

## **Treasury Report: Budget 2009: Votes Fisheries & Housing**

<b>Date:</b>	6 March 2009	<b>Report No:</b>	T2009/486
--------------	--------------	-------------------	-----------

### **Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	Read and use as basis for bilateral with Mr Heatley.  Refer a copy of these briefings to Mr Heatley.	11.30am, 12 March 2009
Associate Minister of Finance (Hon Simon Power)	None.	None.

### **Contact for Telephone Discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Tom Hall	Manager, Natural Resource Management	917 6150	✓
Stephen Glover	Manager, Children and their Families	917 6123	✓

### **Minister of Finance's Office Actions (if required)**

None.
-------

**Enclosure: Yes**

## **Treasury Report: Bilateral Briefings for Votes Fisheries and Housing**

---

Attached are briefings for the bilateral between the Minister of Finance and Minister Heatley at 11.30am on 12 March 2009 to discuss the Budget initiatives for Vote Fisheries and Vote Housing.

The bilateral briefing on **Vote Fisheries** is structured as follows:

Overview of the Vote	p. 1
Savings component and recommendations	p. 1
Emergency pressures and recommendation	p. 2
Value for Money & Strategic Direction	p. 2
Policy priority initiatives & recommendations	p. 4

The key issue for discussion is likely to be whether the 'policy priority' initiatives put forward should be funded, or whether the Ministry of Fisheries should be required to fund the initiatives it and the Minister support ahead of existing work via reprioritisation.

The bilateral briefing on **Vote Housing** is structured as follows:

Savings	p. 1
Analysis of Vote	p. 2
Emergency pressures	p. 4
Value for Money and Strategic Direction	p. 5
Specific policy priority initiatives	p. 9

We expect the key issues for discussion on Vote Housing will be:

- **Savings** – Treasury recommends supporting the savings submitted. However, more significant savings could be realized by reviewing the policy advice functions of the Vote and HNZC's programmes for increasing stock levels, upgrades and maintenance.
- **Residential Tenancy Services** – Treasury recommends supporting this pressure as there would otherwise be a risk of service delivery failure in tenancy dispute mediation services.
- **Rural Housing Programme** – Treasury recommends scaling this initiative to replace this programme with the Housing Innovation Fund over the next two years.
- **Housing Innovation Fund** – Treasury recommends scaling this funding to only support the development of the Maori development project to grow community/ iwi providers to address Maori housing issues, in particular, rural housing.
- **State House Upgrade Programme** – Treasury recommends not supporting this initiative as the government's objectives of increasing investment in upgrading state houses should be delivered through the Corporation's modernization and upgrade programmes.

## Recommended Action

---

We recommend that you:

- a     **read** the attached briefings and use them as the basis for taking decisions in your bilateral with Minister Heatley at 11.30 am on 12 March 2009.
- b     **refer** a copy of these briefings to Minister Heatley.

Stephen Glover  
**for Secretary to the Treasury**

Hon Bill English  
**Minister of Finance**

## Vote Fisheries

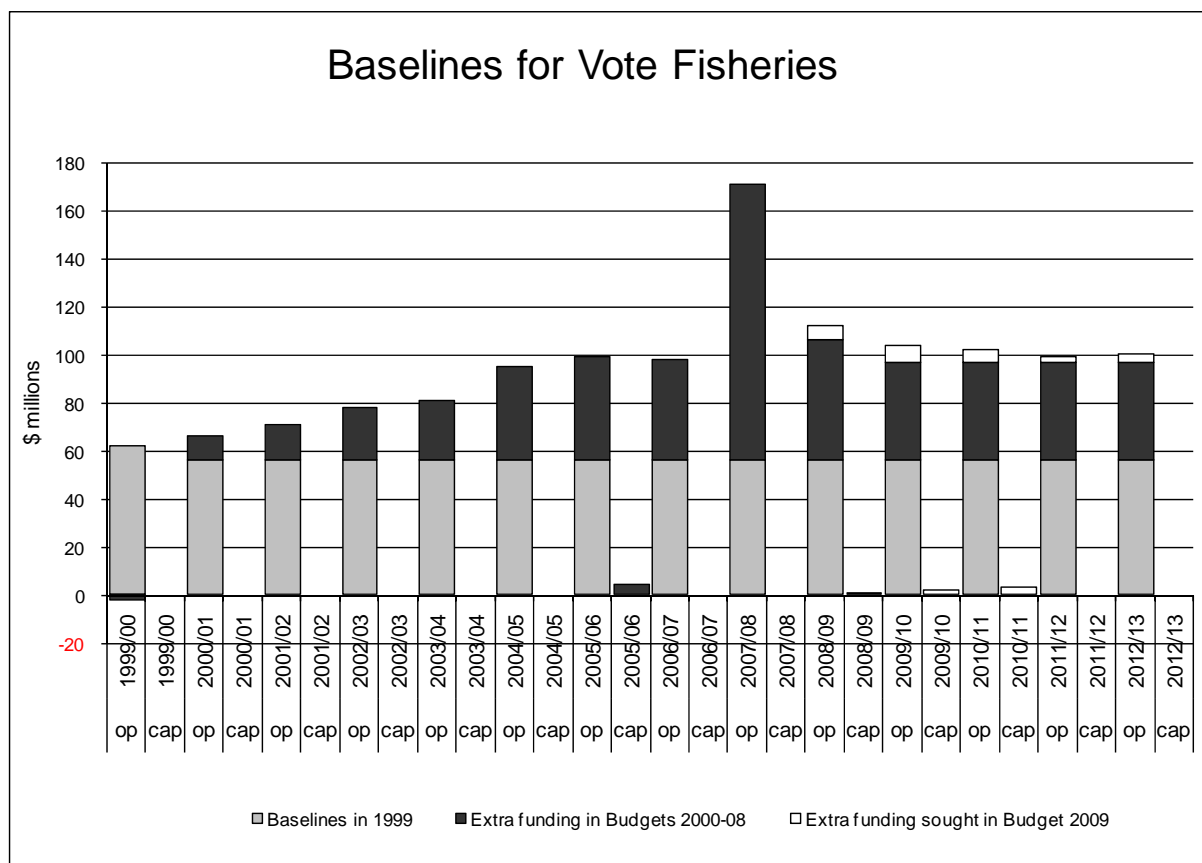
- As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister for Vote Fisheries submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Savings	-	(4.330)	(4.330)	(4.330)	(4.330)
Emergency pressures	-	-	-	-	-
Policy priorities	-	4.326	3.759	3.713	3.640
<b>Total funding requested</b>		(0.004)	(0.571)	(0.617)	(0.690)
<i>Capital (GST excl)</i>					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	0.340	-	-	--
<b>Total funding requested</b>		0.340	-	-	-

- The gross savings of \$6m represent just under 7% of Crown revenue, and provide for a saving to industry of \$1.7m from reduced cost recovery from the fishing industry. MFish has made a good effort to find savings and has provided an adequate rationale for their scale and scope. While the savings would impact on the quantity of services provided we expect that the Ministry would be able to adequately manage enhanced risks.

### Analysis of Vote

- Vote Fisheries baselines are shown in the graph below. The Vote has received significant increases in funding in the past ten years due to new service provisions, such as poaching and black market deterrence, funding for the Fisheries Deed of Settlement implementation, and the development of an objectives-based management approach. There have been some increases in baselines for existing services, such as fisheries research and improvements to corporate infrastructure.
  - In 2007/08 there was a one-off increase due to the recognition of the Maori Aquaculture Settlement liability, which is clearly evident in the graph.



## Recommendations

Treasury recommends that you:

- (i) Support the savings submitted for Vote Fisheries.

**Agree/Disagree**

## Emergency Pressures

4. There have been no emergency pressure bids for Vote Fisheries.

## Strategic Direction

5. The Minister has indicated two specific Ministry services which could be classified in the 'probably not effective or efficient' category. Reviews of these services are part of a wider range of initiatives designed to improve the economic performance of the seafood sector via reduced fishing industry costs, improving the efficiency of the Ministry's service delivery, and determining other opportunities for government to assist industry development.
6. The review of observer services will consider demand factors and identify cost effective delivery options. The review is to commence as soon as possible, with the aim of having improved arrangements in place by 1 July 2010.
7. The review of research services will consider opportunities for alternative provision of stock assessments, as well as research planning, tendering and contract management processes and identify cost-effective options for delivery of research services. Options for reform will be identified by the end of 2009.

8. In addition, a thorough Organisation Design project is being undertaken to ensure it is positioned to deliver on government priorities and Fisheries 2030 action plan, so the Ministry will be in a better position to review the cost effectiveness of the services being provided. MFish will report to the Government, in consultation with Treasury, by the end of 2009.

#### *Budget 2010/11*

9. In his response on the line by line review, the Minister of Fisheries offered up savings totalling \$6 million (with a reduction of \$1.7 million in fishing industry costs, resulting in a net saving to government of \$4.3 million). This represents approximately 7% of Crown revenue, which is a significant portion of the Ministry's baseline. The impact of these savings is noted in the Minister's submission. The Minister considers that any further savings sought would start to have a significant impact on their ability to deliver on government priorities.
10. There are three areas of concern if no additional funding is provided in Budget 09:
  - a) The Minister of Fisheries has sought approval to new initiative funding of \$4.3 million to implement government policy priorities in fisheries and aquaculture. It is expected that the Government will wish to implement these policies at some time over the next three years. These policy changes would reduce costs to industry and enable industry economic development. The fishing industry estimates that the proposed initiatives would enable it to increase its turnover by at least \$200 million per annum in the medium term. Failure to fund the initiatives would put these earnings at risk
  - b) In addition to this, there could be implementation costs required to transition from existing approaches to the new service delivery systems related to the observer and research reviews noted above.
  - c) A third feature is the cost pressures resulting from price increase in scientific research which continue to be greater than CPI increases. The Ministry is reviewing its research procurement processes and will continue to work with service providers to minimise the impact of these increases.

#### *Risk*

11. The Crown will face aquaculture settlement obligations into 2010, with decisions still to be made on pre-commencement space. While the magnitude of this obligation is not known it is likely to be in the range of \$20 to \$30 million. There is no appropriation for this expenditure – pending better information on the amount in question.

## Vote Fisheries – Analysis of Policy Priorities

---

12. Vote Fisheries has submitted the following policy priority initiatives:

**a Enhanced aquaculture resourcing and law reform**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	0.513	0.691	0.330	0.357
Treasury	-	0.513	0.691	0.330	0.357
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

13. The department seeks increased funding to help increase export earnings by the aquaculture industry, by reviewing aquaculture legislation to address impediments to economic development in conjunction with industry, regional councils and other agencies.
14. We support funding for this initiative, as it is a Government manifesto commitment, and would enhance economic growth.

### **Recommendation**

Treasury recommends that you:

- (i) Support funding for this initiative

**Agree/Disagree**

**b Amateur charter vessel catch reporting**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	0.335	0.175	0.275	0.325
Treasury	-	0	0	0	0
<i>Capital (GST excl)</i>					
Department	-	0.280	-	-	-
Treasury	-	0	-	-	-

15. The department seeks funding to introduce mandatory activity and catch reporting on amateur charter fishing vessel operators. This would improve the setting of catch limits.
16. We do not support funding for this initiative, as it is not a demonstrable Government priority. Should the department wish to undertake this work it should reprioritise resources.

**Recommendation**

Treasury recommends that you:

- (i) Do not Support funding for this initiative.

**Agree/Disagree**



**c Fisheries management-industry strategy – cost effectiveness of service provision**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	1.0	0.50	-	-
Treasury	-	0	0	-	-
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

17. The department seeks funding to support a series of initiatives to enable the commercial sector to grow its economic value, review fisheries management policy, and improve service efficiency.
18. We do not support funding for this initiative, as it does not meet the criteria for increased funding. However, it would provide substantial economic benefit. Accordingly, reprioritisation to fund this initiative would be difficult, but possible. If the Government wished to provide addition funding to increase economic growth, this initiative would be a good candidate for support.

**Recommendation**

Treasury recommends that you:

- (i) Do not support funding for initiative.

**Agree/Disagree**

**d Hosting of the South Pacific Regional Fisheries Management Organisation (SPRFMO) meeting**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	0.10	-	-	-
Treasury	-	0	-	-	-
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

19. The department seeks funding to host the eighth meeting of SPRFMO in Wellington in late 2009. The SPRFMO will manage the South Pacific Ocean non-tuna fisheries and New Zealand is a co-sponsor of the process to establish it.
20. We do not support funding for this initiative and recommend it not proceed, as it is not a demonstrable Government priority.

**Recommendation**

Treasury recommends that you:

- (i) Do not support this initiative.

**Agree/Disagree**

**e Increase Fishery Officer presence**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	0.726	0.956	1.281	1.271
Treasury	-	0	0	0	0
<i>Capital (GST excl)</i>					
Department	-	0.060	-	-	-

Treasury	-	0	-	-	-
----------	---	---	---	---	---

21. The department seeks funding to increase the existing Honorary Fishery Officer network to enable it to patrol more coastlines and increase its visibility. To support this increase five new Fisheries Surveillance Officers and two intelligence Analysts will be required.
22. We do not support funding for this initiative, as it would not enhance economic growth. However, it is a manifesto commitment.

### **Recommendation**

Treasury recommends that you:

- (i) Do not support this initiative

**Agree/Disagree**

### **f Policy work to support government priorities**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	1.152	0.604	0.827	0.687
Treasury	-	0	0	0	0
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

23. The department seeks funding to increase its policy capacity to amend legislation to deliver on government priorities, enable the 2030 fisheries strategy and address deficiencies identified in the Fisheries Act.
24. We do not support funding for this initiative, as it does not meet the criteria for increased funding. However, it would provide substantial economic benefit. Accordingly, reprioritisation to fund this initiative would be difficult, but possible. If the Government wished to provide addition funding to increase economic growth, this initiative would be a good candidate for support.

### **Recommendation**

Treasury recommends that you:

- (ii) Do not support this initiative

**Agree/Disagree**

**g Science research in support of fisheries management: recreational fisheries**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	0.50	0.833	1.0	1.0
Treasury	-	0	0	0	0
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

25. The department seeks funding for research to provide estimates of non-commercial harvest and value for key shared fisheries. This would improve fisheries-management in relation to commercial fisheries.
26. We do not support increased funding for this initiative. The Crown already contributes to fisheries research and this particular proposal should be prioritised within the existing appropriation.

**Recommendation**

Treasury recommends that you:

(iii) Do not support this initiative

**Agree/Disagree**

# Vote Housing

## SAVINGS

1. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister of Housing and the Minister of Building and Construction submitted the following:

	\$million - increase/(decrease)				
	2008/09	2009/10	2010/11	2011/12	2012/13 & Outyears
<i>Operating (GST excl)</i>					
Savings	(30.382)	(9.644)	(9.060)	(6.661)	(6.661)
Emergency pressures	-	6.361	4.537	4.283	3.641
Policy priorities	6.237	21.421	18.916	17.077	16.747
<b>Total funding requested</b>	<b>(24.145)</b>	<b>18.138</b>	<b>14.393</b>	<b>14.699</b>	<b>13.727</b>
<i>Capital (GST excl)</i>					
Savings	(14.469)	(14.083)	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	26.834	31.712	30.278	35.476
<b>Total funding requested</b>	<b>(14.469)</b>	<b>12.751</b>	<b>31.712</b>	<b>30.278</b>	<b>35.476</b>

2. The Department of Building and Housing (DBH) and Housing New Zealand Corporation (HNZC) have identified a reasonable overall percentage of savings from Vote expenditure (4.7% of the 2008/09 baseline). However, a significant proportion of the savings were underspent loan programmes and the review did not address how better value for money could be achieved in large areas of Vote spending such as increasing state house numbers, upgrades and maintenance. There was little detailed analysis on existing programmes that do not align with the Government's priorities and no analysis of policy advice functions in both DBH and HNZC, where there has been significant personnel growth.

## Recommendations

Treasury recommends that you:

- Support** the savings submitted for Vote Housing.
- Commission** a wider, independent value for money review of HNZC's management of the state housing asset portfolio to seek significant efficiency improvements in state house acquisitions, upgrade and maintenance programmes, including through consolidation of HNZC's state house upgrade programmes that deliver similar outcomes such as modernisations, energy efficient retrofits and healthy housing.

**Agree/Disagree**

***Agree/Disagree***

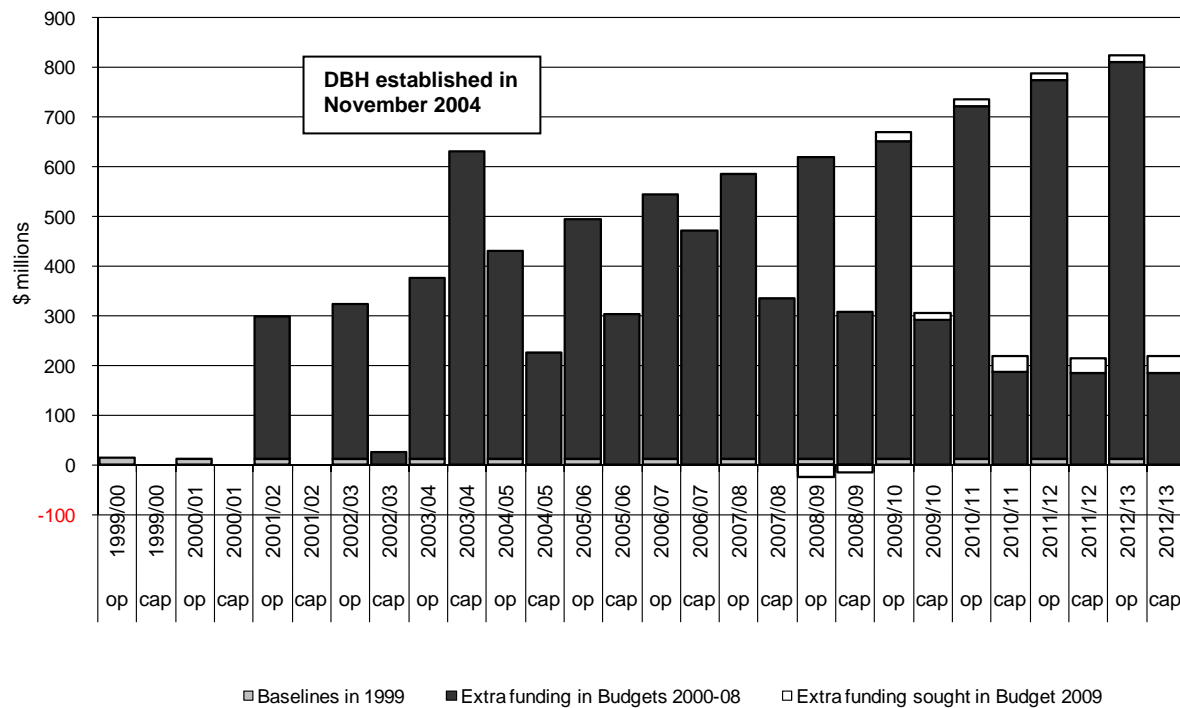
- (iii) **Direct** Treasury, DBH and HNZN to report back in December 2009 on additional, ongoing savings by:
- Re-evaluating the delivery of the remaining precincts of the Hobsonville Urban Development project.
  - Evaluating the effectiveness of HNZN's home ownership education programmes.
  - Re-assessing HNZN's role in community renewal programmes.
  - Rationalizing the policy advice and housing research functions in DBH and HNZN.

***Agree/Disagree***

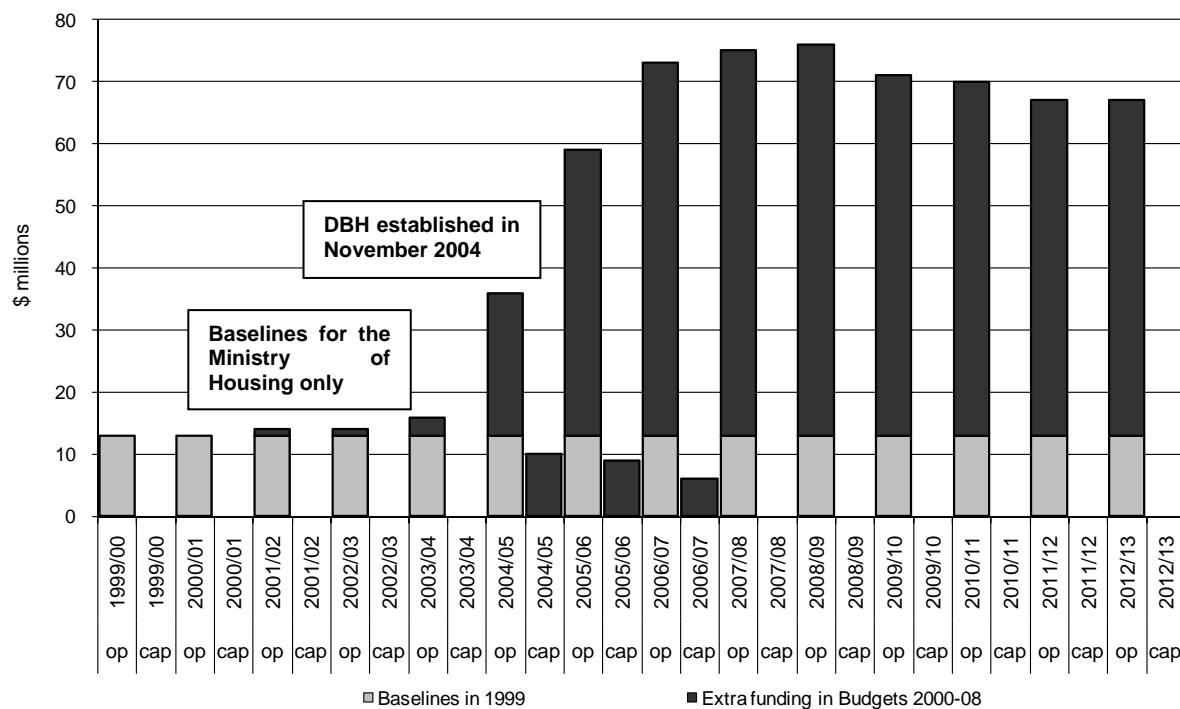
**ANALYSIS OF VOTE**

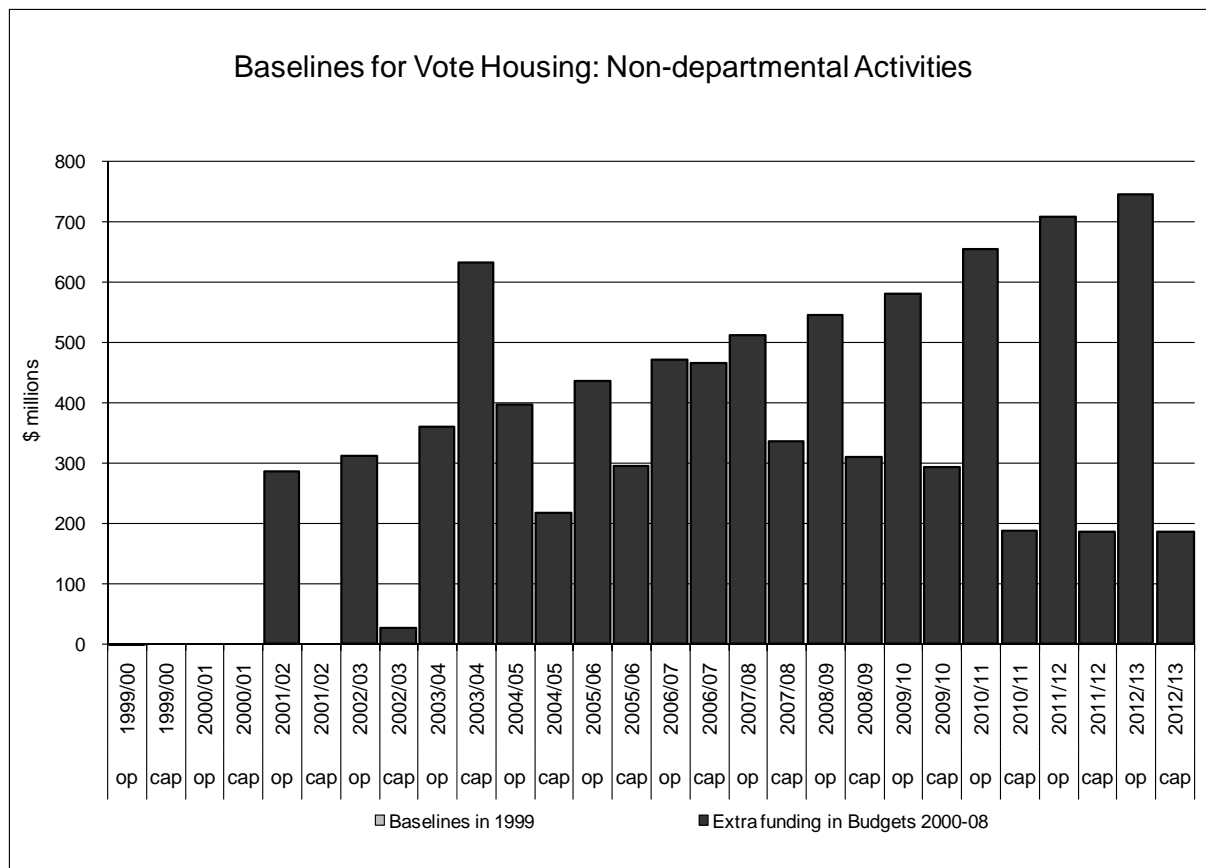
3. Vote Housing baselines are shown in the graph below. The Vote has received significant increases in funding in the past five years due to:
- The amalgamation in 2004 of a number of building, construction and housing functions into the Department, specifically: the Ministry of Housing, the Building Industry Authority and functions from Ministry of Economic Development, HNZN, the Retirement Commission and Department of Internal Affairs.
  - Volume increases in residential tenancies and additional functions such as registrations for industry licensing and regulatory groups.
  - Addressing major sector issues such as leaky buildings and the related Weathertight Homes Resolution Services (WHRS), implementation of building sector reforms and increased local authority monitoring.
  - Provision of policy advice on building sector issues such as leaky homes, industry regulation, residential tenancies, housing supply and affordability.
  - Reviewing related legislation including the Unit Titles Act and the Residential Tenancies Act, also the review of the WHRS Act 2002 and implementation of the recommended changes.
  - HNZN housing stock has increased 12% since 2001.
  - Upgrading state housing stock built prior to 1980 to meet the current building code and insulation standards.
  - Increases in the Income Related Rent subsidy resulting from higher property values and market rents (representing 53% of Vote expenditure in 2008/09).

## Baselines for Vote Housing



## Baselines for Vote Housing: Departmental Activities





## EMERGENCY PRESSURE – RESIDENTIAL TENANCY SERVICES

4. The Minister has submitted an emergency pressure bid for Residential Tenancy Services. This bid is due to a fall in revenue arising from lower investment interest rates for the tenancy bond trust account held by DBH. In previous years, interest revenue has offset the appropriation expenditure and returned some surpluses to the Crown.
5. DBH have identified savings in their service delivery and propose to improve this further by moving to a telephone based mediation service to reduce costs, with any savings returned to the Crown. They also intend to increase revenue by increasing Tenancy Tribunal fees in July 2009. Preliminary estimates indicate that a reasonable increase to the fees could offset almost all of this pressure.
6. Treasury considers that this meets the criteria for an emergency pressure as there would be an unacceptable service delivery failure if DBH was unable to meet its statutory obligations for managing residential tenancy bonds and disputes resolution services. Reduced mediation services may also result in an increased use of the (more costly) Tenancy Tribunal to resolve disputes, with cases referred to the District Court for resolution, impacting on Ministry of Justice baselines.



## **Recommendation**

Treasury recommends that you:

- (iv) **Support** the emergency pressure bid for Residential Tenancy Services submitted for Vote Housing.

**Agree/Disagree**

## **VALUE FOR MONEY/STRATEGIC DIRECTION**

7. DBH and HNZN have identified a number of areas for further work to achieve better Value for Money in Vote Housing. These are:

### **Department of Building & Housing**

- Review the approach to weathertight issues.
- Streamline and simplify the building consent process and reduce the overall costs of building controls.
- Investigate the integration of common business processes in electrical workers/building practitioners licensing and registration, and the potential for outsourcing back office functions.
- Move to a telephone based residential tenancy mediation service to reduce costs and also increase Tenancy Tribunal fees (likely in July 2009) to increase revenue to offset appropriation expenditure.
- Review and rationalise publications for customers and stakeholders utilising online distribution options.
- Investigate restructuring the Department's balance sheet to make more effective use of cash.
- Rationalise use of head office accommodation to absorb the cost of an expected rent increase.
- Implement business support systems which will enable improved efficiency and reduction in back office staff numbers in 2009/10 by 7%.
- Develop plans and performance measures for the value for money proposals.

### **Housing New Zealand Corporation**

- Review the Corporation's overall costs, including expenditure on travel and use of motor vehicles, legal and consultancy costs.
- Review accommodation, including the number of neighbourhood units and the potential for co-location with other agencies.
- Review operating processes e.g. the Corporation's approach to procurement, possible contracting out of some components of IT infrastructure, debt management, and Income Related Rent calculation and processing.
- Review the contracting model for maintenance and upgrade work.
- Review the approach to managing difficult tenants (including persistent debtors), including a move to 90 day notices which will improve utilisation and to reduce the resource costs and delays associated with taking cases to the Tenancy Tribunal.
- Review planned maintenance e.g. the frequency of house painting.
- Review the Corporation's tax management policy to realise tax credits within the

Group.

- Expand the services provided by the call centre of the Corporation.
8. HNZN have signalled that they will be engaging the Minister of Housing with a view to changing current practices and policies to allow for:
- Better management of tenants, combined with greater use of incentives and obligations, to reduce under-utilisation of housing stock.
  - Charging market rent tenants for water rates.
  - Removal of the current exemption of contributions from boarders in income related rent assessments.
9. New performance indicators have been proposed by DBH for HNZN to measure the efficiency of resource and stock management. These included total operating expenditure per property, number of full-time employees per 1000 properties, ratio of portfolio quality/expenditure, stock utilisation rate, ability to house in high/low demand areas and portfolio vacancy rate.
10. Many of the reviews noted above are already underway and both DBH and HNZN have indicated that they are happy to work with Treasury to establish a meaningful set of performance measures.

### **Recommendations**

Treasury recommends that you:

- (v) **Support** the development of performance indicators to measure the efficiency of HNZN's resource and stock management.

**Agree/Disagree**

- (vi) **Direct** DBH and HNZN to identify report back dates for all these reviews and to develop a programme for implementation by 30 June 2009.

**Agree/Disagree**

### **STRATEGIC DIRECTION**

11. The main issues that are likely to impact on Vote Housing in Budget 2010 and Budget 2011 are set out in the following table:

Issue	Action
<b>Get better control of state housing expenditure to provide value for money from state housing</b>	
<ul style="list-style-type: none"> <li>Expenditure decisions and tradeoffs are not being explicitly made by Ministers due to the Crown Entity model keeping Ministers at “arms length.”</li> </ul>	<ul style="list-style-type: none"> <li>Notify the Corporation that part of giving effect to the government’s policy objectives includes consultation with and agreement with the joint Ministers on significant policy issues.</li> <li>New performance measures to be included in the Corporation’s Statement of Intent 2009/10.</li> </ul>
<ul style="list-style-type: none"> <li>New investment to increase state house stock levels should be driven by government objectives and decisions.</li> </ul>	<ul style="list-style-type: none"> <li>Establish a clear understanding of the actual need for state housing with future funding appropriated for new investment to specifically address identified gaps in meeting this need.</li> </ul>
<ul style="list-style-type: none"> <li>Current market share approach represents HNZC’s current estimates of the growth required to manage high priority demand, which is 4.3% of the total housing market.</li> </ul>	<ul style="list-style-type: none"> <li>Determine whether HNZC’s current approach is the most effective way of addressing state housing need.</li> <li>Increasing stock levels should be through building new houses rather than purchasing existing properties.</li> </ul>
<ul style="list-style-type: none"> <li>Improve the utilization and overall quality/condition of the existing state housing stock.</li> </ul>	<ul style="list-style-type: none"> <li>Change HNZC’s current practices and policy settings to allow active measures to reduce under utilisation of housing stock.</li> </ul>
<ul style="list-style-type: none"> <li>Approximately 9% of existing tenants pay market rents, this could release up to 6000 houses for new tenants.</li> </ul>	<ul style="list-style-type: none"> <li>Upgrading the quality/condition of the existing housing stock should be prioritised over increasing the number of state houses.</li> <li>State tenants’ housing “needs” should be regularly re-assessed.</li> <li>Tenants who can afford market rents should be encouraged into the private rental market.</li> <li>Tenants’ requirements for the size of their accommodation should be aligned to ensuring that most bedrooms in existing houses are occupied.</li> <li>Enable state house tenants to purchase their houses at market rates, possibly through shared equity schemes or Gateway, with the revenue gained re-invested into providing more state houses.</li> <li>New performance measures to be included in the Corporation’s Statement of Intent 2009/10.</li> </ul>
<b>Improve Housing New Zealand Corporation’s performance</b>	
<ul style="list-style-type: none"> <li>HNZC’s management of capital expenditure and their existing capital asset management processes have not been effective.</li> </ul>	<ul style="list-style-type: none"> <li>Define and publish the “Decent Housing” quality standards that each state house should meet to fulfill its purpose as social housing.</li> </ul>
<ul style="list-style-type: none"> <li>There have been delays in delivering large scale developments such as Tamaki and Hobsonville</li> </ul>	<ul style="list-style-type: none"> <li>Ensure the quality standards align with the government’s objectives for state housing in housing market, e.g. should amenity value include garages and carports for state houses?</li> </ul>
<ul style="list-style-type: none"> <li>HNZC’s knowledge of the current condition/state of repair of the existing housing stock is not evident. The Office of the Auditor General has highlighted the need for better systems for assessing the condition of the Corporation’s properties and to measure performance.</li> </ul>	<ul style="list-style-type: none"> <li>Establish the current condition/state of repair of all houses in the Corporations portfolio to determine the requirements for upgrading or re-building those that are sub-standard.</li> <li>Develop and publish a long term programme to manage the stock quality up to the acceptable standard.</li> <li>Complete implementation of the recommendations of the OAG report that the Corporation’s new Asset Management Framework include systems to plan for effectively managing the overall maintenance workload.</li> <li>New performance measures to be included in the Corporation’s Statement of Intent 2009/10.</li> </ul>
<ul style="list-style-type: none"> <li>The Corporation does not provide a commercial rate of return on the Crown’s capital investment, indicating that it could operate more efficiently.</li> </ul>	<ul style="list-style-type: none"> <li>Establish the role that government requires HNZC to fulfill in the New Zealand housing market and the expected levels of return on the Crown’s investment.</li> <li>Change the current funding model for debt funding, e.g. through establishing a revised debt/equity ratio.</li> </ul>

<ul style="list-style-type: none"> <li>The return on investment may be affected by the Corporation's role in delivering the government's social objectives through housing. Tenants housed by HNZC often have multiple and complex needs which make being a landlord more difficult and more expensive.</li> </ul>	<ul style="list-style-type: none"> <li>DBH needs to work more closely with HNZC to ensure KPIs and monitoring shows the cost and benefit of governments spend in the housing sector.</li> </ul>
<b><i>Focus on reducing barriers to land and housing supply to increase homeownership rates rather than supporting demand.</i></b>	
<ul style="list-style-type: none"> <li>Interventions to increase homeownership rates through funding demand would have huge costs and limited effectiveness.  For Example, \$3.4 billion dollars spent on a shared equity scheme to assist 54,000 households into home ownership would only increase the national home ownership rate by 4%.<sup>1</sup></li> <li>Market factors, such as interest rates, have a more significant effect on home ownership rates and affordability than direct government interventions.</li> <li>Focus should be on reducing housing costs by freeing up land supply and improving building sector productivity through more sustainable urban development.</li> </ul>	<ul style="list-style-type: none"> <li>Develop alternative long term tenure options, such as leasing that can provide the same benefits as home ownership without the financial implications of supporting demand.</li> </ul>
<ul style="list-style-type: none"> <li>Use the reviews of the Resource Management and Building Acts to reduce planning and consenting constraints and encourage greater construction industry standardisation.</li> <li>Alignment between RMA and Metropolitan Urban Limits with those of housing supply and affordability pressures needs to be better coordinated by both DBH and HNZC and across the wider central and local government sectors. DBH needs to become more active in the area of MUL (Metropolitan Urban Limit) and RMA reviews.</li> <li>DBH to take a leadership role in the urban development area as this is a gap in the current government agencies.</li> </ul>	
<b><i>Improve Vote Housing policy advice functions</i></b>	
<ul style="list-style-type: none"> <li>Large increases in the policy advice functions of both DBH and HNZC have not provided Ministers with the high quality, clear advice on housing issues to enable the development of long term strategies to address them.</li> </ul>	<ul style="list-style-type: none"> <li>Review housing policy requirement to determine the most appropriate location for strategic advice services provided to Ministers.</li> </ul>

<sup>1</sup> Based on Treasury modelling for a 30% shared equity scheme to assist 54,000 households into home ownership, assuming all households took the scheme up.  
T2009/486: Bilateral Briefings for Votes Fisheries and Housing

## Vote Housing – Analysis of Policy Priorities

12. Vote Housing has submitted a total of six policy priority initiatives. The first four initiatives relate to Mr Heatley's portfolio and can be addressed in the bilateral. The other two initiatives have been included for completeness, and will need to be addressed with Mr Williamson.

### **a Rural Housing Programme**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	10.000	7.000	3.000	-
Treasury	-	7.000	3.000	-	-
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

13. HNZA seeks to continue this programme to address private owner-occupied homes that are significantly sub-standard in rural locations across New Zealand, often on multiple-owned Maori land. The Rural Housing Programme was funded in 2008/09 from \$10m retained from HNZA's surplus dividend.
14. The funding sought is to facilitate the phasing out of this initiative over the next three years as new providers are developed in a partnership model to assist Maori into homes or maintain homes through the Housing Innovation Fund.
15. Treasury considers that this is good value for money expenditure as there is still a significant need to address the housing conditions in rural locations. We have concerns that the proposed programme is focussed on remote communities that may not be sustainable in the long term and there is an equity issue with the government assisting with housing improvements on private land.
16. Treasury support scaling this initiative to facilitate the transition of this programme to the Housing Innovation Fund over two years. This will still enable local iwi and community groups to be empowered to target areas at a regional and local level and to commence leveraging resources to ensure a long term commitment to improving sub-standard rural houses.

### **Recommendation**

Treasury recommends that you:

- (vii) **Support** this initiative at a reduced level (\$7m operating in 2008/09 + \$3m operating in 2009/10).

**Agree/Disagree**

## IN-CONFIDENCE-UNTIL BUDGET DAY

### b Housing Innovation Fund

	\$million - increase/(decrease)				
	2008/09	2009/10	2010/11	2011/12	2012/13 & Outyears
<i>Operating (GST excl)</i>					
Department	-	1.600	1.840	2.320	2.800
Treasury	-	0.400	0.460	0.580	0.700
<i>Capital (GST excl)</i>					
Department	-	20.000	20.000	20.000	20.000
Treasury	-	5.000	5.000	5.000	5.000

17. HNZN seeks to increase the supply of rental housing and home ownership opportunities provided by a range of community housing providers, iwi and local government. From 2009/10 the Fund is to be re-focussed on community providers who are or have the potential to become large scale organisations with a proven track record with \$5m allocated to Maori demonstration projects to develop partnership opportunities with Maori organisations.
18. Treasury considers that the level of funding sought is insufficient to make a significant difference in growing a viable third sector with the ability to leverage funding and resources independent of government support. The funding sought is expected to produce a total of 360 housing units over four years, however, HNZN has identified that a portfolio of 500 rental properties is needed for a single organisation to become self sustaining.
19. Treasury does not support utilising HIF as a mechanism for increasing the supply of affordable housing as this could be accomplished more successfully through more targeted policy initiatives. There are also other programmes such as Community Group Housing and Community Housing Rent Relief that provide direct assistance to community based providers of emergency housing for high needs groups.
20. Treasury supports scaling this initiative to only fund the Maori development project which will allow iwi and community providers to develop partnership opportunities with Maori organisations to deliver social housing for Maori including the Rural Housing Programme.

### **Recommendation**

Treasury recommends that you:

- (viii) **Support** this initiative at a reduced level (\$2.14m operating + \$20m capital over 4 years).

**Agree/Disagree**

## IN-CONFIDENCE-UNTIL BUDGET DAY

### c State Housing Upgrade Programme

	\$million - increase/(decrease)				
	2008/09	2009/10	2010/11	2011/12	2012/13 & Outyears
<i>Operating (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-
<i>Capital (GST excl)</i>					
Department	-	1.500	8.500	8.500	13.500
Treasury	-	-	-	-	-

21. HNZN seeks to accelerate its state house upgrade programmes through its existing Energy Efficient Retrofit programme and continuing the Healthy Housing Programme beyond 2009/10. These programmes aim to bring the current state housing stock up to a decent standard and improve the living conditions of tenants by focussing on the insulation, ventilation and energy efficiency of older state houses.
22. Treasury does not support this initiative as HNZN's upgrades and modernisation programmes should include ensuring that all housing stock should meet the code compliance requirements and building industry best practice for construction, insulation, ventilation and energy efficiency as a matter of course.
23. The "Bringing Forward Infrastructure Spending" package (refer CAB Min (09) 3/3) has brought forward \$9.5m for the programme through to the end of 2009/10. It is also proposed that \$15m in 2008/09 and \$15m in 2009/10 are transferred from Vote Health's Healthy Housing programme as upgrading housing is considered to be part of the core business of HNZN rather than the Ministry of Health.
24. Treasury considers that the government's priority objective of boosting investment in upgrading state houses to \$15m per year will be met through the \$10m in 2008/09 and \$85m in 2009/10 approved in the "Bringing Forward Infrastructure Spending" package. This is in addition to HNZN's current programmes of modernisations and upgrades.

### **Recommendation**

Treasury recommends that you:

#### **EITHER**

- (ix) **Do not support** this initiative at the proposed amount.

**Agree/Disagree**

#### **OR**

*should Ministers wish to partially support this initiative as part of the Government's objectives to upgrade state houses*

- (x) **Support** funding \$6m over four years to take the Energy Efficient Retrofit programme through to completion in 2012/13.

**Agree/Disagree**

**d Income Related Rent Subsidy**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	6.237	8.307	10.076	11.757	13.947
Treasury	6.237	8.307	10.076	11.757	13.947
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

25. This is a technical bid to highlight the shortfall between the current appropriated funding and the updated forecasts of demand due to changing market conditions so that Budget Ministers are aware of the impact on the fiscal position. Income Related Rent subsidy is one way the government assists low income people with the cost of housing, paying the difference between the rent tenants can afford and the market rent for the property.

**Recommendation**

Treasury recommends that you:

- (xi) **Implement** this forecast change at the proposed amount in the March Baseline Update

**Agree/Disagree**

**e Capital expense transfer and additional funding for 2009/10**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	(0.846)	1.514	-	-	-
Treasury	(0.846)	1.514	-	-	-
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

26. DBH seeks to re-phase a Budget 2006 initiative to improve its core information technology infrastructure to operate more effectively and efficiently enabling further operational savings. This initiative is funded from existing net assets with most of the programmes contractually committed.



## IN-CONFIDENCE-UNTIL BUDGET DAY

27. Treasury supports this expenditure as it will provide the platform for other initiatives such as the telephone mediation services for residential tenancy services to be implemented realising further efficiency gains in DBH's operations.

### **Recommendation**

Treasury recommends that you:

- (xii) **Support** this initiative at the proposed amount.

**Agree/Disagree**

### **f Development of a Nationwide Online Building Consent System**

	\$million - increase/(decrease)				
	2008/09	2009/10	2010/11	2011/12	2012/13 & Outyears
<i>Operating (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-
<i>Capital (GST excl)</i>					
Department	-	5.334	3.212	1.778	1.976
Treasury	-	-	-	-	-

28. DBH seeks to develop a nationwide online consent system to process building consents and enable applicants to transact online with local authorities. This will enable applicants to submit applications, pay associated fees, track progress, arrange inspections apply for amendments and receive resulting consents.
29. Treasury considers that this proposal should not be supported. The business case currently only has "in-principle" support from local authorities and the building sector and DBH are seeking feedback on their willingness to pay and commit to taking up such a system. Treasury considers this support to be an important factor in the effectiveness of the initiative together with obtaining commitment from councils to pass on any cost benefits arising from the system to applicants.
30. While this system would support streamlining the consent process, more significant improvements may result from the reviews of the Resource Management and Building Acts, which also may address issues in the building consent approvals and inspections processes. These reviews may also significantly influence the design of this system. Treasury suggests deferring consideration of this initiative until these regulatory reviews are complete and the outcomes implemented.

### **Recommendation**

Treasury recommends that you:

- (xiii) **Do not support** this initiative at the proposed amount.

**Agree/Disagree**