

The Treasury

Budget 2012 Information Release

Release Document

June 2012

www.treasury.govt.nz/publications/informationreleases/budget/2012

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [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
- [4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [5] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [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
- [12] 9(2)(ba)(i) - to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [4] appearing where information has been withheld in a release document refers to section 9(2)(b)(ii).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

The Department of Building and Housing

Covering:

Vote Housing

Four-year Budget Plan

15 March 2012

Forwarded by:

Minister of Housing

Minister for Building and Construction

This Plan has been prepared by the Department to reflect Ministers' priorities for the next four years

Version 5

Section 1: Overview

1. This Four-Year Budget Plan for Vote Housing has been prepared to reflect the Vote priorities set out below.
2. The significant priorities addressed in this Budget Plan relate to:
 - The Department's response and commitment to the Canterbury Earthquake recovery
 - The Government's commitment to the Social Housing Reform Programme
 - Tamaki Transformation Programme
 - Delivering better, faster, smarter services for less.
3. It is proposed that these high-priority work programmes be funded predominantly from:
 - The additional dividend from operating savings forecast from Housing New Zealand Corporation (HNZC);
 - Reprioritising funding from lower priority outputs; and
 - Reprioritising savings.
4. The current baselines for 2011/12 to 2015/16 total \$5,233 million. The most significant component of this Vote is the Income Related Rent subsidy of \$3,308 million (63.21%) over five years to be paid to HNZC (refer Appendix 1 for full analysis of the Vote). The resulting dividend from HNZC for the same period is currently forecast to be \$338 million. This dividend is paid to the Consolidated Fund for Government's priorities.
5. The Department recommends that Budget Ministers agree to apply the following funding options to address the appropriation increases sought in this paper:
 - An additional \$70 million operating dividend from HNZC has been forecast over the 2011/12 to 2015/16 period;
 - Reprioritising some funding currently allocated to Welcome Home Loans within the HNZC Housing Support Services appropriation;
 - Transfer surplus funding from the Departmental output - Weathertight Services with not impact on the funding available to remediate leaky homes.
6. The application of the additional HNZC dividend does not affect the forecast dividend receipts already factored into the Crown's baseline.
7. This Four-Year Budget Plan is predicated on the forecast dividend stream from HNZC over the five years to 2015/16 being spent in the 2012/13 to 2013/14 years.

8. HNZA have indicated that they are committed to achieving the required levels of dividend across the next four years and to ensure that the current efficiency plans are expanded;
9. However there is a fiscal risk to the Crown if the forecast HNZA dividend payments do not eventuate;
 - The decision on the level of dividend is one for the Board of HNZA;
 - The Department of Building and Housing monitors HNZA's performance but cannot guarantee that the forecast dividends are achieved and paid;
 - The Department of Building and Housing is not in a position to mitigate that risk.
10. If Ministers do not wish to accept the risk that the forecast dividend is not achieved, then the Social Housing Reform Programme should either not proceed or should be funded from the Operating Allowance.
11. [6]
12. The Department proposes that the Government consider the housing objectives outlined in this Plan as a high priority, relative to those in other Votes, and commit to funding the additional operating expenditure required to deliver them.
13. All the changes above are after the Efficiency Savings have been removed from the Vote.

Summary of changes (applies to all agencies and votes)

14. The following tables are prescribed by Treasury and reflect the expenditure side of the initiatives. They do not allow for any increased additional dividend funding to be applied to offset baseline increases.
15. The guidelines for the preparation of the Four-Year Budget Plan require Departments to submit a plan with a zero net impact after accounting for efficiency savings. If the Vote Housing Budget Plan were prepared on that basis, there would be no funding provided for the Social Housing Reform Programme which is a key priority for this Government.

1. Operating	<u>Impact \$m increase/(decrease)</u>				
	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>
Current Baseline	841.549	819.918	865.159	916.646	868.749
Cost pressures resulting from existing policies/settings [section3]	0.000	0.000	0.000	0.000	0.000
Cost of new/increased activities [section 4]	1.100	105.750	5.750	5.750	4.750
Efficiency savings [section 4]	0.000	-1.420	-1.357	-1.251	-1.251
Amount reprioritised [section 4]	-35.100	-4.500	-4.500	-4.500	-4.500
Net impact	-34.000	99.830	-0.107	-0.001	-1.001
New Baseline	807.549	919.748	865.052	916.645	867.748

2. Capital	<u>Impact \$m increase/(decrease)</u>				
	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>
Capital investments being considered for <u>new funding</u> in Budget 2012 [section 4]	0	0	0	0	0

16. None of the current initiatives are seeking approval for new Capital funding.

3. Capital investments likely to require new funding in future Budgets [section 4]	Total impact across years \$m increase/(decrease)		
	Budget 2013	Budget 2014	Budget 2015
Nil	0	0	0

4. Baseline capital expenditure	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
Departmental					
Baseline funding available for departmental capital expenditure [section 5, table 5, row e]	13.256	11.032	11.523	10.773	10.023
Investments funded from departmental capital expenditure [section 5, table 5, row f]	4.084	1.099	1.334	1.334	1.334
Non-departmental					
Total [section 5, table 6]	222.911	156.689	216.065	179.728	148.189

17. The funding diagram on the following page illustrates this proposal in detail.

Vote Housing Four-Year Budget Plan - Budget 2012 (\$million)

New housing priorities funded by the Crown in addition to baseline savings and re-prioritisations

Savings, Re-prioritisations and Expenditure Priorities

	2011/12	2012/13	2013/14	2014/15	2015/16
Efficiency Savings					
Baseline savings, HNZN transfers and capital receipts					
State Sector Retirement Savings Scheme and KiwiSaver subsidy reduction		-\$0.574	-\$0.644	-\$0.644	-\$0.644
Revenue Crown Reduction		-0.846	-0.713	-0.607	-0.607
Total Baseline Efficiency Savings not available to re-prioritise	\$0.000	-\$1.420	-\$1.357	-\$1.251	-\$1.251
Other Output changes					
Outputs requiring funding changes					
Weatheright Service Financial Assistance Package (DBH). Not re-prioritised	-\$34.000	-	-	-	-
Welcome Home Loans - funding re-prioritised to Social Housing Fund		-\$2.400	-\$2.400	-\$2.400	-\$2.400
Welcome Home Loans - funding re-prioritised to Policy	-\$1.100	-\$2.100	-\$2.100	-\$2.100	-\$2.100
Total Baseline programmes re-prioritised	-\$35.100	-\$4.500	-\$4.500	-\$4.500	-\$4.500
Expenditure					
New Housing Priorities					
<i>Social Housing Reform Programme (SHRP)</i>					
Social Housing Fund as a Multi-Year		\$100.000		\$0.000	
<i>Tamaki Transformation Programme (TTP)</i>					
TTP Interim Board management and operations		\$0.000	\$0.000	\$0.000	\$0.000
<i>SHRP Operating and Other Initiatives</i>					
Community Group Housing (CGH)		\$0.000			
Housing Policy Advice capacity	\$1.100	\$2.100	\$2.100	\$2.100	\$2.100
Social Housing Unit Funding Delivery and Operations (SHU)		\$2.650	\$2.650	\$2.650	\$2.650
SHRP Programme Delivery (DBH operating)		\$1.000	\$1.000	\$1.000	
Total New Priorities	\$1.100	\$5.750	\$5.750	\$5.750	\$4.750
Net Position (Vote Housing funding only)	\$0.000	-1.250	-1.250	-0.250	-0.250
Total Funding Initiatives					-70.000

Notes 2 & 3

Note 5

HNZC surplus available for distribution

	2011/12	2012/13	2013/14	2014/15	2015/16
Revenue generated HNZN and HAA					
HNZC Forecast Dividend (from previous year) in baselines These are not included in the funding available for re-prioritisation below.	\$62.000	\$57.000	\$73.000	\$73.000	\$73.000
HNZC Additional dividend Operating ONLY	\$6.000	\$16.000	\$17.000	\$15.000	\$16.000
Total proceeds available for re-prioritisation	\$6.000	\$16.000	\$17.000	\$15.000	\$16.000
HNZC Surplus + Value for Money Savings					
	\$62.000	\$57.000	\$73.000	\$73.000	\$73.000
To fund Government priorities in Vote Housing					
Net Position (utilising HNZN surplus and Hobsonville)	45.000	-9.0250	15.750	\$13.750	\$15.750
Four Year Plan Total					\$0.000

Section 2: Priorities in Vote Housing

Delivering a building and housing market that delivers good quality, affordable homes and buildings

18. As an integral part of the Government's response to the Canterbury earthquakes, the Department will continue to play a lead role in supporting the recovery and rebuilding of greater Christchurch, including housing people displaced by damage to their homes. Additionally, the Department has important new responsibilities in the areas of: social housing policy, delivering the Financial Assistance Package for leaky home owners, and providing enhanced information, advice and dispute resolution services for parts of the housing sector.
19. These new responsibilities, and all the Department's activities, need to be managed efficiently and effectively to deliver the Government's medium-term objectives for the housing sector. These objectives are to:
 - Support rebuilding and recovery in greater Christchurch;
 - Provide effectively for those most in need of housing assistance through the right products and services;
 - Work in partnership with non-government providers to transform the social housing sector and improve availability of social housing;
 - Improve productivity in the housing, building and construction industries through innovative policy and approaches that increase supply and affordability;
 - Implement agreed changes from the review of the Building Act 2004 to achieve greater efficiency, effectiveness and accountability;
 - Improve transparency of the cost to deliver Crown-funded programmes.
20. To ensure New Zealanders' housing needs are met, it is critical the supply of housing is at a reasonable level relative to demand. Otherwise, major supply issues in the housing market are likely to emerge in the short-to-medium term negatively affecting affordability. Areas particularly at risk, but for different reasons, are Auckland and Christchurch. New house building is at a historic low and Government assistance should seek to strengthen and increase overall housing supply where there is critical need, rather than provide subsidies to individual households to assist them to afford existing homes.
21. The main priorities for Vote Housing over the next four years are:
 1. Canterbury Earthquake Recovery – supporting and enabling the recovery and rebuilding of greater Christchurch including responding to the Royal Commission and its findings;
 2. Social Housing Reform Programme to facilitate growth in the third sector to enable more effective provision of social housing including securing better value from the

Government spend on housing and more efficient use of the state housing asset base;

3. Building and construction sector productivity – implement the agreed reforms to the Building Act 2004, Regulations and Building Code systems to introduce risk-based consenting and promote practitioner licensing to improve building approvals processes, consumer protection, accountability and dispute resolution services;
 4. [6]
 5. Tāmaki Transformation Programme – establish a regeneration entity to redevelop the Tāmaki area;
 6. [6]
22. Three of these priorities require new funding: the Canterbury Earthquake Recovery, the Social Housing Reform Programme and Tamaki Transformation Programme. Other priorities will be funded through baseline savings and re-prioritisation.
23. [6]

Canterbury Earthquake Technical Advice (Priority 1)

24. The Department is playing a key role supporting the Canterbury rebuild through the provision of technical guidance on residential and commercial building repairs and reconstruction, the joint-provision of a temporary accommodation service, and policy advice on housing and urban design issues.
25. The Department has incurred additional costs in the delivery of the Technical Investigation reports into the failure of four key commercial buildings (CTV, PGC, Forsyth Barr and Hotel Grand Chancellor) and in supporting the Expert Panel engaged to peer review these reports. The recommendations of the Expert Panel and the Royal Commission's interim report have created public expectations of Government and the Department to apply the seismic hazard lessons taken from the Canterbury earthquakes to enhance building standards and public safety in both Canterbury and the rest of New Zealand.
26. This work in applying the lessons taken from the earthquakes includes:
 - Reviewing policy on earthquake prone buildings' compliance with the Building Code;
 - Further work to make improvements to the Building and Construction System, some of which are already underway through the Building Act Review implementation;
 - Developing enhanced technical guidance and education for building practitioners; and

- Working with the Ministry of Science and Innovation and others agencies to facilitate the development of technical guidance and sector education to ensure that lessons learnt are applied to reduce the risk of injury or death through building failures.

Social Housing Reform Programme (Priority 2)

27. The Government has agreed to a new direction for social and affordable housing provision, including facilitating greater provision by non-government (third sector) providers. To support this new direction, the Government has established a Social Housing Fund (the Fund) with the primary objective of achieving more effective and efficient supply of social and affordable housing for those in need. The Fund, administered by the Department's Social Housing Unit (SHU), will be used to support a range of non-government social and affordable housing providers to achieve the following:

- Increase the quantum of social and affordable housing available to those in need;
- Maximise the number of individuals and/or households in need that are housed per dollar invested by Government;
- Grow scalable and financially-independent third sector providers over time;
- Address the highest priority social housing needs, e.g. South Auckland;
- Address specific market niches as appropriate. e.g. improving the quality and quantity of rural housing outcomes;
- Ensure that social housing provision is of an adequate standard to support positive outcomes [SOC Min (11) 11/2 refers].

28. These objectives are critical to both:

- Meeting the growing unmet demand for social and affordable housing, particularly in Auckland (with associated impacts on health and employment); and
- Reducing future pressures on government to supply more social housing, and to spend more on financial assistance for housing.

29. [6]

30. [6]

31. [6]

[6]

32. [6]

33. A commitment of funding from the Government over several years is required to deliver this certainty and support the agreed social housing reforms.

Tāmaki Transformation Programme (Priority 5)

34. The Tāmaki Transformation Programme will redevelop the Tāmaki area over the next 15 to 20 years and position it for a more successful future where people are better housed, have better education opportunities and more chances to work and contribute to society. Tāmaki requires a catalyst to unlock its potential and encourage greater investment in the area.

35. [6]

36. Tāmaki can contribute towards the Government's objectives across the broader housing spectrum by improving the availability of social housing. This could be achieved through:

- Procuring and influencing physical and spatial development (housing, infrastructure, amenities);
- Facilitating the alignment of the design and delivery of social and economic programmes to lift prosperity in Tāmaki;
- Leading and integrating a programme (public, private and non government organisations (NGO)) to transform Tāmaki;
- Improving the capital efficiency of Crown owned housing in the area through increasing housing density;

- [6]
- [6]

Section 3: Cost pressures including pressures from declining revenue streams

37. The Department acknowledges that the current economic conditions and fiscal constraints require departments to consider current baselines as the first source of funding for meeting cost pressures, funding any new priorities or increasing funding to existing programmes.
38. The table in Appendix 1 sets out the significant cost drivers and fiscal pressures across the Vote. It also details for Ministers where Vote Housing funding is allocated.

Efficiency Savings

The Department has been set efficiency savings targets of:

	\$ m				
	2011/12	2012/13	2013/14	2014/15	2015/16 & outyears
Efficiency Savings	-	1.420	1.357	1.251	1.251
Offsetting KiwiSaver and SSRSS costs	-	0.574	0.644	0.644	0.644
Expected changes to baselines (Revenue Crown)	-	0.846	0.713	0.607	0.607

39. The offsetting funding provided from State Service Commission to cover the costs of the KiwiSaver and State Sector Retirement Savings Scheme employer contribution will be absorbed into all the outputs.
40. The Revenue Crown reductions have been applied to those outputs that can best accommodate reductions in Crown funding.
41. The Department has experienced significant cost pressures in supporting the Canterbury recovery and the new Social Housing Reform Programme. Both these are addressed in Section 4.

Residential Tenancy and Unit Titles

42. [6]

[6]

43. [6]

44. [6]

45. [6]

46. [6]

47. [6]

48. [6]

49. [6]

50. [6]

51. [6]

52. [6]

53. [6]

54. [6]

55. [6]

Occupational Licensing - Licensed Building Practitioners

56. [6]

57. [6]

58. [6]

59. [6]

60. [6]

[6]

61. [6]

62. [6]

63. [6]

64. [6]

[6]

65. [6]

Section 4: Proposed Changes for 2011/12 to 2015/16

Summary of proposed changes

<i>Source of funding</i>	<i>\$ million</i>	<i>Proposed allocation of funding</i>	<i>\$ million</i>
<i>Additional dividend from HNZC</i>	<i>70.0</i>	<i>Social Housing Fund</i>	<i>100.0</i>
<i>From Welcome Home Loans - Mortgage Insurance Scheme</i>	<i>9.6</i>	<i>Social Housing Unit Operating costs</i>	<i>10.6</i>
<i>From Weathertight Services</i>	<i>34.0</i>	<i>Social Housing Reform Programme Policy Advice</i>	<i>3.0</i>
<i>Total Social Housing Package</i>	<i>113.6</i>		<i>113.6</i>

<i>From Welcome Home Loans - Mortgage Insurance Scheme</i>	<i>9.5</i>	<i>Housing Building and Construction Policy Advice</i>	<i>9.5</i>
--	------------	--	------------

Social Housing Reform Programme

66. The Government seeks to increase the role of non-government housing providers to develop and supply social housing to complement Crown provision. While these providers are cost effective, they are generally undercapitalised.

67. During 2011/12 an early action programme has provided \$37.350m to assist with the development of new social housing supply. This funding has produced a public/private sector leverage ratio of 1:2. The fund was targeted in the following way:

- Growth Fund – to support a limited number of social and affordable housing providers, or consortia of providers, to achieve critical mass;
- Niche Fund - to support smaller, one-off projects targeting specific locations or client groups through providers that may not necessarily have long-term growth ambitions;
- Maori Fund - to support the growth of social housing provision by Maori providers delivering increased diversity in the provision of social housing;
- Rural Fund - a new programme to address the issue of substandard rural housing.

68. The medium to long-term vision of the strategy is to encourage the growth of a limited number of financially viable housing providers, including iwi, to grow to and operate at a scale that would enable them to become financially self-sustaining. Funding for this will

be through the Social Housing Fund: Growth Fund. However as the programme develops innovation will ensure step change in supply, new instruments being developed such as stock transfer, redevelopment vehicles and the use of public sector land.

69. Enabling the Social Housing Unit to make long-term funding commitments to providers will be critical to enable growth to scale, economies in procurement and achievement of best value in partnerships with the private sector.
70. Budget 2011 allocated funding only for the 2011/12 financial year. There is no baseline funding for the ongoing Social Housing Reform Programme.
71. The Department seeks new funding over multiple years to start laying the foundations for provider growth and to get some initial pilot projects underway.
72. It is proposed operating funding for four years from 2012/13 to 2015/16 be appropriated as follows:
 - \$100 million three year multi-year appropriation to fund large scale, niche, Maori and rural providers over the next four years through the Social Housing Fund (Non-Departmental Other Expense);
 - \$2.650 million operating funding per year is allocated to fund the administration and operating costs for the Social Housing Unit over the next four years to 2015/16 (Departmental Output);
 - \$1.000 million operating funding per year for the next three years to 2014/15 to fund the Department's Social Housing Reform Programme policy and administrative functions (Departmental Output).
73. [6]

Policy Advice priorities and available resources

74. The Department's key priorities and work plan were aligned with the Government's key objectives through the 2011/12 output plans.
75. The current Policy Advice baseline funding comprises the existing Departmental baseline of \$4.2 million for Building and Construction Policy Advice and the \$2.5 million transferred from HNZA in 2011/12, along with responsibility for Housing Policy Advice. Together these comprise the Housing Building and Construction Policy Advice Output.
76. In 2011/12 the following additional priorities and key deliverables have been added without full funding:
 1. Supporting the Government's response to the Canterbury Earthquake including responding to the findings and recommendations of the Technical Investigation and the initial findings of the Royal Commission;

2. Housing supply, urban design and affordability advice for Christchurch and Auckland;
 3. Monitoring, evaluation and project management of the Social Housing Reform Programme including the Tāmaki Transformation Programme;
 4. Housing research including supply and demand modelling;
 5. Maori housing issues and supporting the housing aspects of the Coalition and Supply Agreement with the Maori party ; and
 6. Working with iwi on Crown Treaty settlements including associated social accords and right of first refusal.
77. Some funding was provided for functions that transferred from HNZC. However, as HNZC cross-subsidised Housing policy, the \$2.5 million that was transferred did not fully reflect the cost to the Department of providing Housing Policy Advice. The Department has continued to provide full coverage of Housing Policy Advice previously provided by HNZC, in addition to the additional priorities outlined above.

2011/12 Funding Requirements

78. The Department has absorbed the substantial amount of new work arising from supporting the Government's response to the Canterbury Earthquakes including responding to the findings and recommendations of the Technical Investigation and the initial findings of the Royal Commission. There is little or no scope for further reprioritisations or cost savings to absorb the other new priorities or the unfunded Housing Policy Advice. The Department has therefore incurred expenditure of around \$1.1 million above appropriation in 2011/12. The Department proposes that this expenditure be funded through reprioritising funding from the Welcome Home Loans Programme.

2012/13 and Out Year Funding Requirements

79. In 2012/13 and out years the Government will continue to require substantial policy work on the priorities that arose in 2011/12. This work cannot be funded from within existing baselines. In addition, the Department seeks additional funding to allow the development of a more strategic approach to policy advice and to lead improvement to the quality of policy advice.
80. The Scott Review of the quality of policy advice identified that: a) the Department is a low cost provider of policy advice, b) the Department's policy work programme was the most aligned with Ministers' priorities of any policy agency and c) the associated risk that there was no headroom for free and frank strategic policy advice. The Department scored well on the proxy measures for productivity and scored 100% on Regulatory Impact Statements.
81. With such a small appropriation the Department has little choice but to have complete alignment of resources with its work programme. The Department's policy work programme is not sustainable at current levels, as an important element of policy work not currently occurring is proactive, green fields strategic policy thinking. This work is an essential prerequisite for sound, evidence-based policy development. This

omission, due to insufficient funding levels, risks compromising the quality of policy advice developed.

82. To allow funding of the additional Government priorities that arose in 2011/12 and the development of a strategic policy advice capability, it is proposed that \$1.1 million be transferred from the Welcome Home Loans Programme in 2011/12 and \$2.1 million for 2012/13 and out years.
83. The risks associated with this initiative are that while there is a significant need for high quality timely policy advice in the housing, building and construction sector, the purchase of policy advice is not seen to be an optimum use of public funding in the current economic conditions.
84. If this funding is not approved, the new work simply cannot be completed, and the Department will need to disengage from this work immediately as it is are in danger of incurring unappropriated expenditure.

[6]

85. [6]

86. [6]

87. [6]

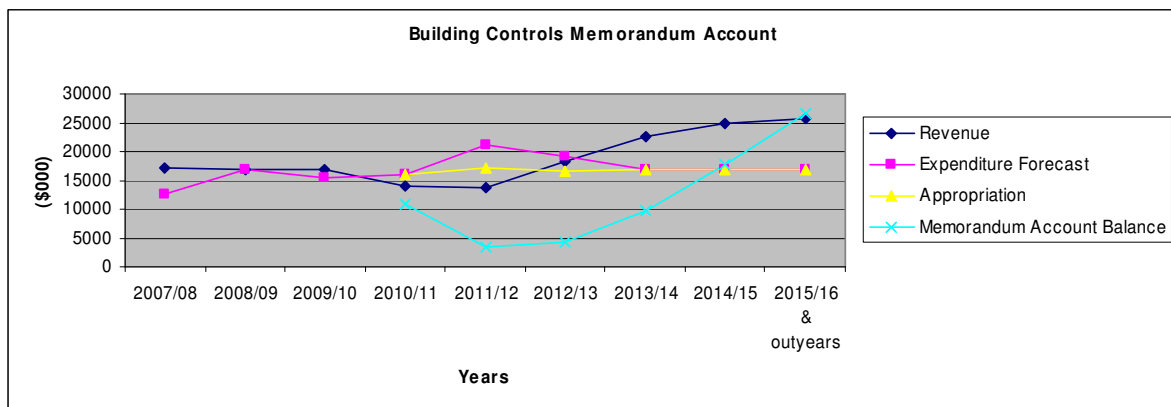
88. [6]

Building Regulation and Control

89. The Building Regulation and Controls output has incurred significantly increased costs due to the work arising from the Canterbury earthquakes. This includes the Technical Investigation into the failure of four key Christchurch buildings and the appointment of an Expert Panel. The Expert Panel was been commissioned to peer review the findings

of the Technical Investigation and to provide recommendations on a response to issues arising from the investigation and from the Royal Commission's Interim Report and its Final Report due in April 2012. The outcomes of the Technical Investigation and Royal Commission are likely to have a substantial impact on the Department's workload. The Department will continue to be required to undertake significant work providing building policy and technical advice and guidance to Ministers, CERA, local authorities, the building sector and consumers.

90. This output is funded from the Building Levy which is collected by Territorial Authorities from building consent applications. The Department receives 2.02c per dollar of proposed building work for projects greater than \$20,444.
91. With the current decline in building activity, the revenue funding from this output has decreased from a high of \$17.2 million in 2007/08 to a forecast low of \$13.7 million in 2011/12. Based on current external forecasts, building activity is not expected to pick up until 2012/13.
92. This output includes the Building Controls Memorandum Account. This records how building levy revenue has been applied and had a \$10.748 million surplus as at 1 July 2011. The purpose of this Memorandum Account is to enable the Department to smooth short- to medium-term revenue and expenditure fluctuations to ensure the Crown does not need to fund operations associated with administering the Building Act.
93. The chart below illustrates a forecast fall in the Memorandum Account balance during 2011/12 and a steady increase thereafter.



- **Appropriation Issue**

94. The Building Regulation and Controls Appropriation is an MYA from 2010/11 to 2012/13. A \$49.863 million appropriation has been approved for this period due to forecast increased activity levels. The Department seeks approval to increase the appropriation by \$10.0 million. This increase would be funded from the accumulated surplus in the Building Controls Memorandum Account and will not require any Crown funding. As this increase in appropriation will be fully funded from the existing Memorandum Account, this funding change meets the requirement of CO (11) 6 and will be incorporated in the March Baseline Update.

Canterbury Earthquakes: Arranging and Managing Emergency and Temporary Accommodation

95. The scope of the current Departmental Output appropriation for the “Canterbury Earthquakes: Arranging and Managing Emergency and Temporary Accommodation” is too limited for the activities the Department is currently undertaking. There is a risk that the Department may breach this appropriation’s authority by incurring expenditure beyond its current scope.
96. The scope description of the current appropriation was modified by CAB Min (11) 29-16 to: “This appropriation is limited to the expenses incurred in arranging and managing accommodation for people displaced by the Canterbury earthquakes.”
97. As the Department’s response to the Canterbury earthquake has broadened from arranging and managing accommodation to becoming more involved in partnering with the Canterbury Earthquake Recovery Authority (CERA) and assisting with urban design, housing supply and affordability issues, a broader scope is needed for this appropriation.
98. The Department seeks approval to establish a new Departmental Output appropriation entitled “Canterbury Earthquakes: Building and Housing Assistance.” The proposed scope for this appropriation would be: “This appropriation is limited to the Department’s co-ordination, management and delivery of the overall Departmental response program, and the delivery of accommodation matching and placement services to people displaced by the Canterbury earthquakes.
99. It is proposed that a new operating appropriation be created with the above scope description to enable these additional earthquake response activities to be authorised with funding transferred from the existing appropriation.
100. This proposal will not impact on Non-Departmental Funding that has been allocated to the Temporary Accommodation Service.

Efficiency Savings

101. The Department has been set efficiency savings targets of:

	\$m				
	2011/12	2012/13	2013/14	2014/15	2015/16 & outyears
Efficiency Savings	-	1.420	1.357	1.251	1.251
Offsetting KiwiSaver and SSRSS costs	-	0.574	0.644	0.644	0.644
Expected changes to baselines (revenue Crown)	-	0.846	0.713	0.607	0.607

102. The offsetting funding provided from the State Services Commission to cover the costs of the KiwiSaver and State Sector Retirement Savings Scheme employer contribution will be absorbed into all the outputs.

103. The Revenue Crown reductions will be applied to those outputs that can best accommodate reductions in Crown funding.

Weathertight Services

104. The current allocation for 2011/12 is forecast to produce surplus funds of \$34 million. This has been identified as a permanent saving resulting from the delayed implementation of the Financial Assistance Package. The Department proposes that this funding be applied to the Social Housing Reforms from 2012/13.

105. The Department is reviewing the assumptions for the delivery mechanisms and demand for weathertight services to determine possible options for future re-prioritisation on the appropriation baselines. Until this review is completed, the amount of funding able to be re-prioritised cannot be finalised.

Proposed funding source for initiatives above

Housing New Zealand Corporation dividend returns

106. The Housing Corporation Act 1974 requires HNZC to pay its surplus (operating and capital) for each financial year to the Crown, unless Ministers authorise HNZC to keep all or part of it (Section 40(2)).

107. The Department's view is that there may be potential for HNZC to provide the Crown with increased dividends through improved operating efficiency. The Department is working with HNZC to identify any future increases in the operating dividend that could subsequently be applied to the Social Housing Reforms.

108. The current forecast additional operating dividends are identified below:

	\$ million				
	2011/12	2012/13	2013/14	2014/15	2015/16
Additional Operating Dividend funding Forecast in OBU	6.0	16.0	17.0	15.0	16.0

109. This translates into total forecast operating dividends as follows:

	\$ million				
	2011/12	2012/13	2013/14	2014/15	2015/16
Forecast Dividends	68.0	73.0	90.0	88.0	89.0

110. This Four-Year Budget Plan anticipates that the \$70.0 million in additional dividend from HNZC from 2011/12 and 2015/16 (years available for expenditure) be allocated to Vote Housing to grow social housing providers through the Social Housing Fund.

Other funding potentially available for re-prioritisation in Vote Housing

[6]

111.[6]

112.[6]

113.[6]

114.[6]

Mortgage Insurance Scheme via the Welcome Home Loans (administered by HNZC)

115. The Government has currently allocated \$9.1 million per year to this Crown product. If necessary this funding could be reprioritised.

116. Welcome Home Loans is a mortgage insurance scheme designed to help people who can afford a home loan but have trouble raising a deposit. HNZC receives premiums from borrowers (via lenders) and the Government to underwrite lenders' risk and manage the insurance portfolio.

117. It is proposed that this scheme be used to fund the shortfall in the Policy Advice output. Transfer of \$1.1 million in 2011/12 and \$2.1 million in 2012/13 and outyears are sought in this Plan.

	2011/12	2012/13	2013/14	2014/15	2015/16
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Welcome Home Loans Base	9.100	9.100	9.100	9.100	9.100
Transfer to KiwiSaver Housing Deposit Subsidy Admin in MBU	-0.170	-0.300	-0.300	-0.300	-0.300
Transfer to Policy	-1.100	-2.100	-2.100	-2.100	-2.100
Funding available to Transfer to Social Housing Fund	-	-2.400	-2.400	-2.400	-2.400
Funds remaining to retain the scheme	7.830	4.300	4.300	4.300	4.300

Section 5: Baseline capital expenditure

The following table summarises the planned departmental and non-departmental capital expenditure for Vote Housing within its existing baseline.

5. Departmental capital expenditure	\$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
a. Opening baseline funding available	11.023	9.172	9.933	10.189	9.439
b. Depreciation funding (1:51:1, 199)	2.233	1.860	1.590	0.584	0.584
c. Sale of assets (1:52:0, 1999)	0	0	0	0	0
d. Other (please specify)	0	0	0	0	0
e. Total baseline funding available (a+b+c+d)	13.256	11.032	11.523	10.773	10.023
f. Capital investments funded from baselines	4.084	1.099	1.334	1.334	1.334
g. Closing baseline funding available (e-f)	9.172	9.933	10.189	9.439	8.689

6. Non-departmental capital expenditure	\$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
Capital investment in organisations other than departments (0:6:X & 0:7:X, 599)	222.911	156.689	216.065	179.728	148.189
Baseline funding available for the purchase or development of Crown capital assets (0:6:X & 0:7:X, 699)	0	0	0	0	0
Total	222.911	156.689	216.065	179.728	148.189

[6]

Appendix 1 Summary of Vote Housing - five years 2011/12 to 2015/16

The significant components of this baseline as at October Baseline Update 2011 was:

Expenditure Category	Cost Drivers	\$ million Baseline	% of Vote	Significant Fiscal Pressures
Income Related Rent	Number and income of tenants	\$3,308	63.21%	Fluctuates based on the mix of tenants.
Refinancing of HNZC	Agreed level	\$853	16.3%	None
Weathertight Services	Claims volume	\$339	6.49%	None
WCC Social Housing	Agreed level	\$158	3.03%	None
Other Crown Products via HNZC	Agreed level	\$119	2.27%	None
Residential Tenancy and Unit Titles Services	Volume	\$112	2.13%	Low interest rates causing low funding income.
Building Regulation and Controls	Royal Commission Volume	\$83	1.59%	Increased work to respond to the Canterbury Earthquakes, Technical investigation and Royal Commission.
Temporary Accommodation	Number of houses	\$68	1.30%	None
Welcome Home Loans	Demand	\$45	0.87%	None
Occupational Licensing	Membership	\$42	0.80%	
Social Housing	No funding provided beyond 2011/12.	\$37	0.71%	No funding provided beyond 2011/12.
Policy Advice	Volume and complexity	\$35	0.67%	Increases due to Social Housing Reform, Tāmaki Transformation Programme and Canterbury Earthquakes.
Housing Agency Account	Agreed levels	\$30	0.56%	None
Performance and Monitoring		\$4	0.08%	None