

Vote Housing

Baseline Alignment Proposal

Version 6

9 March 2010

Submitted by:

Hon Maurice Williamson
Minister for Building and Construction and Acting Minister of Housing

Introduction

Vote Housing is channelled to two organisations, the Department of Building and Housing (DBH) and Housing New Zealand Corporation (HNZC).

This submission is presented in two parts, Part One deals with DBH while Part Two deals with HNZC.

Overview for Vote Housing

The 2010/11 Vote Housing baseline is \$889 million of which \$67 million is spent with the Department. The remaining 92% of the Vote is spent by HNZC of which \$558 million is the Income Related Rent subsidy forecast to increase to \$705 million in 2013/14. There are no performance metrics associated with this expenditure as the appropriation is incorrectly classified as a Benefit and Unrequited and other expense (BOUE).

There is clear alignment between the Departmental appropriations and the government's priorities. There is a considerable work programme to improve efficiency and effectiveness of the operations of the Department and support economic growth through reducing red tape and streamlining regulation for the building, construction and housing sector.

On the Non Departmental side of the Vote, while there is alignment with the government's priorities, there are a number of options for reprioritisation of funding. The appropriate classification of the IRR appropriation will provide a vehicle to drive performance through the specification of appropriate measures. There is work underway, with a report back to ECC, on the measurement framework for HNZC and, alongside the work by the Housing Shareholders Advisory Group, will support Ministerial decision making on reprioritisation. More efficient Asset Management by HNZC must be a significant focus to secure better value for money.

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

Part One – Department of Building and Housing

Context

The Department is focussed on delivering value for money and lifting productivity sharpened by tough economic conditions. The building and construction industry downturn significantly affected the Department's revenue. DBH's current baseline for 2010/11 is currently forecast as \$67 million, reducing to \$66 million in outyears. Revenue Crown is \$21 million per year. The remaining 71% of revenue is sourced from third party fees, charges and levies and interest earned on residential tenancy bonds. The Department has already reduced costs in 2008/09 by \$3.171 million which included ceasing lower priority work and has made further value for money savings of \$2.1 million in 2009/10. The performance improvement actions will drive both reductions in costs and greater efficiencies both in the Department and for the Sector as a whole.

Section 1: Alignment to Government Priorities

Proposed content

A productive building and construction sector will play a key role in the economic recovery. It is critical that there is ongoing confidence and investment in the sector and that there is an adequate supply of homes and buildings to meet New Zealand's needs. The Department will continue to work on reducing the regulatory costs associated with building and construction without compromising building quality along with lifting the capability and skills of the building and construction sector. Achieving an alternative approach to weathertightness that moves the focus from litigation to getting homes repaired faster will continue to be a key priority. In addition the Department will be working with the sector to encourage innovative responses to housing supply and urban development, particularly in Auckland.

Improvements will be made to the efficiency and effectiveness of the housing market through progression of the Residential Tenancies Amendment Bill, and the Unit Titles Bill. The Unit Titles Bill also has practical application in making it easier to resolve weathertightness homes problems in apartment blocks.

The key deliverables for 2010/11 are as follows:

- completion of the Building Act review and progress the legislation
- develop and implement the new arrangements for addressing the weathertightness issue
- complete implementation of the streamlined building practitioners scheme and the integration of the back office functions for registration and licensing.

The priority for the remainder of the term of this Government is to continue to reduce red tape and streamline the regulatory framework for the Building and Construction Sector.

Given existing economic constraints and predicted shortfalls of housing supply, there will options explored for the alternative provision of affordable and social housing. A Housing Shareholders Advisory Group has been established which will review the Crown's approach to the delivery of social housing with a focus on the Corporation. The government needs to be satisfied that the available resources are being used to best ensure that those people who have the greatest need are provided with suitable housing in the highest priority locations for as long as their need exists.

These priorities [deleted – free and frank] are aligned with the Premier House strategic direction which confirmed that an effective and productive building and construction market was a critical contributor to economic growth. The construction sector contributes around 5% GDP and the sector is the least productive of all industries measured.

The priorities will be achieved by reprioritising and refocussing the Department's resources and capability as well as ensuring that critical services, which ensure the stability of the rental housing market, are maintained and delivered in the most cost effective way possible.

The Department is committed to delivering value and better, smarter and faster services with less.

Action has already been taken to

- stop work that is not so important or can be done differently (stopped work on Minimum energy efficiency standards for commercial buildings and aligned other energy efficiency work with the government's priorities)
- improve the efficiency of work done (get it right first time)
- make better use of lower cost dispute resolution methods (telephone mediation)
- reduce operating costs and spend (travel and accommodation)

- deliver core business infrastructure projects to work smarter and reduce overheads (voice and data network and new FMIS)

Areas now being worked on and which are incorporated in the Performance Improvement Actions are

- reviewing the Building Act to streamline and reduce costs of building controls
- review the system for building performance standards to reduce the compulsory cost of regulation
- put in place an integrated licensing system and investigate outsourcing and rationalising back office functions
- implement the new business systems which will have significant benefits in terms of savings in the costs of doing business and improved staff productivity
- review the operating model for service delivery, looking at what services represent best value for money, how these are provided (with a greater emphasis on self service options to clients) to whom and at what cost.

Additional areas being worked on are

- rationalising National Office accommodation
- undertaking a review of our internal service delivery to ensure that it supports effectively the operation of the Department and reduces overheads.

The aim is to:

- stop work that is or maybe inconsistent with the government's priorities
- refocus spending on services, activities, and programmes which are aligned with government priorities and improving the efficiency and effectiveness of how we deliver these
- drive costs out of the business to reduce overhead and make one off or permanent savings
- lift our performance and productivity
- identify opportunities to reinvest savings in more innovative ways of doing things, or transfer savings to areas where there are resource issues that need to be addressed.

Critical issues

The Department will be working with

- the building and construction sector and local government to ensure that the reduction in red tape and the streamlining of the building and construction system does not simply transfer costs elsewhere into the system
- local government and the banking sector to secure the improvements needed to the weathertightness services to get homes repaired and fit for purpose again
- the sector to ensure effective engagement with and confidence in the changes to streamline and reduce red tape.

The Department will also progress legislative change which will be critical to supporting the building and construction system changes and deliver improvements to the efficiency and effectiveness of the housing market.

Active communication and constant engagement are going to be critical to success in delivering on this work programme.

The Department currently provides the following services:

- Building Regulation and Control – setting performance standards for buildings and the design and delivery of regulatory schemes
- Occupational Licensing – development, implementation and maintenance of the registration and licensing regimes for building practitioners and electrical workers

- Sector and Regulatory Policy – policy advice on the adequacy, efficiency and effectiveness of the building and housing sector in New Zealand; advice on the regulatory framework for the sector; monitoring, analysing and providing information on the sector; and evaluating the effectiveness of the sector and statutory boards
- Performance Monitoring and Advice – monitoring of HNZC’s current and expected performance
- Residential Tenancy and Unit Title Services – provision of residential tenancy and unit title dispute resolution services, information, education and advice, administration and investment of residential bond monies, and administrative support to the State Housing Appeals Authority
- Weathertight Homes Resolution Service - assessing the eligibility of weathertight homes claims; independent technical assessment of claims, claim management until resolution and the provision of dispute resolution services.

These services are aligned with the Government’s priorities

- a productive building and construction sector is critical to economic recovery.
- confidence and investment in the sector to ensure an adequate supply of homes and buildings to meet New Zealanders needs
- improve the weathertightness services to ensure that more homes are repaired and are fit for purpose
- improve the efficiency and effectiveness of the housing market through the progression of the Residential Tenancies Amendment Bill and the Unit Titles Bill (the latter is critical to the resolution of weathertight problems in apartment blocks).

The table below summarises the appropriations and the offsetting revenue sources.

Appropriation 2010/11 (000s)	Revenue (000s)	Opportunities for change
Residential Tenancy Services \$21,894	Revenue from interest earned on the Residential Tenancy Trust Account \$21391 Tenancy Tribunal fees \$799 Dept \$246	Designing a new operating model
Weathertight Homes Resolution services \$15,188	Crown \$15,087 Dept \$101 Mediation fees \$113	Designing a new operating model
Monitoring HNZC \$641	Crown \$625 Dept \$16	
Sector and Regulatory Policy \$4,233	Crown \$4,149 Dept \$84	
Building Regulation and Control \$15,846	Building Levy \$20,038 Crown \$910 Dept \$100	Better Building blueprint including Building Act review to streamline and remove red tape
Occupational Licensing \$9,384	Licensed Building Practitioner Fees and levies \$4,196 Electrical Workers registration fees \$4,287 and levy \$691 Dept \$43	Rationalise back office functions, simplify LBP scheme, replace Electrical Workers registration system
		Across all appropriations review of internal operating model and the benefit realisation from the business systems investment

Section 2: Reprioritisation

Proposed Content

DBH's current baseline for 2010/11 is \$67 million, reducing to \$66 million in outyears. Revenue Crown is \$21 million per year. The remaining 71% of revenue is sourced from third party fees, charges and levies and interest earned on residential tenancy bonds. Use of this non Crown Revenue is defined by legislation. Reprioritisation of activities has been undertaken within these legislative constraints. With the reduction in revenue due to the building and construction downturn the Department scaled back its work programme to stay within the funding available. For example, we stopped work on carbon footprint of construction materials and retargeted work on energy efficiency.

The following sets out the new or different activities that Department of Building and Housing intends to focus on to assist the Government to achieve its priorities for 2010/11 and in the remainder of its term:

- Progressing the Better Building Blueprint to achieve a more targeted risk-based approach to consenting and building control processes through a more efficient and cost-effective regulatory system including education and effective information.
- Implementing the new arrangements for Weathertightness.
- Complete the review of the Building Act and progress the legislation.
- Implementing a new operating model for service delivery that puts the client at the centre and delivers better value for money services to our housing and building sector clients.
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- Implementation of the Residential Tenancies Amendment Bill.
- Implementation of the Unit Titles Act as a critical support to resolving multi unit weathertight claims.
- Complete the implementation of the streamlined building practitioners scheme and the integration of the back office functions.
- Working to enhance choice in the housing market through advice on institutional investment *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.
- Implementing the findings from the review of internal service delivery to enhance productivity and reduce costs to operate.

The following sets out the activities that DBH would stop, decrease or has reprioritised to fund the new or different activities. Excluded is the Weathertightness Programme Financial Assistance Package which, due to the magnitude of the proposal, will require additional baseline funding.

The Department has two substantive pieces of work underway which will lead to the cessation of some activities. This work includes the:

- Review of the Building Act will reduce the overall costs of the building and construction system, rationalise the delivery of building consent functions and simplify consenting.
- Implement a new operating model for service delivery to better target services and increase efficiency by making more use of technology.

Other work which will stop is as follows:

- Stop Licensed Building Practitioner competency development and assessor training for the new and changed license classes in 2010/11 as no further licensing classes are envisaged. No risks expected from cessation.
- Stop electrical workers complaints assessment committee work when the Electricity Safety regulations under the Electricity Amendment Act 2006 come into force. No risk expected as an alternative complaint structure is to replace this committee.

Other work which is reprioritised is as follows:

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

Actions underway which will reduce costs in the building and construction system as a whole:

- Changes to schedule one of the Building Act are reducing the number of building consents sought.
- Multiproof will streamline building consents for volume builders and reduce costs
- Better quality information, education and clarity on the Building Code and standards will
 - reduce demand for enquiries on interpretation
 - result in fewer disputes to be determined.

The Department's focus is on using the resources it has as effectively as possible to meet the government's expectations of doing more with less and ensuring that services are delivered as efficiently and effectively as possible.

As we work through the Performance Improvement Actions any savings will either be reinvested to create further efficiencies, meet demand pressures within existing baselines or reprioritised to meet Government Priorities.

Part Two – The Housing New Zealand Corporation

Context

The Government is committed to delivering housing assistance to those most in need, but in doing so it recognises a number of challenges. Demand for low-income housing is likely to continue to increase. Additionally, there is considerable deferred maintenance on the existing state housing portfolio. Addressing these challenges, will require the Government to have a clear understanding of how it wishes to achieve its goals, appropriate ways to measure performance and sufficient flexibility to manage the portfolio in an efficient, commercially astute manner.

The main delivery vehicle for housing assistance is Housing New Zealand Corporation (HNZC), which provides housing for approximately 200,000 people. HNZC holds assets worth over \$14.5 billion. In addition, the Crown provides annual income-related rental subsidies of over \$500 million.

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The Corporation is also focussed on delivering value for money and lifting productivity.

Savings from Appropriations

The Corporation has undertaken a number of saving reviews.

In the 2009 Budget, the Corporation provided savings under the line-by-line review of \$22 million in 2008/09, \$38 million in 2009/10 and \$6 million per annum in out years.

As part of the 2009 October baseline update, savings of \$550,000 were identified from the shared equity programme and Kiwisaver deposit subsidy scheme. A further \$3.9 million was reprioritised from baselines for other high priority initiatives i.e. the Mortgage Insurance Scheme, Housing Foundation Homeowner Partnerships and the provision of monitoring advice by the Department of Building and Housing.

In the 2010 February baseline update, savings of \$1.45 million were returned to the Crown. An additional \$2.9 million in shared equity funding for 2009/10 and community housing rent relief funding from 2010/11 to 2013/14 was reprioritised to address the shortfall in operating funding for the Hobsonville urban development, to fund the new Housing Shareholders Advisory Group and to rectify an out year technical issue with shared equity operating funding.

As part of this Baseline Alignment Proposal, the Corporation has identified \$3.09 million in savings over three years relating to the Healthy Housing programme *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Value for Money Savings

The Corporation has already reduced costs in 2009/10 by approximately \$3.0 million which included implementing a new travel policy saving of up to \$1.0 million per annum and replacing contractors with fixed term contracts or permanent staff, with projected savings of up to \$500,000 per annum. New options for improving the performance of its housing are being developed within the identified policy settings. These savings are ongoing and increases to \$4.0 million from 2010/11.

The Corporation is targeting a number of initiatives that will lead to a more efficient operating model. This includes:

- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- Operations alignment - the Operations Group is to review how it is organised to more effectively deliver services into the future.

While there is a focus on achieving operating efficiencies in the short term, the more significant cost savings will be achieved in the medium to long term through programmes including the Enterprise Transformation Programme (ETP), which is forecast to deliver savings of approximately \$70 million per annum including tax savings.

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

In addition, the Corporation is currently preparing a wider review of performance measurement *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

The Corporation has also paid a \$132 million dividend for the 2008/09 financial year. This reflected the cash and cash equivalents on the Corporation's balance sheet as at 30 June 2009.

Overview of Appropriations Contracted with the Corporation

The Crown provides funding through appropriations for HNZC to deliver specific services. These appropriations are administered by the Department of Building and Housing, and subject to contractual arrangements between the Crown and Housing New Zealand Corporation.

The Corporation current baseline totals \$972 million for 2009/10, decreasing to \$819 million in 2010/11 before increasing again in outyears. The decrease between this year and next is largely due to programmes that are finishing, a lower value of debt facilities needing to be rolled over next year, with these decreases offset by a forecast increase in the level of income related rent subsidy. The outyear increases are also primarily driven by increases in the income related rent subsidy.

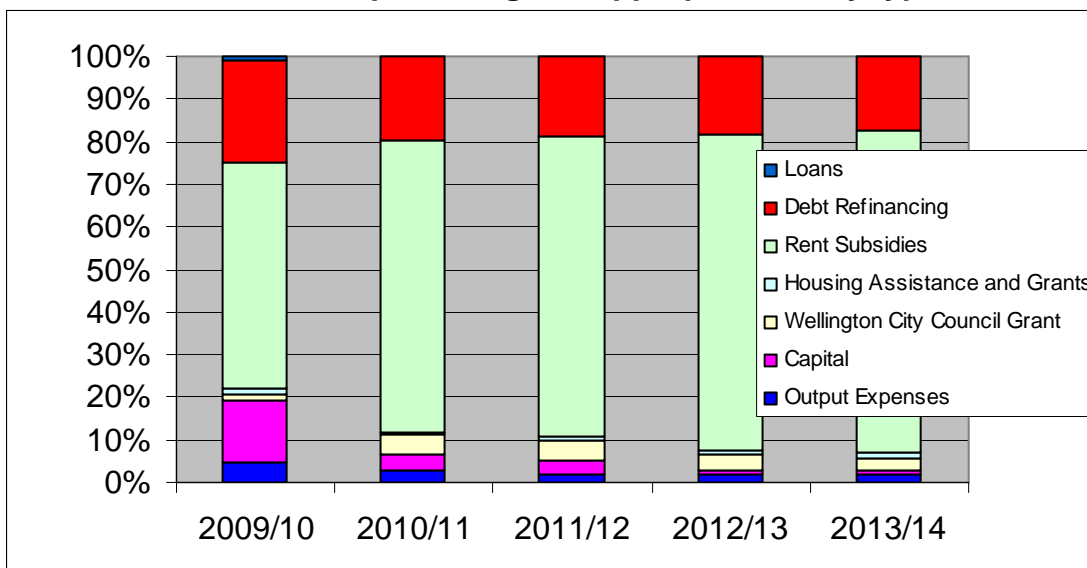
The appropriations consist of operating and capital funding to deliver Crown programmes, rent subsidies, the rollover of existing debt facilities with the DMO, social housing subsidies and the Wellington City Council grant.

Housing New Zealand Crown appropriations profile for 2009/10 to 2013/14

(based on February Baseline Update)

Appropriations Class	\$ Millions				
	2009/10	2010/11	2011/12	2012/13	2013/14
Output Expenses	49.1	22.8	17.5	17.4	17.2
Wellington City Council Grant	13.5	37.5	43.5	35.0	28.0
Housing Assistance and Grants	15.1	4.8	5.8	6.4	11.3
Rent Subsidies	531.7	562.5	610.9	659.1	709.9
Loans	11.3				
Capital	142.2	30.9	26.2	7.3	7.3
Debt Refinancing	234.6	160.8	160.8	160.8	160.8
Total Appropriation	997.5	819.3	864.7	886.0	934.5

Breakdown of the percentage of Appropriations by type



Appendix Two contains a more detailed analysis of the appropriations and programmes contracted with Corporation across years.

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Housing Assistance

Assistance is available to those most in need for the duration of their need, and is delivered in a cost effective manner. Programmes to achieve the objectives include:

Housing Policy Advice (including Ministerial Support)

- Under the Housing Corporation Act 1974, the Corporation's objectives include ensuring that the Minister of Housing receives appropriate policy advice, other advice and information, on housing and services related to housing [s3B(b)]. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- A policy work programme is agreed with the Minister and will include key pieces of work to implement and manage risk associated with Ministerial decisions on the ECC paper.

Income Related Rent Subsidy

- The Income Related Rent Subsidy provides the Corporation with a market return on its state housing portfolio (excluding community group houses) and allows it to operate in a business-like manner and to give effect to the Crown's social objectives.

Community Group Housing Rent Relief Programme

- The Community Group Housing (CGH) Rent relief Programme provides a subsidy to community group housing tenancies but not to the extent of market rates. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*

[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]

Healthy Housing and Energy Efficient Warm Homes

- The Healthy Housing and Energy Efficient Warm Homes are joint initiatives with other sectors to improve the living environment and energy efficiency of the state housing portfolio as well as improving tenant health, safety, and wellbeing.

Mortgage Insurance Scheme; and Kiwisaver Deposit Subsidy Scheme

- Home ownership is valued for the implicit benefits of long term wealth creation, household security and encouraging stable communities and affordable home ownership remains as one of the Government's housing priorities.
- Cabinet considered the Mortgage Insurance scheme in July 2009 and extended eligibility to the scheme (SOC min (09) 16/5 refers) including increasing the loan caps to \$350,000 and extend guarantees to lending on multiple-owned Maori land from November 2009.

- KiwiSaver is part of a package of Government initiatives designed to increase the level of savings of New Zealand households. KiwiSaver is designed to facilitate a change in the saving behaviour of individuals by encouraging a long-term saving habit and asset accumulation by individuals who aspire to have more than a basic standard of living in retirement.
- The deposit subsidy design details were agreed by the Ministers of Finance and Housing through three reports submitted in June 2008, December 2008 and June 2009. The first deposit subsidies will be available to eligible members from 1 July 2010.

Investment in Affordable Housing

Create a suitable business environment for investment in affordable housing by providers, including not-for-profit organisations

Housing Innovation Fund – subject of a 2010/11 Budget Bid

- HIF allocation criteria were changed in 2009/2010; requiring applicants to make a significant financial contribution, have plans for growth, and align with government priorities. It is proposed to continue this new direction in 2010/2011 to encourage growth, with the long-term aim of independence from government. This proposal is for one year only, to provide continuity pending government decisions on a medium-term sector growth strategy.

Wellington City Council (WCC) upgrade of social housing portfolio

- In 2008, Cabinet approved a conditional grant of \$220 million to the Council over 10 years to assist the upgrade of the Council's social housing portfolio. The Crown, the Council and the Corporation signed a Deed of Grant in August 2008. The project is expected to take up to 20 years.
- The investment plan included in the Deed of Grant provides for the \$220 million to be advanced over 10 years from July 2008 to July 2017 in amounts that accord with the approved work programme. The investment plan represents a net present value amount of around \$150 million in 2006 dollars.

[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]

Section 2: Reprioritisation

Opportunities to Reprioritise:

The Corporation has identified a number of programmes where funds can be returned to the Crown, or alternatively used to fund some of the unfunded or underfunded programmes identified below.

These programmes include Healthy Housing assuming that Cabinet approves the rephasing of the capital for the programme recommended and Home Ownership Education Programme ("Welcome Home First Steps). Further details are provided in section 3 and in the discussions around the particular programmes below.

Not all of the remaining programmes provided by the Corporation not directly linked to the Government's priorities can be considered for potential baseline savings due to the programme being either a legislative requirement or a contractual obligation such as a deed of grant. These programmes are listed below and a full analysis of the implication for cessation is provided in Appendix Three.

Programmes agreed by the current Government

Rural Housing

- These programmes whilst not directly linked to the 2010/11 Government priorities have received consideration by the current Government. The Rural Housing programme was approved in Budget 2009. All funding is now committed and no new work will be approved between now and the end of the 2010/2011 financial year. The Programme is likely to have completed all outstanding household assessments by 31 December 2010 and repairs by 30 June 2011.

Closed Programmes initiated by the previous Government that still require appropriation

Community Owned Rural Rental Housing Loan (CORRL)

Loss of Interest on Sold Loans Portfolio

Special Housing Action Zones (SHAZ) Bridging Finance

Financial Assistance to Owners of Non-weather tight Homes

- These programmes are legacy programmes initiated by the previous government with the funding requirements reducing as the loans are progressively repaid.

Programmes where appropriated funding is a legislative requirement

Housing Agency Account – Other Activities

- The Housing Agency Account was created to be the vehicle by which the Corporation carried out its agency role under the Housing Act, and reported to the Crown on all activities carried out under the Act.
- The Housing Agency Account (HAA) is required by legislation to be funded by appropriation.

Programmes where funding ceases at the end of 2009/10

Fiscal Stimulus including State House Upgrades, Infrastructure and Healthy Housing

State House Acquisitions

Auckland City Pensioner Housing

Shared Equity Ownership pilot (the programme will cease subject to Ministerial confirmation)

Implications of reprioritising those programmes identified as a Government priority

Should Ministers wish to reprioritise funding from currently funded programmes identified as a priority there may be implication in the programmes scaling or cessation and include:

Housing Policy Advice (including Ministerial Support)

- The impact of reducing the programme would be that Ministers may not receive the same level of advice from the Corporation on social housing which is informed by a practical housing sector perspective. The practical impact of reducing the scope of the programme would be a mixture of specific projects on the policy work plan not being undertaken and / or negotiating delays to milestones.

Community Group Housing Rent Relief Programme

- There are 188 providers who receive Rent Support across 672 tenancies. Stopping or reducing the scope of the Rent Support Scheme would compel providers to find funding from other sources to cover the shortfall in their rental costs. This may reduce the affordability of housing for clients.

Community Housing Standard Acquisitions

- Community Housing Rent Support Scheme (appropriated as the Community Housing Rent Relief Fund) funds community group houses that do not provide a market return. The acquisition of community group housing cannot be justified in commercial terms.

Healthy Housing and Energy Efficient Warm Homes

- If the programme was stopped or reduced, it would reduce the funding available to upgrade the housing portfolio and affect a particularly vulnerable customer segment.

Mortgage Insurance Scheme;

- If the programme was reduced or stopped, lenders will bear the full cost of lending and either increase their borrowing margins for these households, or not lend to them at all, making housing less accessible to low to middle income households.

KiwiSaver deposit subsidy

- Stopping or reducing the deposit subsidy would impact people who joined KiwiSaver planning to use it towards a house purchase. There has been information about KiwiSaver publicised, and the timing of the deposit subsidy (and first home withdrawal) to be available from 1 July 2010 is now very close. There would also be an impact on the expectations/relationship with KiwiSaver providers.

Housing Innovation Fund

- Subject of a 2010/11 Budget Bid

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

[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]

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Unfunded Crown programmes

Unfunded programmes include those services provided by the Corporation on behalf of the Crown, but without Crown appropriations and include the following:

- *[deleted – confidentiality of advice]*
- Housing Agency Account

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

The Crown holds various properties for state housing purposes that have been declared surplus by other agencies. The Corporation acts as the agent of the Crown in administering these properties. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Section 3: Summary of Financial Movements

Proposed Content

As a consequence of DBH's funding structure with 71% of revenue obtained from third party fees, charges and levies and interest earned on residential tenancy bonds and the legislative restrictions regarding the use of this revenue, the ability to reprioritise activities across output classes is limited to those that are primarily Revenue Crown funded (Weathertight Homes Resolution Service, Sector and Regulatory Policy, and Purchasing and Monitoring Advice for HNZA). DBH has therefore taken the approach of identifying opportunities to reprioritise activities within output classes to meet Government priorities meaning that financial movements between output classes are unlikely to be required.

Funding changes

Funding for the set up work required to develop the Weathertight Programme Financial Assistance Package, being discussed by Cabinet, has been projected to cost \$1.548 million more than is available within the Output budget for 2009/10. It is recommended that, until the policy decisions are finalised, surplus Revenue Other be used to fund the increase cost to the Vote. To implement this option a technical adjustment is being requested to increase the Appropriation for Residential Tenancy Services (RTS) by \$1.548 million. This increased appropriation will then be a fiscally neutral transfer to Weathertight Homes Resolution Service (WHRS). The effect of these two transactions will allow surplus Revenue Crown to be moved from RTS to WHRS, to be replaced in RTS by Revenue Other.

The funding for the WHRS operations in out years will be requested through a Cabinet paper in late March 2010.

Consistent with the Minister of Finance letter on the funding of the Productivity Commission there will be a reduction in the Output Sector and Regulatory Policy of \$70,000 in 2010/11, \$140,000 in 2011/12 and \$150,400 in 2012.13 and out years.

Recommendations

The Acting Minister of Housing and Minister of Finance recommend that Cabinet:

Department of Building and Housing

- 1 **note** that there are no proposals to reprioritise department expenditure as the Department's work programme has been closely aligned with government priorities;
- 2 **approve** the following changes to appropriations to fund the Productivity Commission, as directed by the Minister of Finance, with a corresponding impact on the operating balance;

Vote Housing Minister of Housing	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14
Departmental Output Expenses: Sector and Regulatory Policy (funded by Revenue Crown)	-	(0.070)	(0.140)	(0.154)	(0.154)
Total Operating	-	(0.070)	(0.140)	(0.154)	(0.154)
Total Capital	-	-	-	-	-

- 3 **approve** the following changes to appropriations to fund establishing the Weathertight Programme Financial Assistance Package in 2009/10, with a corresponding impact on the operating balance. The increase to the Residential Tenancy and Unit Title Services appropriation will be funded from projected surpluses in Other Revenue – Interest on Residential Tenancy Bond Funds;

Vote Housing Minister of Housing	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14
Departmental Output Expenses: Residential Tenancy and Unit Title Services (funded by Revenue Other)	1.548	-	-	-	-
Total Operating	1.548	-	-	-	-
Total Capital	-	-	-	-	-

- 4 **approve** the following fiscally neutral adjustment to resource establishing the Weathertight Programme Financial Assistance Package in 2009/10, with no impact on the operating balance;

Vote Housing Minister of Housing	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14
Departmental Output Expenses: Residential Tenancy and Unit Title Services (funded by Revenue Other)	(1.548)	-	-	-	-
Departmental Output Expenses: Weathertight Homes Resolution Service (funded by Revenue Other)	1.548	-	-	-	-
Total Operating	-	-	-	-	-
Total Capital	-	-	-	-	-

- 5 **note** that the Department will submit a paper to Cabinet seeking additional appropriations for 2010/11 and out years to fund the Weathertight Programme Financial Assistance Package beyond the current year;

Housing New Zealand Corporation (HNZC)

- 6 **note** that the Income Related Rent subsidy appropriation is incorrectly classified as a Benefit and Other Unrequited Expense;
- 7 **approve** the re-classification of the Benefit and Other Unrequited Expense appropriation, Income Related Rent Subsidy, to a Non-Departmental Other Expense;
- 8 **note** that the new Non-Departmental Other Expense appropriation, Income Related Rent Subsidy, will require performance measures to be developed for inclusion in the 2010/11 Vote Housing Estimates. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 9 **approve** the following changes to appropriations to fund the Productivity Commission, as directed by the Minister of Finance, with a corresponding impact on the operating balance;

Vote Housing Minister of Housing	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14
Non Departmental Output Expenses: Housing Policy Advice	-	(0.070)	(0.140)	(0.154)	(0.154)
Total Operating	-	(0.070)	(0.140)	(0.154)	(0.154)
Total Capital	-	-	-	-	-

- 10 **approve** the following changes to appropriations to transfer \$1.700 million in capital for the Healthy Housing initiative from 2011/2012 into 2010/11, with no impact on debt. This will enable the more efficient administration of this programme;

Vote Housing Minister of Housing	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14
Non Departmental Capital Expenditure: Acquisition and Improvement of Housing New Zealand Corporation state houses	-	1.700	(1.700)	-	-
Total Operating	-	-	-	-	-
Total Capital	-	1.700	(1.700)	-	-

- 11 **approve**, subject to Cabinet approval of the re-phasing of capital as noted in recommendation 10 above, the following changes to appropriations to return \$3.091m savings to the Crown from the Healthy Housing initiative over the three years from 2011/12, with a corresponding impact on the operating balance;

Vote Housing	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14

Minister of Housing					
Non Departmental Output Expenses: HNZC Housing Support Services	-	-	(0.147)	(0.972)	(0.972)
Total Operating	-	-	(0.147)	(0.972)	(0.972)
Total Capital	-	-	-	-	-

- 12 **approve** the following capital receipts for the Crown in relation to principal repayments from the Housing innovation Fund, Community Owned Rural Rental Housing Loans (CORRL) and Special Housing Action Zone Crown loan programmes, with a corresponding impact on debt;

Vote Housing Minister of Housing	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14
Non Departmental Capital Expenditure: Housing Assistance	(1.022) ¹	(6.022)	(0.222)	(0.267)	(0.416)
Non Departmental Capital Expenditure: Loans to Support Social and Affordable Housing	(1.150)	(1.150)	(1.175)	(1.200)	(1.210)
Total Operating	-	-	-	-	-
Total Capital	(2.172)	(7.172)	(1.397)	(1.467)	(1.626)

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

¹ Receipts include Housing Innovation Fund that transfers to the Crown from 2010/11 therefore forecast capital repayments will be made by the Department of Building and Housing.

- 14 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 15 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 16 **agree** to delegate authority to the Minister of Housing and Minister of Finance to re-appropriate savings identified in 2009/2010 from HNZC Housing Support Services for the Mortgage Insurance Scheme (Welcome Home Loans) into 2010/2011 to meet anticipated demand for this product, noted by Cabinet [SOC Min (09) 16/5 refers] in the 2010 October Baseline Update;
- 17 **agree** that the Shared Equity initiative not continue into 2010/11 and outyears once the programme's pilot finishes at the end of 2009/10;
- 18 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 19 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 20 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 21 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 22 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
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- 25 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 26 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 27 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 28 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 29 **note** that the Gateway initiative, currently funded by HNZC; the appropriations for Mortgage Insurance scheme (Welcome Home Loans); Kiwisaver Deposit subsidy and Home Ownership Education all support homeownership. Ministers may wish to invite officials to provide advice about what support government may wish to consider to support people into home ownership;

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

Appendix One

Response to the questions around levels of policy staffing

Further to the letter from the Ministers of Finance and State Services I have had a conversation with the Chief Executive of the Department of Building and Housing to better understand the formation of the Department and the subsequent rationalisation of functions.

The establishment of the Department involved the transfer of functions and the associated staff from a number of government agencies, Ministry of Housing (152 staff), MED (6 staff 1 November 2004), the BIA (42 staff and 29 contractors 30 November 2004), WHRS from DIA (49 staff 1 July 2005) and the Electrical Workers Registration Board (17 staff 1 September 2006) to deliver services associated with housing, building and construction. A further 53 staff were approved in 2005/06 which included 20 for front line services (Residential Tenancy services) and 33 additional staff, part of a capability investment for the new Department which included lifting Corporate skills and capacity in Finance, HR and Information and some additional policy capacity to support the new role.

These functions have now been consolidated and integrated and this has resulted in changes to the distribution of staff both against functions and the classification of roles. The Ministry of Housing was a single function entity and had four policy analysts and the Department of Building and Housing provides policy advice across a wide range of Building, Construction and Housing issues. In response to the substantial policy work programme aligned with the government's priorities there are currently thirty policy analysts. The Department has taken on additional work such as the Retirement Villages and Plumbers, Drainlayers and Gasfitters with no additional staffing. With the implementation of a new Employee Information system in 2009 the opportunity was taken to ensure that all roles were correctly classified. Total staff numbers were at June 2009 348 and at December 353 well within the cap of 406.

It would be interesting to know if the departments that transferred staff to the Department of Building and Housing have maintained the reduction in their staffing numbers consistent with the number transferred.

Appendix Two

	2009/10	2010/11	2011/12	2012/13	2013/14
Non-Departmental Operating Appropriations					
Housing Policy Advice and Ministerial Support	2.254	2.254	2.254	2.254	2.254
Ministerial Support	0.300	0.300	0.300	0.300	0.300
Total Policy Advice and Ministerial Support	2.554	2.554	2.554	2.554	2.554
Home Ownership Education	2.666	2.400	2.400	2.400	2.400
Rural Housing Programme	7.000	5.000			
Healthy Housing	1.418	1.622	1.147	0.972	0.972
Financial Assistance to Owners of Non-Weathertight Homes	0.070	0.040			
Mortgage Insurance Scheme (Welcome Home Loan)	11.573	9.100	9.100	9.100	9.100
KiwiSaver Deposit Subsidy (including admin and evaluation)	0.418	0.796	0.931	0.969	0.789
Housing Innovation Fund- administration *	1.600				
Fiscal Stimulus Package *	20.000				
New Zealand Housing Foundation *	0.500				
Total Delivery Programme expenses	45.245	18.958	13.578	13.441	13.261
Housing Agency Account	0.034	0.021	0.008	0.008	0.008
Housing Agency Account (Hobsonville)	1.262	1.267	1.387	1.387	1.387
Total Management of Crown properties under the Housing Act 1955	1.296	1.288	1.395	1.395	1.395
Total Non Departmental Output Expenses	49.095	22.800	17.527	17.390	17.210
Housing Assistance - interest subsidies	0.815	0.590	0.620	0.620	0.620
Income Related Rent Subsidy	527.851	558.566	606.744	655.005	705.814
Community Housing Rent Relief Programme	3.800	3.968	4.150	4.127	4.104
Housing Innovation Fund - Building grants	8.700				
Housing Innovation Fund - Impairment expenses	5.535				
KiwiSaver Subsidy		4.200	5.200	5.800	10.700
Wellington City Council Social Housing Assistance grant	13.500	37.500	43.500	35.000	28.000
Total Social Housing Assistance (including benefits, subsidies and grants)	560.201	604.824	660.214	700.552	749.238
Total Non-Departmental Operating Appropriations	609.296	627.624	677.741	717.942	766.448
Non-Departmental Capital Appropriations					
Healthy Housing	15.000	4.000	1.700		
Energy Efficient Warm Homes	6.500	6.500	6.500	1.500	1.500
Community Housing Standard Acquisitions	5.800	5.800	5.800	5.800	5.800
Housing Agency Account - Hobsonville Urban Development	20.301	14.548	12.142		
Auckland City Pensioner Housing *	11.622				
State House Acquisitions *	9.000				
Fiscal Stimulus *	72.688				
Shared Equity Home Ownership pilot *	0.700				
Capital Injections to HNZA for Housing Activities	0.620	0.027	0.027	0.027	0.027
Total Capital Assets Appropriations Excluding Refinancing and Loans	142.231	30.875	26.169	7.327	7.327
Housing Innovation Fund Loans	11.300				
Refinancing HNZA and HNZA Debt	234.642	160.757	160.757	160.757	160.757
Total Non-Departmental Capital Appropriations	388.173	191.632	186.926	168.084	168.084
Total Appropriations held by HNZA	997.469	819.256	864.667	886.026	934.532
Appropriations administered by the Department of Building and Housing					
Income Related Rent Bad Debt Provision	2.744	3.279	3.279	3.279	3.279
Total Appropriations administered by DBH	2.744	3.279	3.279	3.279	3.279
Total Non Departmental Appropriations per Treasury	1000.213	822.535	867.946	889.305	937.811

Note * denotes appropriations currently ceasing in 2009/10

The two largest appropriations are the income related rent subsidy (provided so the Corporation receives a market rent on its portfolio and can operate in a businesslike manner), and the Wellington City Council grant, a contractual arrangement entered into between the Crown, the Council and the Corporation to enable the Council to upgrade its social housing portfolio. Of the

other programmes, only the funding provided for the KiwiSaver increases across years aligned with eligibility and entitlement.

On the capital side, excluding the funding provided to extend the term of existing loans from the Debt Management Office (DMO), capital appropriations reduce to \$7.3 million in 2013/14².

² excludes the appropriation for the IRR debt provision which is administered by the Crown

Appendix Three

Access to Housing

New Zealanders have access to housing that meets their needs and is affordable

Home Ownership Education (Welcome Home First Steps)

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	2.666	2.400	2.400	2.400	2.400

Welcome Home First Step has been delivered through face-to-face nationwide workshops and distance learning, and since July 2009, has been available online. The 2009 review also recommended that the delivery of the programme be changed to predominantly online and tailored courses for specific groups, which the Minister of Housing agreed to. Since that decision, workshops have been gradually reduced in preparation for online delivery and tailored courses only from 1 July 2010.

The changes to be implemented following the 2009 review aim to reduce the cost of the programme by limiting delivery to online and tailored courses that will target people who are already closer to entering home ownership. The new programme will also provide a vehicle to inform prospective home owners about the types of government assistance they may be eligible for and help with applications. The households who have accessed the programme can still do so but it will be delivered differently.

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

Cessation of Appropriation

Decisions to reduce the programme's scope have already been agreed and partially implemented. The impact of stopping the programme would mean that prospective home owners in the new target group may remain unaware of their ability to enter home ownership and the assistance that may be available to them.

Housing Assistance

Assistance is available to those most in need for the duration of their need and is delivered in a cost effective manner

Housing Policy Advice

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	2.254	2.254	2.254	2.254	2.254

The Corporation's 2009/2010 policy work plan is organised under the objectives set out in the Letter of Expectations (LOE). The work plan was discussed with the Minister of Housing and is attached as a schedule to the Accountability Agreement, and is reviewed and updated quarterly.

The focus of policy advice to the Minister to date has been on implementing the new government's manifesto commitments, as set out in the LOE. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* The policy advice output includes, for 2009/2010, some new quality performance measures, including a quarterly survey of Ministerial satisfaction, and independent benchmarking.

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

The Corporation has completed a stock take of its policy function and current level of resources. Ministers' requirement for policy advice needs to be reassessed, and the various agencies and providers of that advice need to be aligned to avoid duplication or overlap.

The Corporation's policy advice is informed by an operational social housing perspective as it is linked into operational policy and implementation, and a history of relationships within the social housing sector.

Cessation of Appropriation

The impact of reducing the programme would be that Ministers may not receive the same level of advice from the Corporation, on social housing which is informed by a practical housing sector perspective. The practical impact of reducing the scope of the programme would be a mixture of specific projects on the policy work plan not being undertaken and / or negotiating delays to milestones.

As invited by the Minister of Finance in his letter to Ministers on the growth of policy adviser roles in the public service, the Corporation's Chief Executive has requested an analysis of trends in policy staffing, a list of projects being worked on for the Minister and the Corporation, and forecast demand. This will form the basis for better alignment between policy and the rest of the business and opportunities to use the resource more flexibly and effectively.

Ministerial Support

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	0.300	0.300	0.300	0.300	0.300

This service provides support to the Minister of Housing in fulfilling the responsibilities of his office. It involves coordinating and responding to the Minister's requests for information, reports, and briefings on the activities of Housing New Zealand Corporation. It also provides information and draft replies to assist the Minister with answering oral and written Parliamentary questions, letters to the Minister, requests for Official Information, Select Committee enquiries, and other statutory requests. This service is mostly funded by the Corporation and partly through appropriation.

Cessation of Appropriation

Reducing the scope of Ministerial Support services would create an information gap for the Minister which could put the Minister at risk, and reduce the support and level of communication the Minister is able to provide to those in need of housing.

Income Related Rent Subsidy

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	527.851	558.566	606.744	655.005	705.814

When the Housing Restructuring (Income-Related Rents) Act was passed in August 2000 Housing New Zealand, as it was then known, moved to replace the unsubsidised market rent regime with rents based on incomes and household make-up.

Under income-related rent, low-income Corporation tenants pay no more than 25 percent of their income in rent. 'Low income' has been defined as the relevant (that is, single or couple) rate of national Superannuation for the household. Income-related rents are charged at 25 percent of the applicable household income up to a threshold and then 50 percent of every dollar earned over that threshold.

The maximum any tenant will pay is the actual market rent applicable to that property. Approximately 92 percent of state house tenants pay an income-related rent, with 99 percent of new tenants qualifying for an income-related rent. The Corporation is reimbursed by the Government for the difference between income-related rent and market rent.

Currently the appropriation for the IRR subsidy is classified in a Benefit or Other Unrequited Expense (BOUE) appropriation type. This means that performance information regarding this funding is not required in the Estimates although some performance information is provided in the Corporation's Statement of Intent and other accountability documents. Officials are reviewing if this appropriation type is appropriate going forward and will make recommendations to Ministers. This advice will also make recommendations regarding the requirements for associated performance measures and their presentation.

Cessation of Appropriation

The payment of Income Related Rent Subsidy is written in legislation: Stopping or reducing scope of this programme would require changes to legislation and development of an alternate mechanism for funding state housing cost. Alternatively, the Crown would need to reconsider the provision of Crown social housing. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Community Housing Rent Relief Fund

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	3.80	3.968	4.150	4.127	4.104

The Community Group Housing (CGH) programme ensures that community providers can access suitable group housing to provide care and support services to their clients. Under CGH the Corporation either builds or modifies large homes to lease to community groups that support

people with physical, intellectual or mental disabilities, youth, or people unable to live in their own homes due to violence or abuse. CGH is only available to providers who have a service contract with another government agency. There are 1539 CGH properties across the country,

The current rent policy for CGH has been in place since 2000. The Corporation charges CGH providers entering new tenancies a market rent but the rents are not market adjusted once the providers have taken the tenancy. All CGH properties were last adjusted to the market rent in 2002, and many properties have not had a market rent adjustment since then. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

The current rents charged to providers is however subsidised by a government-funded housing subsidy (the Rent Support Subsidy funded through the Community Housing Rent Relief Programme appropriation).

The Rent Support Scheme supports the achievement of the government’s housing objective that New Zealanders have access to affordable, good quality housing appropriate to their needs. The RSS supports the community housing sector to address housing need that is outside the core focus of the Corporation, and is not well addressed in the private market.

The Community Group Housing programme assists people needing crisis, transitional and longer-term supported housing. The Rent Support Scheme supports the affordable provision of that housing.

In 2009, the Minister of Housing and the Minister for Social Development and Employment agreed to investigate initiatives to improve the provision of government-funded crisis and transitional housing and support services. While Community Group Housing is an effective response to the need for suitable group housing, there is potential to improve the co-ordination between agencies of the funding, monitoring and evaluation of crisis and transitional housing and support services. The initiatives under investigation will seek to improve this co-ordination.

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

Cessation of Appropriation

There are 188 providers who receive Rent Support across 672 tenancies. Stopping or reducing the scope of the Rent Support Scheme would compel providers to find funding from other sources to cover the shortfall in their rental costs. This may reduce the affordability of housing for clients.

Community Housing Standard Acquisitions

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	5.800	5.800	5.800	5.800	5.800
Operating	-	-	-	-	-

In late 2008 the Government advised that upgrading the current portfolio of community houses was a higher priority than any further acquisitions. From 2010/2011 there would be no net increase in owned stock with all the increase coming from leased properties. Within this net neutral position there is scope to add new properties whilst disposing of properties no longer required.

The net impact on capital expenditure from 2010/2011 to 2012/2013 ranges from \$5-\$6 million per annum with spend on new properties (including fitting them out to meet the specific requirements of the groups) exceeding sales proceeds. The appropriation is being used to fund this gap.

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Cessation of Appropriation

Community Housing Rent Support Scheme (appropriated as the Community Housing Rent Relief Fund) funds community group houses that do not provide a market return. The acquisition of community group housing cannot be justified in commercial terms.

Healthy Housing

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	15.000	4.000	1.700	-	-
Operating	1.418	1.622	1.147	0.972	0.972

Healthy Housing is a partnership programme run with District Health Boards in Counties Manukau, Auckland and Hutt Valley. The programme operates in areas with significant concentrations (more than 20 percent) of state housing and high rates of potentially avoidable housing-related hospitalisations CAB Min (01) 12/6(22) refers.

The Corporation takes action to address identified housing needs, including making homes warmer and dryer, transferring families to more appropriate housing, extending existing houses for larger families and making design improvements.

Cessation of Appropriation

Healthy Housing provides funding for the Corporation to modify housing to match the needs of tenants and reduces other social costs.

If the programme was stopped or reduced, it would reduce the funding available to upgrade the housing portfolio and affect a particularly vulnerable customer segment.

There is \$15 million in capital to fund this programme in 2009/10. Beyond that, only \$5.7 million is appropriated to continue this programme in 2010/11 and 2011/12.

The capital for Healthy Housing programme consists of \$21.5 million including \$6.5 million for fiscal stimulus not included above in 2009/10, \$4.0m in 2010/11 and \$1.7m in 2011/12 with no funding thereafter. It is recommended that the capital from 2011/12 is brought forward to 2010/11 as spreading relatively small amounts of expenditure over two years would be inefficient.

Energy Efficient Warm Homes

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	6.500	6.500	6.500	1.500	1.500
Operating	-	-	-	-	-

Energy Efficient Warm Homes provides funding for the Corporation to improve the energy efficiency of houses, improving outcomes for tenants, and reducing other social costs.

Cessation of Appropriation

If the programme was stopped or reduced, it would reduce the funding available to upgrade the housing portfolio.

Mortgage Insurance Scheme (Welcome Home Loan)

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	11.573	9.100	9.100	9.100	9.100

Home ownership is valued for the implicit benefits of long term wealth creation, household security and encouraging stable communities and affordable home ownership remains as one of the Government's housing priorities.

In a recent briefing note (BN/10/009 refer), the Minister was advised that the Mortgage Insurance Scheme (also known as Welcome Home Loans) may return savings of between \$2 million and \$3 million in savings.

There has been a significant increase in demand for this mortgage guarantee product since February 2009 as lenders sought to reduce the risks associated with low equity lending.

Further increases in demand are expected following Cabinet's agreement to increase the loan caps to \$350,000 and extend guarantees to lending on multiple-owned Maori land (SOC Min (09) 16/5 refers) from November 2009.

To fund the increased demand, a fiscally neutral transfer of \$3.150 million from savings in the Shared Equity programme was approved in the 2009 October Baseline Update. This increased the appropriation to \$11.573 million in 2009/10 (compared with actual expenditure in 2008/09 of \$5.013 million).

The increased demand as a result of the policy changes is likely to present in the 3rd & 4th quarters of 2009/10 once the market intensifies after the quieter December /January period. Demand may also be affected by other variables such as the strength of the property market (particularly in light of expected tax changes) and lenders attitudes to risk.

Since the appropriation reduces to \$9.1 million in 2010/11 and out years, there is expected to be a shortfall in the appropriation in those years. It is proposed that any underspend from this year is made available in 2010/11 to cope with the increase in demand, therefore providing an opportunity to determine how this demand may be addressed on an ongoing basis. This may include managing demand, or exploring other funding options.

It is proposed that the savings in 2009/10 be reappropriated in 2010/11 as part of the baseline alignment process and Budget 2010.

Cessation of Appropriation

If the programme was reduced or stopped, lenders will bear the full cost of lending and either increase their borrowing margins for these households, or not lend to them at all, making housing less accessible to low to middle income households.

KiwiSaver

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	0.620	0.027	0.027	0.027	0.027
Operating	0.418	4.996	6.131	6.769	11.489

KiwiSaver is part of a package of Government initiatives designed to increase the level of savings of New Zealand households. KiwiSaver is designed to facilitate a change in the saving behaviour of individuals by encouraging a long-term saving habit and asset accumulation by individuals who aspire to have more than a basic standard of living in retirement.

The KiwiSaver model has a number of Government incentives offered to members including a housing deposit subsidy of up to \$5,000, available after three years of saving into KiwiSaver for eligible members (eligibility is governed by income caps and regional house price caps). The subsidy will be administered and delivered through HNZC to facilitate the potential synergy with other HNZC products and services.

On 6 December 2006, the Cabinet Committee on Government Expenditure and Administration approved the appropriations shown in the table above for the KiwiSaver housing deposit subsidy [EXG (06)59 and EXG Min (06) 6/1 refer]. Subsequently the KiwiSaver deposit subsidy was re-forecast.

The deposit subsidy design details were agreed by the Ministers of Finance and Housing through three reports submitted in June 2008, December 2008 and June 2009. The first deposit subsidies will be available to eligible members from 1 July 2010.

Cessation of Appropriation

It is estimated that approximately 2400 people will take up the deposit subsidy between 2010 and 2013.

A number of people have joined KiwiSaver because of the home ownership features, which were promoted as benefits to joining KiwiSaver when it first started. Stopping or reducing the deposit subsidy would impact people who joined KiwiSaver planning to use it towards a house purchase. There has been information about it publicised, and the timing of the deposit subsidy (and first home withdrawal) to be available from 1 July 2010 is now very close. There would also be an impact on the expectations/relationship with KiwiSaver providers.

Gateway (unappropriated)

- Home ownership is valued for the implicit benefits of long term wealth creation, household security and encouraging stable communities and affordable home ownership remains as one of the Government's housing priorities.
- Cabinet considered the Mortgage Insurance scheme in July 2009 and extended eligibility to the scheme (SOC min (09) 16/5 refers), and the design of the Kiwisaver deposit subsidy scheme has been agreed by Ministers of Finance and Housing including reports in December 2008 and June 2009. Changes to the home ownership education programme are being implemented following the 2009 review limiting delivery to online and tailored courses that will target people who are already closer to entering home ownership.

Investment in Affordable Housing

Create a suitable business environment for investment in affordable housing by providers, including not-for-profit organisations

Housing Innovation Fund – subject of a 2010/11 Budget Bid

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	11.300	8.000	-	-	-
Operating	14.235	13.100			

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

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

Programmes agreed by the current Government

Rural Housing

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	7.000	5.000	-	-	-

The Rural Housing Programme began in 2001 as an immediate response to a series of fatal fires in substandard rural housing in Northland. The Programme's primary objective was to eliminate substandard housing through suspensory loans for essential repairs to houses where the health and safety of the household was at serious risk.

The houses repaired are owner-occupied, many are on multiple-owned Māori land with little or no equity, and the majority are located in Northland, East Coast, and Bay of Plenty (NECBOP) where substandard housing is concentrated.

From 2001 to June 2009 the Programme has provided 2,079 essential repairs at a cost of \$36.038 million. The Corporation employs approximately 24 full time staff to administer the Programme and monitor repairs. In 2009/2010 six iwi service providers, each one employing a number of staff, have been contracted to deliver essential repairs.

Cessation of Appropriation

The activities funded through the Rural Housing Programme fall outside the Corporation's core business. The Programme has received appropriated funding of \$7 million in the current year and \$5 million for 2010/2011 after which time funding will end. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

All funding is now committed and no new work will be approved between now and the end of the 2010/2011 financial year. The Programme is likely to have completed all outstanding household assessments by 31 December 2010 and repairs by 30 June 2011.

Programmes that can not be stopped due to contractual obligations

Community Owned Rural Rental Housing

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	0.345	0.420	0.450	0.450	0.450

The Community Owned Rural Rental Housing Loans programme was established to issue the loans to iwi and other community groups. The loans were issued from 2002/2003 to 2005/2006 on either interest free or at a discounted interest rate. To ensure transparency in funding, the Corporation was funded for the loss of interest income over the term of the loan.

This is a legacy programme. The remaining appropriation reimburses the Corporation for the interest forgone on the closed loan portfolio of \$4.7 million that matures in December 2031.

Cessation of Appropriation

Cessation or a reduction of funding will negatively impact on the Corporation's financial performance as the interest subsidy provides a return to the Corporation on the capital employed.

Loss of Interest on Sold Loans Portfolio

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	0.050	0.100	0.100	0.100	0.100

Cessation of Appropriation

This is a legacy programme. The Crown has entered into a legally binding agreement that ceases on the maturity of the final loan which is funded through current appropriations. This appropriation is not available for reprioritisation.

Special Housing Action Zones (SHAZ) Bridging Finance

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	0.420	0.070	0.070	0.070	0.070

Cessation of Appropriation

This is a legacy programme. The Crown has entered into a legally binding agreement that ceases on the maturity of the final loan which is funded through current appropriations. This appropriation is not available for reprioritisation.

Financial Assistance to Owners of Non-weathertight Homes

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	-	-	-	-	-
Operating	0.070	0.040	-	-	-

Weathertight Lending Assistance is a pilot programme designed to help Weathertight Homes Resolution Service (WHRS) claimants borrow to repair their home, before they receive a financial settlement through the dispute resolution process. The claimants will be able to apply to Housing New Zealand for a guarantee of support for a private loan, or as a last resort, a direct loan from the Corporation at market rates.

The two-year pilot programme of lending assistance to non-weather tight home owners commenced on 1 April 2007. Both capital and operating appropriations have been provided for the products that constitute the financial assistance over the two-year pilot period.

The programme finished on 30 June 2009. However all loans were written for a period of three years with expiry of the loan earlier if client's claim was paid within the three years. 39 loans totalling \$6.8 million have been provided. To date 6 claims have been paid with the average being 60% of the loan approved.

Remaining outstanding claims should be settled over the next two years.

Cessation of Appropriation

No real impact

Programmes that are a legislative requirement

Housing Agency Account Other Activities

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	0.274	-	-	-	-
Operating	0.034	0.021	0.008	0.008	0.008

The Housing Agency Account was created to be the vehicle by which the Corporation carried out its agency role under the Housing Act, and reported to the Crown on all activities carried out under the Act.

The Housing Agency Account (HAA) is required by legislation to be funded by appropriation. Whilst the majority of the HAA operation revolves around the Hobsonville development there are also other activities (Urban redevelopment at Weymouth, land for development, and land for sale and state house rentals).

Programmes where funding Ceases at the end of 2009/10

Fiscal Stimulus including State House Upgrades, Infrastructure and Healthy Housing

State House Acquisitions

Auckland City Pensioner Housing

Shared Equity Ownership pilot (the programme will cease subject to Ministerial confirmation)

Millions	2009/10	2010/11	2011/12	2012/13	2013/14
Capital	0.700	-	-	-	-
Operating	-	-	-	-	-

Shared Equity the previous Government's initiative pilot finishes at the end of the 2009/10 financial year

Product awareness and demand for Shared Equity is low. As at 31 December 2009, only \$1.7 million had been lent through the Shared Equity programme. This programme can be stopped with minimal implications: The Corporation will need to retain an operational knowledge of the product and a minor level of monitoring and management will be ongoing in relation to existing loans.

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