

The Treasury

Budget 2012 Information Release

Release Document

June 2012

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- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [3] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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- [6] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [7] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [8] 9(2)(h) - to maintain legal professional privilege
- [9] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [10] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [11] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Treasury Report: Budget 2012 Decisions for Vote Housing

Date:	13 February 2012	Report No:	T2012/218
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note the contents of this report prior to discussing Vote Housing Four Year Budget Plan at Fiscal Issues	3.30pm, Wednesday 15 February
Associate Minister of Finance (Hon Dr Jonathan Coleman)	Note the contents of this report prior to discussing Vote Housing Four Year Budget Plan at Fiscal Issues	3.30pm, Wednesday 15 February
Associate Minister of Finance (Hon Steven Joyce)	Note the contents of this report prior to discussing Vote Housing Four Year Budget Plan at Fiscal Issues	3.30pm, Wednesday 15 February

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[3]			
Paul O'Connell	Team Leader, Health and Housing	[3]	

Minister of Finance's Office Actions (if required)

Distribute copies to DPMC Simon MacPherson and Simon Bridges MP in time for Fiscal Issues.
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13 February 2012

Treasury Report: Budget 2012 Decisions for Vote Housing

Executive Summary

On 31 January 2012, the Department of Building and Housing (DBH) submitted its final Four Year Budget Plan (4YBP) for Vote Housing.

The 4YBP does not balance to zero and does not offer any savings. In the Treasury's view, this 4YBP is not sustainable and should not be agreed in its current form.

This report seeks your decisions on:

- initiatives within the Vote Housing 4YBP and additional savings available within Vote Housing;
- a process for determining the level of funding provided for the Social Housing Reform Programme; and
- a source of funding for the Social Housing Reform Programme.

Recommended Action

We recommend that you:

- a **note** the contents of this report prior to Fiscal Issues on 15 February; and
- b **note** that we will talk through the decision points in the body of this report (paragraphs 7 to 24) at Fiscal Issues on Wednesday 15 February.

Paul O'Connell
Team leader, Health and Housing

Hon Bill English
Minister of Finance

Treasury Report: Budget 2012 Decisions for Vote Housing

Purpose of Report

1. This report seeks your decisions on:
 - initiatives within the Vote Housing 4YBP and additional savings available within Vote Housing;
 - a process for determining the level of funding provided for the Social Housing Reform Programme; and
 - a source of funding for the Social Housing Reform Programme.

Summary of Vote Housing Four Year Budget Plan

2. On 31 January 2012, the Department of Building and Housing (DBH) submitted the final 4YBP for Vote Housing.
3. The 4YBP presented by the DBH:
 - seeks to recycle an underspend from the Weathertight Homes Financial Assistance Package [6]
 - [6]
 - seeks additional funding for DBH policy advice;
 - seeks additional departmental funding for further policy advice on the Social Housing Reform Programme (SHRP), and operating funding for the Social Housing Unit;
 - seeks additional funding for the Social Housing Fund (SHF)[6]
 - does not offer up any offsetting savings; and
 - asks that forecast Housing New Zealand Corporation (HNZC) surpluses be used to fund the additional departmental funding and the Social Housing Fund.
4. In the Treasury's view, this 4YBP is not sustainable and should not be agreed to in its current form. There are a number of small issues that we consider able to be resolved by you or Budget Ministers. We recommend that more substantive matters relating to the level and source of funding for the SHRP be considered by Cabinet.

5. The table below sets out the Vote Housing 4YBP as presented by DBH:

	\$ million					
	2011/12	2012/13	2013/14	2014/15	2015/16	Total
[6]						
Community Group Housing	-	0.200	-	-	-	0.200
Weathertight Services Underspend	(15.000)	-	-	-	-	(15.000)
Housing, Building and Construction Policy Advice	-	2.500	2.500	2.500	2.500	10.000
[6]						
Social Housing Fund	-	43.975	43.975	43.975	43.975	175.900
Operation of the Social Housing Unit	-	2.650	2.650	2.650	2.650	10.600
Policy Advice on the Social Housing Reform Programme	1.500	1.600	1.600	1.600	-	6.300
[6]						

6. In the following sections we seek decisions from you on specific elements of the plan, our aim being to resolve as many decisions as we can as early as possible to leave all concerned with sufficient time to deal with the more challenging aspects (principally the Social Housing Fund and the application of the HNZZ dividend / savings).

Initiatives

7. A number of issues with individual initiatives identified in the draft 4YBP have not been addressed in the final version. These are discussed individually below. These issues can be resolved by you or Budget Ministers.

*We recommend that you **request** that the Minister of Housing submit a report to Budget Ministers by 1 March that addresses how DBH will manage the departmental pressures identified within Vote Housing without additional Crown funding.*

Yes / No

[6]

8. [6]

Community Group Housing

9. You agreed that the cost of meeting the projected \$4.8 million shortfall in 2012/13 for the Community Group Housing Programme be shared between Votes Social Development, Health and Housing [T2012/218]. DBH is seeking additional funding of \$0.200 million for Community Group Housing. We recommend that you confirm your earlier request that Vote Housing fund its share of the shortfall, but provide no additional funding from the centre.

*We recommend that you **agree** to the proposal for Community Group Housing with no additional funding from the centre.*

Yes / No

Weathertight Services Underspend

10. This proposal asks Ministers to agree to recycling a \$15.0 million underspend in 2011/12. This funding was allocated for administration of the Weathertight Homes Financial Assistance Package.

*We recommend that you **agree** to decline the request to retain the Weathertight Homes Financial Assistance Package underspend.*

Yes / No

Policy Advice Funding

11. DBH is seeking additional funding for policy advice capability (\$2.5 million per year). This is inconsistent with the Government's messages regarding fiscal constraint, better public services for less and a halt in the growth of the public sector. DBH has stated that its current policy appropriations can accommodate work responding to the Canterbury Earthquake, including the Royal Commission and its findings, and has sought separate policy advice funding for the SHRP.
12. Treasury circular 2011/11 requires agencies to report to their Minister on policy work plans and its capability to deliver them. Should the Minister, on the back of DBH's report to him on their policy work programme, wish to increase funding for policy advice we recommend that he consider doing so from low priority projects within the department [6]
rather than from the HNZC dividend.

*We recommend that you **agree** to decline the Department of Building and Housing's request for additional Housing, Building and Construction policy advice funding.*

Yes / No

[6]

13. [6]

[6]

Additional Savings Available

Welcome Home Loans

14. Welcome Home Loans are subsidised homeloans available to people with incomes up to \$85,000 per annum allowing them to borrow up to \$350,000. These loans do not support the most vulnerable New Zealanders in need of housing and are not in line with the Government's priorities of ensuring housing is provided to those most in need for the duration of their need. [6]

*We recommend that you **agree** to allow the Minister of Housing to fund the Department of Building and Housing's stated cost pressures in the Four Year Budget Plan from the Welcome Home Loans savings.*

Yes / No

Proposed new spending on the Social Housing Reform Programme

15. The 4YBP does not outline how the Social Housing Fund (SHF) will be used, or the rationale behind the level of funding sought. Further detail on this, and clear measures of the amount of quality social housing being provided per taxpayer dollar, is needed to assure the Government that the SHF represents good value for money.
16. In June 2011, funding was provided for the operation of the Social Housing Unit (SHU) for 2011/12 only [SOC Min (11) 11/2]. The SHU requires an ongoing appropriation. Decisions about the appropriate level of funding for the SHU, and for SHRP policy advice, will depend on the size of the proposed SHF.
17. [6]

[6]

Funding the Social Housing Reform Programme

18. There are three options for funding the SHF that are consistent with your fiscal objective of returning to surplus by 2014/15. They are:

- funding from the operating allocation;
- funding from offsetting savings; and
- a combination of the above.

Funding from Offsetting Savings

19. The 4YBP seeks to offset the cost of the SHF using the HNZN dividend. To ensure this is fiscally neutral to the operating balance the increased dividends should be funded by a corresponding increase in HNZN's operating savings.

20. There are risks and problems with this approach:

- as HNZN's surplus cannot be predicted with certainty, there is a risk that this could create pre-commitments against future Budget allowances that are difficult to predict;
- it lacks transparency and it would result in spending decisions within Vote Housing not being subject to cross-government prioritisation; and
- it would create a broader precedent for revenue streams that should be returned to the Crown being retained within Votes.

21. [6]

	\$ million increase/(decrease)					
	2011/12	2012/13	2013/14	2014/15	2015/16	Total
[6]						

22. [6]

23. If you want to agree to an ongoing appropriation for reinvestment of HNZC's operating savings, then:

- Cabinet would need to agree to the expectation that a certain amount of HNZC's surplus each year would be reinvested in social housing initiatives;
- Cabinet would also need to agree on how the appropriation costs would be met if HNZC's surplus distribution was lower than the amount appropriated in any given year (for example, from elsewhere within Vote Housing in the first instance, and failing that from that year's Budget allowance);
- HNZC would need to be able to justify increasing its forecast (i.e. would need to have operating intentions that are consistent with delivering it); and
- further work will be required on monitoring arrangements, and what portion of the dividend would be reinvested on an ongoing basis.

*We recommend that you **indicate** your preferred source of funding for the Social Housing Fund:*

- *fund from the operating allocation* **Yes / No**
- *fund from offsetting savings* **Yes / No**
- *a combination of above.* **Yes / No**

24. Sources of funding will also need to be identified for the ongoing operation of the SHU, and policy advice for the Social Housing Reform Programme. We recommend that you request that the Minister of Housing identify funding from within the current Vote Housing baseline for this purpose in the report back to Budget Ministers. The final amount should be included in the paper to Cabinet on the SHRP.

*We recommend that you **request** the Minister of Housing identify funding from within the current Vote Housing baseline to fund the ongoing operation of the SHU and policy advice on the Social Housing Reform Programme. [6]*

Yes / No