development is to proceed, further funding will be required in 2012/13 and outyears should the identified savings in the 2008/09 – 2011/12 years be returned to the Crown.
- 46 It is recommended that you provide directions on the outyear funding for the Hobsonville development.

Gateway Programme

- 47 The Gateway programme is currently under development and no additional funding has been identified as available to fund either development or implementation costs. It is not possible to provide meaningful estimates of likely costs; however, it is reasonable to assume that development, planning, and implementation costs will be at least *[\$deleted – confidentiality of advice]* per annum and most likely significantly more.
- 48 It is recommended that you note the risk that funding may be required for the Gateway programme in future years.

Housing Innovation Fund

- 49 In addition to the capital and operating budget initiative being sought in Budget 2009, there is further funding required in respect of the Corporations administration of the fund and ongoing funding provided to Community Housing Aotearoa.
- 50 The Corporation has estimated that the cost of managing the Housing Innovation Fund is \$1.1m per annum. It is recommended that *[\$deleted – confidentiality of advice]* be funded from identified savings in Vote Housing's operating appropriation.
- 51 Community Housing Aotearoa is the key representative of providers of non-government affordable housing. Funding to date has been to establish strategic plans and a membership base; to hold forums and conferences; to identify training needs, and to advise the sector.
- 52 Community Housing Aotearoa has been funded through appropriated operating funding and capacity grants, and was allocated funding from 2003 to 2007. The organisation is now moving from an establishment phase to a delivery phase.
- 53 Previously, Community Housing Aotearoa has been funded at between \$300,000 and \$400,000 per annum. These grants covered establishment costs, a full-time director, and operating and administrative costs related to establishing and growing a peak body. *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

BN/09/

3 February 2009

Minister of Housing

Budget 2009: Housing New Zealand Corporation Review: Further Savings

Savings from Corporation internal funding for 2008/09

In addition to the savings identified from appropriations (Briefing note “Budget 2009: Housing Corporation Review of Programmes Identifying Savings and Expenditure for Reprioritisation”), the Corporation has examined its internal budget to identify further funding that could be made available to you within the current financial year. The Corporation maintains tight budget control, to ensure that any internal surpluses identified during the year can be reallocated to the highest priority needs.

Savings are summarised in table 1 below. These are **additional** to the savings of \$22.584 million in 2008/2009 identified in the previous briefing note.

Table: 1 Summary of savings

Areas of savings in the current financial year	\$ million
Maintenance	13.2
Interest	1.5
Salaries	1.0
Travel	0.7
Consultants	0.8
Projects	0.9
Marketing and Communications	0.15
Total	18.25

The savings in the table are operating. Note that the Corporation’s redirection of \$30 million from acquisitions to upgrades has raised some accounting treatment issues which will require a mix of operational and capital expenditure realignment and transfer.

Reprioritisation from maintenance: \$13.2 million

The Corporation identified \$4.5 million in its reforecast resulting in a review of expenditure carried out at the end of August. This represented savings from across the Corporation. At its September meeting the Board agreed to reprioritise these savings for housing in

South Auckland, given that the need to increase the standard of the Corporation's stock in the area. This was to allow for work additional to the level under the target set out in the 2008/09 Statement of Intent.

A further \$8.7 million was identified after the November reforecast. At its December meeting the Board agreed that the first call on the projected surplus would be further maintenance in the South Auckland region and then other regions where the property condition benchmark is low.

As the poor condition of housing in South Auckland means it remains the top priority for maintenance, the consequence of providing this funding as savings is that the Corporation will pull back on its overall maintenance work programme while still focusing on high priority areas and delivering on its Statement of Intent target.

Interest : \$1.5 million

The lower interest rates prevalent today mean less income from working capital cash, but also lower costs for the Corporation's term debt. The overall impact is a saving of \$1.5 million.

Personnel: \$1.0 million

The identified savings are based on a rationalisation of our approach to recruitment and staffing. This involves the reduction in the use of outside agencies; and deferring or not proceeding with new appointments to vacant positions. This is a temporary measure that provides immediate savings within the current financial year.

Deferring appointments means delays will occur in completing lower priority projects.

Travel: \$0.7 million

The Corporation has reviewed its travel budget and has identified a potential saving of \$0.7 million by reducing face-to-face management and project-based meetings. These savings are offset by increased investment in the use of audio and visual technology.

Consultants (and professional fees): \$0.8 million

The Corporation has identified consultancy savings as a result of deferring commencement of new or continuation of existing projects that are not aligned to the new Government's priorities. In addition greater use will be made of internal resources or fixed term contracts to reduce consultancy costs.

Projects: \$0.9 million

Savings of \$0.9 million will be derived from under spends in projects, revised approaches to delivery, reduced use of external contractors and stopping or delaying non critical areas of activity and programmes.

Marketing and Communication: \$0.15 million

The Corporation has adopted a new method to communicate with its customers based on a standardised national approach which is expected to provide a saving of \$0.15 million.