

# **The Treasury**

## **Briefing for Incoming Ministers**

### **Information Release**

#### **Release Document**

#### **February 2017**

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]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[2]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[3]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[4]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[5]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[6]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[7]	that the information requested is or will soon be publicly available	18(d)
[8]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
[9]	to prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by any international organisation	6(b)(ii)

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, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9, section 6 and section 18 of the Official Information Act.



# Briefing for the Incoming Minister

December 2016



**Gabriel Makhlouf**  
Secretary to the Treasury

21 December 2016

Hon Amy Adams  
Associate Minister of Finance, Minister for Social Housing, Minister Responsible  
for Social Investment, Minister Responsible for HNZC  
Private Bag 18041  
Parliament Buildings  
Wellington

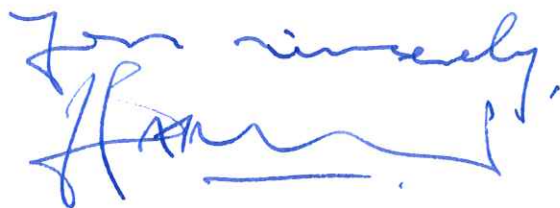


Congratulations on your appointment. We look forward to supporting you as Associate Minister of Finance, Minister for Social Housing, Minister Responsible for Social Investment, and Minister Responsible for HNZC.

You are starting your new role with New Zealand's economy in a relatively strong position: good levels of growth, price stability, low unemployment and high participation rates are complimented by a return to fiscal surpluses and debt that is under control.

The global economy, on the other hand, poses a number of downside risks. Global growth has slowed, some countries continue to face challenging fiscal positions and, in some important economies, monetary policy appears to have reached its limits. Moreover, the debate on protectionism (seen largely in the US and parts of Europe) is creating uncertainty in international markets and represents a threat to New Zealand's prosperity if it leads to reductions in global trade. In the Treasury's view, this threat needs to be addressed proactively while New Zealand also seizes the opportunities presented by Asia's ongoing growth.

Attached to this letter is some background information (including on the Treasury). We are, of course, keen to meet with you to better understand your priorities and how we can best support you.



Gabriel Makhlouf



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# 1 Associate Minister of Finance

## 1.1 The Treasury: who we are, what we do and how we do it

We are the Government's lead economic and financial adviser. We provide advice to the Government on its overarching economic framework, on its fiscal strategy and on achieving value for money from its investments. We implement government decisions and are also responsible for the Financial Statements of the Government, for ensuring effective management of the assets and liabilities on the Crown's balance sheet and for publishing economic and fiscal forecasts.

Our vision is to be a world-leading Treasury working towards higher living standards for New Zealanders. We want to grow wellbeing through improving the country's human, social, natural and physical/financial capital. We work with others – across the government and non-government sectors, in New Zealand and overseas – to turn our vision into reality. We believe in applying rigorous analysis to the best available evidence, using our Living Standards Framework to guide us.

We embrace diversity and inclusion as they strengthen us, as individuals and as an organisation. Our values reflect our aspirations, for ourselves and for New Zealanders:

- *bold and innovative*, so that we understand how and when to take risks, learn from failures and build on successes
- *collaborative and challenging*, so that we work with others, collaborating but also challenging them and ourselves
- *adaptable and focused*, so that when the facts change, or ministerial priorities change, we don't delay and we maintain our standards, and
- *passionate and ambitious*, for our performance, for our people and for New Zealand.

We believe in the importance of a trusted, professional, public service: our stewardship responsibilities embody kaitiakitanga; we work to support the Treaty partnership between the Crown and Māori; and we are transparent, objective, impartial and free and frank in our advice.





## Our core business

- **Economic policy advice.** We are the lead adviser to Ministers on economic performance, concentrating on policy areas that have a significant impact on the economy. This includes advice on measures to improve the quality of regulation, removing barriers to growth and enhancing productivity.
- **Financial management and advice.** We manage the financial affairs of the Crown and provide advice on fiscal strategy, policy and performance. As Head of the Government Finance Profession we also work to support learning, professionalism and skills development in financial management across the State sector.
- **Performance management and advice.** We monitor the performance of departments and other entities the Crown owns, including working with them to improve performance as required. Our focus is getting value for money for taxpayers.
- **Commercial policy advice and operations.** We provide commercial policy advice, execute commercial transactions, and provide financial operational services through the Treasury's Debt Management Office (NZDMO) and the Export Credit Office (NZECO).
- **State sector leadership.** With the Department of the Prime Minister and Cabinet (DPMC) and the State Services Commission (SSC), we collectively lead the State sector with the aim of delivering results for New Zealanders. We assist the Government to develop its overall strategy for the State services, provide advice on how to improve the system and manage significant issues.

## Our work programme

Our work programme is organised around a number of key initiatives that we call our strategic intentions. Each strategic intention sets out a range of priority, core business-as-usual and medium-term work programmes.

New Zealand has an internationally connected and competitive business environment	There is a faster improvement in Māori living standards
<ul style="list-style-type: none"> <li>• An internationalisation lens is being systematically applied to significant policy and regulatory work programmes and government interactions with business, households and international stakeholders.</li> <li>• Government agencies work together to ensure policy and regulatory programmes support a strong domestic business environment with greater levels of productivity and sustainable use of natural resources.</li> </ul> <p><i>Specific intentions include:</i></p> <ul style="list-style-type: none"> <li>• reduced barriers to the flow of trade, capital, people and ideas</li> <li>• government activity provides the foundations for a strong business environment that raises productivity and ensures the sustainability of our natural resources</li> <li>• more responsive housing supply, and</li> <li>• revenue to fund government services is maintained at levels that biases economic decisions as little as possible.</li> </ul>	<ul style="list-style-type: none"> <li>• The Crown and Māori (iwi, hapū and whanau) are partnering positively together to improve Māori outcomes, including: <ul style="list-style-type: none"> <li>○ public sector agencies successfully working with Māori on ideas and actions to support Māori economic development, particularly with regard to regional development, and</li> <li>○ public sector agencies successfully working with Māori on ideas and actions to support social and educational outcomes for Māori.</li> </ul> </li> </ul> <p><i>Specific intentions include:</i></p> <ul style="list-style-type: none"> <li>• shared social and economic objectives for Māori and New Zealand are advanced through effective partnerships between the Crown and Māori (including iwi, hapū, and other Māori communities), and</li> <li>• the Treasury advice is informed by strong understanding of Māori experiences and perspectives to ensure policy and services enable people to contribute to a prosperous, sustainable and inclusive society and the economy.</li> </ul>



<p><b>People have the capability and opportunities to participate in society and the economy</b></p> <ul style="list-style-type: none"> <li>Public service agencies work together to lift their performance and this is demonstrated by the relevant Better Public Services (BPS) results.</li> <li>Data and information tools are being delivered progressively and applied systematically to substantially lift performance, following a social investment approach.</li> </ul> <p><i>Specific intentions include:</i></p> <ul style="list-style-type: none"> <li>social service systems are effective in enabling people to contribute to a prosperous, sustainable and inclusive society and the economy</li> <li>the costs of social service are rebalanced away from support towards enabling interventions, and</li> <li>public sector leadership, management and innovation provides services and support that people need, when they need it.</li> </ul>	<p><b>The State sector efficiently and effectively delivers results for New Zealanders</b></p> <ul style="list-style-type: none"> <li>Improved performance of the State sector system, sectors and agencies through greater cross-agency leadership and collaboration, and the use of results-focused goals, and integrated fiscal management.</li> <li>Implementing an investment approach that starts by implementing the Government's reforms of the social sector.</li> <li>Better information is generated and used by the State sector to drive performance improvements and changes to State sector institutions and systems.</li> <li>State sector management and reform is informed through a customer- and population-based focus.</li> </ul> <p><i>Specific intentions include:</i></p> <ul style="list-style-type: none"> <li>results-focused goals and cross-agency leadership and collaboration, leading to a more inclusive society</li> <li>improved value for money of expenditure and agency interventions and steadily rising productivity</li> <li>improved strategic financial management</li> <li>agencies keep to agreed spending paths and future liabilities are reduced in major expenditure areas, and</li> <li>long-term fiscal pressures are reduced and the Crown pre-funds satisfactorily for future expenditure pressures.</li> </ul>
<p><b>The Crown balance sheet is managed effectively and efficiently</b></p> <ul style="list-style-type: none"> <li>The Crown balance sheet is managed effectively and efficiently with the overall composition, performance and risk profile of assets and liabilities supporting an increase in living standards for New Zealanders.</li> </ul> <p><i>Specific intentions include:</i></p> <ul style="list-style-type: none"> <li>the core Crown debt portfolio is well managed</li> <li>the composition of the Crown's balance sheet is aligned with government priorities</li> <li>appropriate financial, commercial and social returns, risks and long-term value are achieved from the assets that the Crown owns, and</li> <li>risks to the Crown's balance sheet are managed consistent with government risk appetite and tolerance, and the Crown's balance sheet provides a buffer to shocks.</li> </ul>	<p><b>The economic cycle is managed in a way that supports sustainable growth</b></p> <ul style="list-style-type: none"> <li>Tax, product, financial and labour market policy settings and the operation of fiscal policy do not unnecessarily amplify the business cycle. This will minimise the degree to which interest rates and the exchange rate have to move to keep the economy operating close to full employment, thus promoting higher trend growth.</li> </ul> <p><i>Specific intentions include:</i></p> <ul style="list-style-type: none"> <li>the operating balance is returned to surplus and fiscal policy does not exacerbate the economic cycle</li> <li>long-term fiscal pressures are reduced and the Crown pre-funds satisfactorily for future expenditure pressures</li> <li>macro-prudential tools are used appropriately to increase the resilience of the domestic financial system, and</li> <li>policy settings ensure banking crises can be well managed.</li> </ul>



#### The Treasury is a high-performing organisation

- We intend to achieve a level of excellence needed to achieve what matters most for raising living standards for New Zealanders.

*Specific intentions include:*

- effectively and efficiently do the job the country and Ministers need us to do
- our staff are good listeners, learners and doers, with the strategic agility to join the dots, and the practical ability to get the job done
- working in partnership with others to provide the best possible advice and services, we make significant shifts in some of the biggest long-term issues for New Zealanders
- we challenge, and at the same time look for opportunities to collaborate and learn from, others
- ensuring that our advice is more citizen-focused in its design and delivery, and reflects a deep and sophisticated understanding of the environment and the real-world challenges that affect New Zealanders
- creating a work culture that is inclusive and harnesses diversity of thought, and
- ensuring that the Treasury is fit to meet future expectations.



## Decision making, governance and assurance

### Executive Leadership Team

The Executive Leadership Team is made up of the Secretary and Chief Executive and five Deputy Secretaries and is our top-tier decision-making body. They are accountable for the strategic leadership of the Treasury with a focus on outward-facing and cross-cutting issues, where decisions are more likely to have a material impact on the outcomes, functions or reputation of the Treasury as a whole. The Executive Leadership Team members are accountable for the delivery of the Treasury's organisational strategy.

### Kaiurungi – 'The people who steer'

The Treasury's Chief Operating Officer (Deputy Secretary, Strategy, Performance and Engagement) chairs Kaiurungi, which consists of our seven Directors and Chief Financial Officer. They are responsible to the Executive Leadership Team for delivering on the agreed organisational strategy and for ensuring the programme of work across all directorates will deliver on the Treasury's objectives and is well-aligned with strategy.

### Assurance

Each month the Directors meet with the responsible managers and staff to discuss progress against the agreed objectives. The Executive Leadership Team and Kaiurungi also meet together regularly to discuss performance and prioritisation.

The Executive Leadership Team and Kaiurungi also undertake performance reviews three times a year to assess progress against our objectives. This information flows through to Trimester performance conversations with our Minister. It also supports our incremental 'rolling' approach to planning – where adjustments are made to take into account any changes in priorities.

The Treasury also receives additional support from:

- **The Treasury Board.** This is an advisory group that supports the Treasury's Chief Executive and Executive Leadership Team in ensuring that its organisational strategy, capability and performance make the best possible contribution to the achievement of its goals.
- **The Risk and Assurance Committee.** This is a sub-committee of the Board with an independent chair and three additional external members. It provides assurance and advice to the Chief Executive relating to the effectiveness and adequacy of internal control and risk management systems, processes and activities across the Treasury.
- **FSG Audit Committee.** This is an advisory committee that provides advice and observations to the Secretary relating to key issues and risks that affect the production and audit of the Financial Statements of the Government (FSG). The Committee is chaired by an independent chair and with two additional external members.
- **Commercial Operations Advisory Board.** The Board supports the Deputy Secretary, Financial and Commercial Operations through providing guidance on the strategic approach and work programme priorities of the Treasury's commercial operations portfolio and Debt Management Office.



- **New Zealand Export Credit Office Technical Advisory Committee.** The Committee supports the Secretary to the Treasury with advice on a range of strategic and operational matters relating to the New Zealand Export Credit Office (NZECO). This includes assessing and advising on the risk and pricing of most NZECO transactions. The Technical Advisory Committee consists of four members.



## How we organise ourselves

### Our Teams and key contact information

DS Macro Economics and Growth (151 FTEs*)	
<b>Deputy Secretary, Cath Atkins</b> (until 23 December 2016, Tim Ng from 24 December 2016)	[1]
<b>Director Growth and Public Services, David Mackay</b>  Team Information Economic Performance & Strategy, Matthew Gilbert, Manager Earthquake Recovery Strategy, Simon McLoughlin, Manager Education & Welfare, Grace Campbell-Macdonald, Manager Natural Resources, Libby Masterton, Manager	
<b>Director Economic System, Tim Ng</b> (until 23 December 2016)  Team information Macroeconomic & Fiscal Policy, Renee Philip, Manager Forecasting, Angela Mellish, Manager Modelling & Research, Peter Gardiner, Manager Analytics & Insights, Andrew Hunter, Manager Housing, Nick McNabb, Acting Manager Financial Markets, Tax & International, James Beard, Manager	
Chief Economic Adviser (4 FTEs)	
Oversees the Treasury's research and advice on broad economic policy issues, embedding the Living Standards Framework and developing economics capability at the Treasury.	
<b>Chief Economic Adviser, Tony Burton</b> (acting)	[1]
DS Budget and Public Services (100 FTEs)	
<b>Deputy Secretary, Struan Little</b>	[1]
<b>Director Budget and Public Investment, Andrew Blazey</b>  Team Information Justice, Security & Government Services, Colin Hall, Manager Investment Management Asset Performance, Ricky Utting, Manager National Infrastructure Unit, David Taylor, Manager Health, Ben McBride, Manager Fiscal & State Sector Management, Fiona Whiteridge, Manager	

\* These FTE numbers include fixed-term and permanent staff, secondees into the Treasury and vacancies. The Chief Executive is not included in these numbers.



<b>Head of Government Finance Profession and Chief Government Accountant, Paul Helm</b>  Team Information Office of the Government Accountant, Paul Helm Government Finance Profession & Ministry of Finance Function, Sarah Hardy, Manager Fiscal Reporting, Nicola Haslam, Manager	[1]
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DS Financial and Commercial Operations (103 FTEs)	
<b>Deputy Secretary, Brendan Doyle</b>	[1]
<b>Director Commercial Operations, Chris White</b>  Team Information Commercial Advice, Angela Graham, Manager Governance & Performance, Chris Gregory, Manager Strategy & Policy, Craig Weise, Manager Transactions Unit – Social Housing, Tom Hall, Acting Head	
<b>Director Financial Operations and Head of NZDMO, Sarah Vrede</b>  Team Information Accounting & Transactional Services, Charles England, Head Business Information, Dan Clayton, Head Portfolio Management, Murray Jones, Head Risk Policy & Balance Sheet, Andrew Hagan, Manager NZ Export Credit Office (NZECO), Chris Chapman, Manager	

DS Strategy, Performance & Engagement, and Chief Operating Officer (178 FTEs)	
<b>Deputy Secretary and Chief Operating Officer, Fiona Ross</b> (on secondment until February 2017)  <b>Karen Jones</b> Acting until February 2017	[1]  Landline: 04 917 6122
Team Information Chief People Officer, Fiona Foster Chief Financial Officer, Glenn McStay Chief Information Officer, Tom Byrne Treasury Solicitor and Chief Security Officer, Manager Legal, Facilities, Administration & Ministerial Advisory Services, Jeremy Salmond	[1]
<b>Director, Amy Allison</b>  Team Information Office of the Executive & Communications, Vicki Plater, Chief of Staff/Manager of Engagement	



## Crown entities monitored by the Treasury

The entities monitored by the Treasury are listed below in alphabetical order.

Accident Compensation Corporation	Meridian Energy Ltd
AgResearch Ltd	Meteorological Service of New Zealand Ltd
Air New Zealand Ltd	Mighty River Power Ltd
Airways Corporation of New Zealand Ltd	National Institute of Water & Atmospheric Research Ltd
Animal Control Products Ltd	National Provident Fund
AsureQuality Ltd	Network for Learning Ltd
Christchurch International Airport Ltd	New Zealand Forest Research Institute Ltd
Crown Asset Management Ltd	The New Zealand Local Government Funding Agency
Crown Fibre Holdings Ltd	New Zealand Lotteries Commission
Crown Irrigation Investments Ltd	New Zealand Post Group
Dunedin International Airport Ltd	New Zealand Railways Corporation
Earthquake Commission	New Zealand Venture Investment Fund Ltd
Electricity Corporation of New Zealand Ltd	Ōtākaro Limited
FairWay Resolution Ltd	Public Trust
Genesis Energy Ltd (Genesis)	Quotable Value Ltd
Government Superannuation Fund Authority	Radio New Zealand Ltd
Guardians of New Zealand Superannuation	Research and Education Advanced Network New Zealand Ltd
Hawke's Bay Airport Ltd	Solid Energy New Zealand Ltd
Housing New Zealand Corporation	Southern Response Earthquake Services Ltd
Institute of Environmental Science & Research Ltd	Tamaki Redevelopment Company Ltd
Institute of Geological & Nuclear Sciences Ltd	Television New Zealand Ltd
Kiwirail Holdings Ltd	The New Zealand Institute for Plant & Food Research Ltd
Kordia Group Ltd	Transpower New Zealand Ltd
Landcare Research New Zealand Ltd	
Landcorp Farming Ltd	





# The Treasury Leadership Team

## Gabriel Makhoul

### Secretary and Chief Executive



Gabriel Makhoul is the Treasury Secretary and Chief Executive. He is the Government's chief economic and financial adviser, and leads the Treasury's work to help raise living standards for New Zealanders through a stable, growing economy, and a high performing public service.

Gabriel's career was previously in the United Kingdom civil service where his responsibilities ranged from policy development on domestic and international tax and welfare policy issues through to large-scale, customer-focused, operational delivery. He was Chair of the world's main tax rule-making body – the Committee on Fiscal Affairs – at the OECD in Paris between 2000 and 2004, and was also responsible for the UK's Government Banking Service. He led the UK team that negotiated the current US/UK double tax treaty and served as Principal Private Secretary to the Chancellor of the Exchequer.

Gabriel has a Bachelor's degree in economics from the University of Exeter and a Master's degree in industrial relations from the University of Bath, and is an alumnus of international business school INSEAD's Advanced Management Programme. The son of United Nations diplomats, Gabriel grew up in the Pacific and speaks French and Greek. He is married with one adult son.



## Fiona Ross

### Deputy Secretary Strategy, Performance & Engagement and Chief Operating Officer

Currently on Secondment as Chief Executive to the Ministry for Women



Fiona re-joined the Treasury in 2011. She helps to raise living standards by ensuring the Treasury operates effectively as an organisation.

Fiona has over 20 years' experience in the public service, with particular expertise in State sector reform. After initial positions at the Ministry of Education and the Ministry of Women's Affairs, Fiona joined the Treasury as a senior policy analyst in 2000. In 2002 she moved to the United Kingdom where she held various roles in the civil service, including leading major change initiatives focused on efficiency gains and service improvements. Fiona returned to the Treasury to lead the Better Public Services Programme, the government's flagship programme to improve outcomes for New Zealanders.

Fiona holds an Honours degree in Arts and a Master's degree in Public Policy, both from Victoria University of Wellington. She has been actively involved with a number of not-for-profit groups

focused on the issues of sexual abuse and women's sport and fitness.

## Karen Jones

### Acting Deputy Secretary Strategy, Performance & Engagement and Chief Operating Officer



Karen Jones has most recently been the Acting Chief Executive of the Ministry for Women since October 2016, where she was responsible for leading staff delivering a policy work programme aimed at improving the lives of New Zealand women.

Karen's substantive role is the Deputy Chief Executive Public Affairs for NZ Police. She is a member of the NZ Police executive leadership team and is the Police's principal adviser on communication and marketing matters, both internally and externally, and leads a nationwide team.

Before joining Police in February 2013, Karen was Head of Communications and Government Relations for NZ Lotteries, a senior executive-level position she held since 2007. She was previously Communications Manager for the State Services Commission for five years and also held a number of senior public affairs roles in private and public sector organisations. Karen has an

Honours degree in Arts from Victoria University.



## Struan Little

### Deputy Secretary, Budget & Public Services



Struan is an economist with over 30 years of experience in finance and public sector management.

Struan first joined the Treasury in 1987, after completing his postgraduate diploma in economics at Otago University. Several years later he served as the head of a delegation that was sent to the International Monetary Fund and World Bank to represent New Zealand's economic interests and ensure these organisations took into account the interests of small countries.

Since then he has served in a range of leadership roles across government, including with the Ministry of Education and most recently serving as Inland Revenue's Deputy Commissioner of Policy & Strategy.

During his time at Inland Revenue, Struan worked with the senior management team to implement changes designed to modernise tax.

This involved fundamental changes to both operations and technology. As part of this work, Struan was responsible for design of the future tax administration framework.

He has also held advisory roles in the Office of the Minister of Finance and at the World Bank in Washington DC.

Struan re-joined the Treasury in 2016 as Deputy Secretary Budget and Public Services. In this capacity he leads the Treasury's work to raise living standards by:

- helping ensure the Government's finances are well managed,
- overseeing advice in the areas of justice, security, health, earthquake coordination and public sector performance, and
- delivering the Government's annual Budget.

Struan is a tramping and fly fishing enthusiast who combines his love of travel with the opportunity to get into the outdoors.



## Brendon Doyle

### Deputy Secretary, Financial & Commercial Operations



Brendon is responsible for the Financial Operations and Commercial Operations Groups. Financial Operations includes the New Zealand Debt Management Office (NZDMO) and New Zealand Export Credit Office, as well as the Balance Sheet and Investment Management & Asset Performance teams, and helps to raise living standards by ensuring the Crown's balance sheet is managed in an efficient and effective manner.

The NZDMO plays a critical role in the economy, overseeing the Government's borrowing requirements in a way that minimises costs while keeping risk at an appropriate level. The New Zealand Export Credit Office provides financial guarantee products for New Zealand exporters and banks, helping exporters to manage risk and capitalise on trade opportunities around the world. The office has supported more than \$1 billion of total exports since it was established.

The Balance Sheet team was responsible for the production of the 2014 Investment Statement and will coordinate the subsequent execution of the areas of focus. The Investment Management & Asset Performance team is responsible for the government investment portfolio, better business cases and assurance.

Commercial Operations is responsible for policy and transactions relating to the Government's Social Housing Reform Programme, for the performance, board appointments, and governance of the Crown's portfolio of commercial and financial assets, for the government's programme of Public Private Partnerships (PPPs), and for commercial advice on other transactions including company restructurings.

Brendon first joined the Treasury in 1993, and was Head of Portfolio Management from 1999 to 2002. Prior to rejoining the Treasury in 2012, his most recent role was with Westpac in Australia as Managing Director of its Global Capital Markets business.



## Tim Ng

### Chief Economic Adviser and Director, Economic System



Tim Ng oversees the Treasury's research and advice on broad economic policy issues, embedding the Living Standards Framework and developing economics capability at the Treasury.

Tim is a macroeconomist by training. He has extensive international experience as an adviser and thought leader on monetary, fiscal and financial system policy, and has published in a range of professional and academic journals.

For much of his career prior to his Treasury position, Tim managed a range of functions at the Reserve Bank of New Zealand, covering domestic and international economic monitoring and forecasting, monetary policy conduct, banking regulation and payments system policy. During his time at the Reserve Bank he served as a member of the Reserve Bank's Monetary Policy Committee, Macro-Financial Committee and Financial System Oversight Committee.

Tim has also worked at the Bank for International Settlements, the Federal Reserve Bank of New York, the National Bank of New Zealand and in the Office of the New Zealand Deputy Prime Minister and Treasurer.

Tim was born and raised in Auckland. He has postgraduate degrees in economics from Victoria University of Wellington and in biochemistry from the University of Auckland.

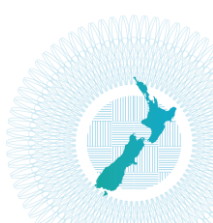
## Cath Atkins

### Deputy Secretary, Macroeconomics and Growth



Cath Atkins is the Treasury's Deputy Secretary, Macroeconomics and Growth. She leads the Treasury's work to raise living standards through policy advice on settings to promote economic growth and a stable macroeconomic environment. Specific policy areas include education and skills, the labour market and welfare, infrastructure, natural resources, regulation, financial markets, international connections, housing affordability, macroeconomic policy and fiscal forecasting.

Cath has held a range of senior leadership positions since joining the Treasury in 1999, most recently including Deputy Secretary, Strategy, Change & Performance. Her work has spanned policy areas ranging from market intervention, growth, competition policy and regulation to labour markets, welfare and State sector performance. She was responsible for setting up the New Zealand Productivity Commission, and has represented New Zealand at APEC and the OECD. Cath was part of the team that led development of the Trans-Tasman Mutual Recognition Act, the legislation for mutual recognition of employment standards and occupations, supporting closer economic ties between New Zealand and Australia.



In 2014 she was seconded to MBIE as Deputy Chief Executive of Labour Environment, covering a range of areas including health and safety, financial markets, labour market issues and ACC policy.

With a background in economics and international trade, Cath holds Master's and Bachelor's degrees in commerce and management from Lincoln University. A sports enthusiast, in 2012 Cath completed the Oxfam non-stop 100 kilometre walk.

## Tony Burton

### Acting Chief Economic Adviser



As Acting Chief Economic Adviser, Tony oversees the Treasury's research and advice on broad economic policy issues, embedding the living standards framework and developing economics capability at the Treasury.

Tony joined the Treasury in 2007 and has had extensive experience leading policy development on welfare, poverty, labour market and the social sector issues. He was seconded to the Secretariat of the Welfare Working Group from 2010-2011.

His work now is focused on improving the knowledge base for policy; including, policy focused research, the use of 'big data' and improving our understanding of non-government social sector providers.

He worked as an academic researching game theory and perceptions of risk at the Universities of East Anglia, Newcastle and Leeds in the UK. Before joining the Treasury he was an Economic Adviser at the UK Ministry of Health and the New Zealand Ministry of Social Development.

Tony has a Bachelor's degree in economics and philosophy from the University of Southampton and a Master's and PhD in economics from the University of East Anglia.

His spare time is shared with his partner Liz, looking after their energetic 8-year-old daughter and extremely lazy cat.





## Chris White

### Director, Commercial Operations



Chris joined the Treasury in 2002 and has held a number of roles in the commercial area. As Director of Treasury's Commercial Operations, Chris has responsibility for the Social Housing Reform Programme asset transactions as well as the performance of the Crown's portfolio of commercial and financial assets. His directorate also oversees Public Private Partnerships (PPPs) and provides commercial advice on transactions and company restructurings.

In 2009 Chris was seconded to the Department of Prime Minister and Cabinet where he provided economic and fiscal policy advice to the Prime Minister, including on the Government's first three budgets, the 2010 tax reform package, the collapse of South Canterbury Finance and other finance companies, and the development of the Mixed Ownership Model policy. More recently Chris led the Initial Public Offerings (IPOs) of Meridian and Genesis and the sell-down of 20 percent of Air New Zealand: prior to these transactions he led a

number of workstreams to enable the programme to proceed, including advising the Finance and Expenditure Select Committee on the necessary legislation and working extensively with Māori to resolve opposition to the programme.

Chris holds a Master of Business Administration (with distinction) from Victoria University and a Bachelor of Arts (Honours) in English Literature from the University of Leeds. Early in his working life Chris was a professional actor, later merging his creative and business acumen in the world of advertising.

## Amy Allison

### Director, Strategy, Performance & Engagement



Amy first joined the Treasury in the 1990s as a Budget Team Analyst, returning some 15 years later as Director of Strategy, Performance and Engagement (SPE). This directorate is focused on ensuring the Treasury is a high-performing and world-leading organisation. As well as driving the day-to-day delivery of the organisational and workforce strategy, SPE also provides communications and engagement support to the executive and wider organisation. This encompasses both internal and external communication, strategic engagement, governance and executive support. She also leads work around the Crown-Māori relationship.

Amy's career began in community development and much of her career has been in the social sector across the Ministry of Social Development. Her senior roles have ranged from social policy and welfare reform to leading a nationwide wrap-around service to families of vulnerable children and strategies to deliver better services to beneficiaries. This has included the largest Lean Six Sigma implementation across



the public sector, resulting in lower wait times and 20 per cent more clients getting the help they needed each day. Amy also has a strong action, governance and accountability focus, leading four social sector-wide budget processes for Ministers, and rose to Deputy Chief Executive, Corporate and Governance.

Most recently, Amy set up and led seven corporate and policy functions in the Ministry of Business, Innovation and Employment through the merger of four separate agencies. She was responsible for Crown entity monitoring, corporate planning, Pasifika Strategy, governance, risk and assurance, organisational strategy and the Ministerial servicing of 14 Ministers.

Amy holds a Master of Business Administration from Victoria University, a Bachelor of Arts with Honours, Bachelor of Science from the University of Otago. In 2012 Amy was appointed a Leadership Fellow by the New Zealand Leadership Development Centre. Amy's new passion is Muay Thai and she goes to Thailand to learn more whenever she can.

## Paul Helm

### Head of Government Finance Profession and Chief Government Accountant



Paul has a passion for strategic financial management and has been CFO at four government entities. He has held his current role – Head of Government Finance Profession and Chief Government Accountant – since October 2014. In this role, he is focused on raising awareness, professionalism and skills development in strategic financial management across the public service.

He has significant experience in public sector financial management, covering strategic budget management, including managing significant cash flows and borrowing facilities. Paul is experienced at transforming finance functions, procurement and commercial decision-making, including working on large contracts for Public-Private-Partnerships (PPPs), property, and information technology to ensure the best outcomes for an organisation. He has worked across a range of government departments including the New Zealand Transport Agency, Ministry of Foreign Affairs and Trade, Ministry of

Health and Audit New Zealand, and coached other senior finance executives in strategic financial management.

Paul is also responsible for the Financial Statements of the Government. These comprehensive financial statements include a full consolidation of all government agencies' statements. The team produces monthly as well as annual accounts.

The Treasury team focused on improving financial analytics and insights with departments (Ministry of Finance Function) is another responsibility of the Chief Government Accountant. This team looks across the system to provide reports on items such as agency balance sheet sustainability and accuracy of forecast spending.





Paul is a member of Chartered Accountants Australia New Zealand and a Fellow of both CPA Australia and the Institute of Chartered Accountants of England and Wales. Whilst Paul was CFO at NZTA its finance team was awarded “Finance Team of the Year” across all entities in New Zealand in 2014, and Paul was awarded “Public Sector CFO of the Year” in 2013 by the then Institute of Chartered Accountants of New Zealand.

## David Mackay

### Director, Growth & Public Services



David Mackay joined the Treasury in 2015, and heads the Growth & Public Services directorate. This group focusses on raising New Zealanders’ living standards through policy advice on economic growth, natural resources, regulation, and social services. David’s specific policy responsibilities include education and skills, economic performance and strategy, social investment, welfare, the labour market, immigration, Māori economic development, natural resources, and regulation.

Prior to joining the New Zealand Treasury, David held a number of senior executive positions in the Australian Public Service prior to joining the New Zealand Treasury in both economic and social policy areas. Most recently, he led the Budget policy and coordination team at the Department of Finance, responsible for the production of the Australian Federal Budget. Before joining the department of Finance, he was a senior executive with the

Department of Health, where he had responsibility for policy reform and service delivery in the areas of mental health, primary health care, and health system funding.

David is an alumnus of the Australia and New Zealand School of Government’s Executive Fellows Programme, and a graduate of Monash University (Master of Communications) and the University of Sydney (Bachelor of Arts). David originally trained as a conductor, and was awarded the Canberra Critics Circle award for Music in 2011.



## Sarah Vrede

### Director, Financial Operations and Head of the New Zealand Debt Management Office



Sarah has responsibility for the activities of the NZ Debt Management Office (NZDMO) and the New Zealand Export Credit Office, in addition to responsibility for Crown Balance Sheet strategy, development of the Treasury's international engagement strategy and developing the business case for a Treasury-wide programme that will deliver a transformation in Treasury's information, data and analytics capability.

The NZDMO plays a critical role in the efficient functioning of the economy. It oversees the Government's borrowing requirements and associated activities, with a goal of managing debt in a way that minimises costs over the long-term, while keeping risk at an appropriate level. NZDMO manages the largest single portion of the Crown balance sheet – approximately one-third of the Crown's liabilities and approximately one-tenth of the Crown's assets.

Related accountabilities include provision of the front, middle, back office and Information Technology requirements to manage the NZDMO portion of the Crown balance sheet, plus investor, intermediary and rating agency relationship management on behalf of the Crown.

Sarah joined Treasury in March 2013 as Head of Portfolio Management and from August 2014 has had responsibility for both the NZDMO and New Zealand Export Credit Office. In July 2015 Sarah was appointed Director, Financial Operations as part of Treasury's senior leadership team.

Sarah's background is predominantly in financial markets at Bank of New Zealand and DFC New Zealand. Previous roles have included: head of derivatives trading, head of treasury information and technology, and director – business delivery.

Sarah has Bachelor's and Master's degrees in accounting and finance from Victoria University of Wellington and the London School of Economics.



## Andrew Blazey

### Director, Budget & Public Investment



Andrew was appointed a Director in 2014 after working in progressively larger roles in the Treasury over an eleven-year period. The Budget & Public Investment Directorate focuses on increasing the efficiency and effectiveness of services in the State sector and the Crown balance sheet. An important part of the Directorate's function concerns the financial management of approximately 65 per cent of government expenditure. Comprised of 77 staff and with an operating budget of \$11 million per annum, the directorate includes the National Infrastructure Unit and the Treasury's coordination with Auckland City.

Andrew has been responsible for managing the development and first public listing as part of the government's Mixed Ownership Model programme as well as leading the negotiations on the investment chapters of free trade agreements. Following two years working at the International Monetary Fund in Washington DC,

Andrew continues to act as an expert consultant to the Fund. Andrew has also worked at the Ministry of Justice.

Andrew holds a Bachelor of Management studies from the University of Waikato and a Master of Business Administration from the Chinese University of Hong Kong. He is a trustee of two investment trusts, including the Victoria University Students' Trust.



## 1.2 Responsibilities of the Minister of Finance

### Overview

The Minister of Finance is responsible for managing the Government's economic and fiscal policy, including outlining the Government's overall fiscal strategy. Due to this central role, the Minister's powers and responsibilities are wide-ranging – while the Budget process is key to the Minister of Finance's role, there are a range of other matters in which the Minister has a role due to their potential fiscal or economic impact.

The key legislation outlining the Minister of Finance's role in relation to fiscal matters is the Public Finance Act 1989 (PFA). The PFA may be seen as a handbook for the Minister of Finance's responsibilities in running the Budget process throughout the year.

The PFA also gives the Minister certain financial powers on behalf of the Crown eg, the Minister of Finance is the only person authorised to borrow and lend money on behalf of the Crown, to give guarantees and indemnities and to enter into derivative transactions.

The Minister's responsibility for the Government's overall fiscal strategy and balance sheet extends to the Standing Orders, which give the Minister of Finance the 'financial veto': the Minister of Finance may veto any proposed bill, amendment or motion which would have more than a minor impact on the Government's fiscal aggregates. The Minister of Finance may also veto any proposed change to a Vote which would have more than a minor impact on the composition of the Vote.

Internationally, the Minister of Finance is New Zealand's Governor at the International Financial Institutions (the World Bank, International Monetary Fund, Asian Development Bank and Asian Infrastructure Investment Bank).

The Minister of Finance also has a range of statutory roles, powers and duties across a large number of other statutes. These wide-ranging provisions reflect the Minister of Finance's overall responsibility for fiscal and economic matters eg, the Minister of Finance will often be referenced in a statute if action under that statute could impact significantly on the Government's balance sheet. For example, under the State Owned Enterprises Act 1986 and the Crown Entities Act 2004, the Minister of Finance is joint shareholding Minister (together with the responsible Minister). However, some of those statutory provisions relate to obligations on other parties rather than on the Minister of Finance per se eg, obligations on other Ministers to consult with the Minister of Finance before undertaking a certain action.

The Minister of Finance and the Minister of State Services share responsibility for the Social Investment Unit (SIU). Your appropriation for this sits within Vote Social Development.



## Organisations

The Minister of Finance is responsible for the following organisations:

<b>Departments</b>	The Treasury Reserve Bank of New Zealand
<b>Crown entities</b>	Government Superannuation Fund Authority Guardians of New Zealand Superannuation New Zealand Productivity Commission
<b>PFA Schedule 4 organisations</b>	New Zealand Government Property Corporation
<b>Other organisations</b>	Government Superannuation Appeals Board National Infrastructure Advisory Board Community Trusts

## Legislation

The Minister of Finance is responsible for administering the following legislation:<sup>2</sup>

### Administered by the Treasury

Appropriation Acts

Appropriation (Continuation of Interim Meaning of Funding for Parliamentary Purposes) Act 2007

Bank of New Zealand Act 1988

Crown Entities Act 2004 (Part 4)

Crown Forests Assets Act 1989

Crown Retail Deposit Guarantee Scheme Act 2009

Government Superannuation Fund Act 1956

Housing Act 1955

Housing Corporation Act 1974

Imprest Supply Acts

International Finance Agreements Act 1961

KiwiSaver Act 2006

National Provident Fund Restructuring Act 1990

New Zealand Government Property Corporation Act 1953

New Zealand Productivity Commission Act 2010

New Zealand Superannuation and Retirement Income Act 2001 (Parts 2 and 3 and Schedule 3)

Overseas Investment Act 2005

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<sup>2</sup> This list does not include Acts that have been proposed for repeal in the Statutes Repeal Bill, which is currently in the House.



Post Office Bank Act 1987

Public Audit Act 2001

Public Finance Act 1989

Rural Banking and Finance Corporation of New Zealand Act 1989

Superannuation Schemes Act 1989

Utilities Access Act 2010

## Reserve Bank of New Zealand

Decimal Currency Act 1964

Insurance (Prudential Supervision) Act 2010

Non-bank Deposit Takers Act 2013

Reserve Bank of New Zealand Act 1989

## Department of Internal Affairs

Community Trusts Act 1999

Trustee Banks Restructuring Act Repeal Act 1999

## Public Finance Act roles and responsibilities

Under the PFA, the Minister of Finance must/may:

- Present the Estimates and supporting information to the House of Representatives immediately after delivering the Budget (section 13)
- Present the Supplementary Estimates to the House of Representatives on the day after the introduction of an Appropriation Bill (section 16)
- Approve expenses or capital expenditure to be incurred to meet an emergency or disaster (section 25)
- Determine terms and conditions of capital injections (section 26)
- Approve expenses or capital expenditure to be incurred in excess of an existing appropriation (section 26B)
- Seek validation by Parliament of expenses or capital expenditure incurred without appropriation or other authority (section 26C)
- Present to the House of Representatives a fiscal strategy report after delivering the Budget (section 26I)
- Present to the House of Representatives annually a budget policy statement (section 26M)
- Present to the House of Representatives Treasury's statement on the long-term fiscal position (every 4 years) (section 26N)
- Present to the House of Representatives annually an economic and fiscal update (section 26O)



- Arrange the publication and presentation to the House of Representatives of a half-year economic and fiscal update (section 26S)
- Arrange the publication and presentation to the House of Representatives of a pre-election economic and fiscal update (section 26T)
- Sign a statement of responsibility for the annual financial statements of Government (section 29)
- Present the annual financial statements to the House of Representatives (section 31)
- Arrange for monthly financial statements to be published (section 31A)
- Borrow money on behalf of the Crown if necessary or expedient in the public interest (section 47)
- Appoint agents for the purpose of borrowing money (section 50)
- Borrow money on terms and conditions that the Minister of Finance thinks fit (section 54)
- Vary terms and conditions of Crown borrowing (section 57)
- Convert money borrowed by the Crown (section 58)
- Appoint underwriters, managers, dealers, trustees, registrars or paying, fiscal or other agent in connection with borrowing of the Crown (section 59)
- Issue securities for money borrowed by the Crown (section 63)
- Vary public securities, issue new public security, execute securities (sections 65A, 65B and 65C)
- Enter into derivative transactions if in the public interest (section 65G)
- Lend money to persons or organisations if in the public interest (section 65L)
- Lend money to a foreign government for the purposes of assisting economic development of that country or the welfare of inhabitants of that country (section 65M)
- Specify terms and conditions under which Crown Bank Accounts can be operated (section 65R)
- Give directions on the terms and conditions under which a Departmental Bank Account must be operated (section 65T)
- Give a guarantee or indemnity if necessary or expedient in the public interest (section 65ZD)
- Approve banks where Trust Bank Accounts will be operated and maintained (section 67)
- Pay money for the purpose of making payments on behalf of the government of any country, the United Nations or any other international organisation (section 71)
- Pay money required for the purpose of defraying any charges or expenditure incurred by or on behalf of any local authority (section 72)





- Exercise any power, function, right and obligation in connection with bona vacantia (ownerless property) (section 75)
- Issue instructions (section 80A)
- Recommend the making of regulations under the Public Finance Act 1989 (section 81)

## Responsibilities under the Crown Entities Act 2004

The Minister of Finance has the following roles and responsibilities under the Crown Entities Act 2004:

- The Minister of Finance must be one of the shareholding Ministers of a Crown Entity company (section 79)
- The board of a Crown entity must supply to the Minister of Finance any information requested by the Minister in relation to Crown entities' reporting and financial obligations (section 133)
- Jointly approve a Crown entity acquiring securities, borrowing, giving guarantees and indemnities and entering into derivative transactions (section 160)
- The Minister of Finance must issue instructions to Crown entities (section 174)

## Responsibilities under the State-Owned Enterprises Act 1986

The Minister of Finance has the following roles and responsibilities under the State-Owned Enterprise Act 1986:

- The Minister of Finance must be one of the shareholding Ministers of a State-Owned Enterprise (SOE) (section 10)
- The shareholding Ministers may direct the board of an SOE to include certain information in the SOE's statement of corporate intent and may by written notice determine the amount of dividend payable by an SOE (section 13)

## Other statutory powers and roles

In addition to being responsible for the above legislation, the Minister of Finance has powers and responsibilities under a wide range of Acts. For example:

- To direct the Registrar of the Emissions Trading Register under the *Climate Change Response Act 2002*
- To transfer Crown forestry assets under the *Crown Forest Assets Act 1989*
- To remove (together with the other responsible Minister) a director of the New Zealand Railways Corporation (Kiwirail) under the *New Zealand Railways Corporation Act 1981*
- To agree the transfer of Crown assets and liabilities to the Auditor-General under the *Public Audit Act 2001*





## International responsibilities

The Minister of Finance is New Zealand's Governor at the following International Financial Institutions:

- International Monetary Fund (IMF)
- International Bank for Reconstruction and Development (World Bank)
- Asian Development Bank (ADB)
- Asian Infrastructure Investment Bank (AIIB)

As Governor, the Minister is responsible for exercising governance decisions at each institution and may represent New Zealand at their Governors' Meetings held each year. The Minister of Finance will generally attend the Annual Meetings of the IMF and World Bank in October each year (but does not often attend the Spring Meetings held in April). The Minister has the choice of attending the Annual meetings of the other institutions – the ADB of Finance in May and the AIIB in June.

In addition to these international financial institutions, the New Zealand Governor of the European Bank for Reconstruction and Development (EBRD) is currently the Minister of Foreign Affairs.



## 2 Minister Responsible for Social Investment

**Key contacts:** Struan Little, Deputy Secretary, Budget and Public Services  
[1]  
David MacKay, Director, Growth and Public Services  
[1]  
Andrew Blazey, Director, Budget and Public Investment  
[1]

### Introduction

This report briefs you, as Associate Finance Minister, on key issues in your Social Investment portfolio as they relate to the Finance portfolio. It also outlines the role that the Treasury can play in assisting you with these issues.

This briefing should be read in conjunction with associated briefings on the Social Investment portfolio you are receiving from the Social Sector Board and the Social Investment Unit.

### Social investment as a system

The current interest in the potential of an investment approach is driven in part from concern about the lack of traction on deep-seated economic and social problems, and the increasing potential for data analytics to support better outcomes. Social investment refers to the commitment of public resources today to achieve benefits in the future. Those resources and benefits are not defined by accounting treatments, and they can comprise both financial and non-financial components. For example, public resources can include regulation as well as funding, and benefits can refer to well-being outcomes as well as to the Government's fiscal position.

Its recent provenance as an initiative can be seen in the 2010 *Welfare Working Group* report, 2011 *Better Public Services* report, the Treasury's 2013 state sector narrative, and the Treasury's 2014 *Briefing to the Incoming Minister*. And practically, the results from the application of an investment approach in the benefits and Justice area have shown promise, and work is underway to ensure the operating model for the new Ministry for Vulnerable Children (Oranga Tamariki) is underpinned by investment thinking. Indeed, implementing the Investing in Children reforms represents the best "live" example of a model under development with the opportunity for the practical application of social investment.



Despite some improvements, our state sector and public financial management settings are still more geared towards addressing the challenges of the 1990s rather than outcomes for New Zealanders. For example, our resourcing, accountability and reporting is still agency-centric, the focus is more on outputs rather than results, and an annual Budget cycle rather than long-term investment decisions. Recent reports, such as the Productivity Commission's report on More Effective Social Services, underline the need to organise and deliver public services differently to meet all citizens' needs.

The investment approach provides the overarching framework for progressing many of the reforms needed in our state sector and public financial management settings. Applying an investment approach means:

- clearly defining the results governments want to achieve;
- aligning accountability and incentives to deliver the results;
- providing those accountable with the freedom to innovate and learn from experience to achieve the results;
- requiring collective action where achieving results requires cross-agency cooperation; and
- monitoring performance.

The investment approach is most advanced in the social sector, with social agencies considering parts of their service provision through a social investment lens.

Each of the above features is needed if an investment approach is to work as a system, with attention to the connections and feedback between them to ensure the system is dynamic and adaptive over time. And if satisfactory arrangements cannot be put in place to give effect to each, then the integrity and performance of the system will suffer.

This is a whole-of- government system with many actors: the Treasury, Social Investment Unit (SIU), sectoral agencies, and private providers. Of the above five features, the Treasury intends to take the lead on defining the results and monitoring performance. That is, we will work with the other agencies, including the Social Investment Unit and the reformed Social Investment Board, to provide line agencies and Ministers with advice on where investments might best be focussed to have the greatest impact on outcomes for New Zealanders, and with that, the possibility of better fiscal performance over time. We will also then monitor the results of that investment to advise Ministers on their success, actions Ministers may want to take to improve the performance of those investments, and about future investments.

We will also play a secondary role in the other three features, where the lead will rest with other agencies, in particular the State Services Commission for system-wide frameworks, and the Social Investment Board for specific initiatives. In particular, while the State Services Commission will address sectoral performance and accountability through the Chief Executive performance expectations, we will be addressing them via the incentives and accountabilities in the public financial management system.

### Social Investment Governance and Accountability

In July, the Social Sector Board considered a draft governance and accountability framework (Burgess/Cosgrove report) for managing long-term social and fiscal outcomes as a starting point for further development. The objective of that draft framework is to place sustained pressure on 'investment managers' to improve outcomes and reduce long-term social and fiscal costs of the



investment/liability pool for which they are accountable. The Treasury was asked by the Social Sector Board to establish a small working group to examine the framework, and contracted Dr Graham Scott to lead the working group to advise on the framework proposed in the Burgess/Cosgrove report.

Attached to this briefing are:

- The report of the Working Group on Social Investment Governance and Accountability, November 2016 (Graham Scott chair)
- Treasury Report T2016/2164 which forwarded the above report to the previous Minister of Finance and provided our initial advice.
- Governance and accountability for managing long term social and fiscal outcomes, June 2016 (Burgess/Cosgrove)

As these are lengthy documents, we suggest that initially you read the executive summary and recommendations section of the Working Group's report and the covering Treasury Report. The Working Group's report summarises and critiques the Burgess Cosgrove report, which is included for completeness.

[2]

## Valuation Models

At the centre of thinking about social investment has been attempts to value the long term costs and benefits (in outcome as well as fiscal terms) of existing policy settings.

Valuation models have been developed in at least four significant social policy sectors and are in varying levels of development: Welfare; Justice; Social Housing; and Vulnerable Children. Each has taken a different methodology reflecting the respective complexity of the sectors they are addressing. For example, while the welfare valuation is largely fiscal, the Vulnerable Children's one is developing a well-being index to sit alongside the projected fiscal costs. (These are described in greater detail in the briefing you have received from the Social Sector Board).

Our view is that, as they develop, these valuations are useful in identifying where to invest for the best return (better outcomes), but should not be used in isolation from other information, and should not be used as a single point of accountability on managers for delivering outcomes. We will also explore how the differing valuations might be made more consistent (bearing in mind the significant differences between the sectors), and how a mix of fiscal and well-being valuations might be used to inform performance and accountability alongside other elements of the performance management framework.

[2]



[2]



[2]



[2]



# 3 Minister for Social Housing

## Social Housing Strategic Issues

**Contact person:** Tom Hall, Acting Head of the Transaction Unit, +64 4 917 6150 (wk)

This briefing highlights the upcoming strategic issues facing the Social Housing Reform Programme (SHRP) and transfers of social housing stock.

### Background

The SHRP has made steady progress in moving from a government-agency model of need assessment and monopoly supply by Housing New Zealand Corporation (HNZC), towards a more diverse market with a broader range of providers.

The revealed cost of social housing supply is proving challenging, and the sector in New Zealand is going through a steep learning curve. A social housing market will not emerge or survive without continued government intervention in:

- a. eligibility setting and assessment, and the purchasing of social housing places through the Ministry of Social Development (MSD),
- b. supply of social housing places by HNZC and registered Community Housing Providers (CHPs), and
- c. regulation of the sector by the Ministry of Business, Innovation and Employment.

In all of these areas the policy goal is to implement activity that generates momentum and is consistent with the longer-term direction of the SHRP.

The first transfer of HNZC properties to a non-government provider under the SHRP has just been completed in Tauranga. It has involved much time and effort in developing policies and commercial structures and processes. Future transfers in [4] Christchurch, [4] [4] are in varying stages of progress. The Government will need to consider the overall goal, scale, and pace of future transactions.

Growth in domestic capabilities, including at HNZC and its subsidiaries, is likely to be supplemented by international expertise and resources over the course of 2017.

### Issues – Social Housing Reform Programme

#### **The Social Housing Reform Programme needs a more integrated plan**

Significant progress is being made on the achievement of a more sustainable social housing sector, which better meets tenant needs and government objectives. Other briefings provided





to you, including by MSD, note the status of the operating baseline and expected growth in the fiscal cost of housing support. They also outline how MSD is changing to better manage housing pressures and deliver an investment approach to social housing.

There would be value in having an integrated plan. Decisions are being made by Ministers and agencies in respect of component parts of the SHRP. These include decisions on funding approaches, HNZN asset redevelopment and acquisition/disposals, transfers of stock from HNZN and regulation.

A key part of the work for SHRP officials in 2017 will be the development of an integrated plan. It will require a view on the market that the government would like to see result from the SHRP. The role of HNZN, and transfers of its stock, will be critical to market shaping efforts. This will provide an opportunity to consider whether the transactions programme should commit to a wider pipeline of transfers, rather than continue in its current (or a reduced) form with individual transfers being identified and announced.

### Reform to date has been based on a clear funder/provider split

A critical decision is the extent to which you want to retain a clear funder/provider split, and the level of transparency you wish to see in respect of price signals and investment decisions. Transparent pricing is both a key enabler and a fiscal challenge. It will underpin the effectiveness of the SHRP, and is required to enable competition.

Social housing services are directly purchased by MSD through its purchasing role. This allows for the cost of provision to be transparent, thereby supporting the development of a market. The use of HNZN accountability documents to require unfunded activities in support of broader social housing goals would pose two problems. It reduces information to inform an investment approach by government, and detracts from the ability of non-government providers (and capital) to take a more active role in social housing.

Negotiations are currently underway between HNZN and MSD to develop a comprehensive supply contract. This is consistent with the direction of the reform programme. Clarity of communication between MSD and HNZN may be of particular importance to you as you will hold the ministerial portfolios covering both the ownership and purchasing functions.

The current state of the market makes the distinction between funder and provider somewhat artificial, but it is important to set and maintain the foundations that will allow for competition with HNZN as new at-scale providers emerge from transfers.

### There is room to improve the utilisation of the current housing stock

The high level of mismatch between current tenants and the existing stock will also provide an opportunity to enhance the utilisation of the current stock. HNZN reports 58% of its stock as having too many or too few bedrooms for the number of occupants.

There are no incentives in place to encourage tenants to vacate houses that have more bedrooms than they need. Similarly, there are no incentives in place to encourage a provider to better match its stock with the tenant pool presenting. Both pay, or are paid, the same amount for the house irrespective of occupancy or unmet demand for social housing in an area.

Reform in this area will have a high profile, and difficult choices will need to be made in terms of needed stock renewal and use of public assets, versus stability for tenants. MSD will be providing you with advice on this.



## Pressure in housing support subsidies reflect the wider housing market

A major driver for growth in housing subsidies is the increase in housing costs in relation to incomes. A lack of affordable housing in high growth areas, in particular Auckland, both increases demand for support, and makes the cost to government of supplying that support more expensive.

Action to address housing affordability will also alleviate pressure on emergency and social housing. HNZN and CHPs face the same challenges with property development that hamper private sector developers, such as restrictive land use regulation, local government fees and compliance costs, high building costs, and low productivity and limited capability and capacity in the construction sector.

Unless serviced land is more readily available in high demand areas, and construction costs are reasonable, the cost of new or additional emergency or social supply will remain high.

## Factors further increasing the cost of social housing provision

It has been difficult to secure leased properties from the market, both because of a perception of social housing tenants being higher risk, and also because of the desire of many property owners to retain the ability to realise capital gains.

The approach taken in the past two years has therefore been to secure additional properties through enabling HNZN and CHPs to purchase/develop new-build houses. New properties, either additional stock or replacement houses, are expensive. Many CHPs are now equity-constrained or have reached debt-raising limits.

[4]

At present, HNZN is able to provide new supply at, or near, market rent because it applies a very low cost of capital, and related internal hurdle rate, to its acquisitions.

[4]



[4]

### Looking ahead:

You should expect to see a more integrated approach to social housing reform:

- Advice on better implementing and accelerating the reform programme, with a greater emphasis on integrated planning across agencies
- [2]
- [2]

### Issues – Social Housing Transfers

#### Transfers form a key part of the Social Housing Reform Programme

The Transactions Unit in the Treasury is undertaking transfers of HNZN tenancies and properties to CHPs.

There are two primary types of transfer; one in respect of relatively stable property portfolios in reasonable condition, the other with the opportunity for substantial redevelopment. Where widespread redevelopment opportunities are present, it is possible a case may be made for wider community regeneration. This could include funding for the improvement of local amenities and services to tenants as well as housing. The redevelopment of Tāmaki provides an example of this.

The Housing Corporation Act 1974 (section 50D) sets out that a transfer should contribute to any one or more of the following objectives:

- a. people who need housing support can access it and receive social services that meet their needs;
- b. social housing is of the right size and configuration, and in the right areas, for households that need it;
- c. social housing tenants are helped to independence, as appropriate;
- d. there is more diverse ownership or provision of social housing;
- e. there is more innovation and more responsiveness to social housing tenants and communities; and
- f. the supply of affordable housing is increased, especially in Auckland.

Transfers enable increased scale and capability in the social housing sector and bring private sector investment into stock provision and renewal. In some instances a transfer will enable capital to be extracted and reinvested in further social housing, or other priority areas. In other



instances transfers will reduce the level of Crown investment that would otherwise be required to meet new growth, or bring existing stock up to a modern standard.

This briefing highlights two issues we would like to engage with you on in respect of a transfer in Christchurch, [4] Christchurch is expected to provide for redevelopment of the transferred stock, [4]

### Affirming transfer objectives for redevelopment deals

Transfers provide the opportunity to effect change in local housing markets and communities. The focus to date has been on improving social supply and responsiveness to tenants, and to enable additional market housing.

In Tāmaki there will be an accelerated redevelopment and more intensive land-use than would have occurred under HNZN or from the market alone if the properties were privately-held.

[2]

Other factors that will affect market response to development opportunities will be the location, specification and number/proportion of houses that government wishes to retain for social housing places. MSD's Purchasing Intentions, and related funding parameters, will be a determining factor if transparent pricing is to occur.

The option of not requiring, or specifying, any social housing 'take-out' from transferred properties that are redeveloped also remains. Under that scenario MSD would contract with Community Housing Providers (CHPs) for the number of places that it wants (and can afford) as and when redevelopment occurs. If there is no requirement for affordable housing, any such houses would be built and priced to market specifications.

### Housing and/or community regeneration

Transfers can also provide a platform to enable wider community regeneration. For example, the approach taken to Tāmaki involves an integrated social and economic investment plan.

[4]

MSD is currently trialling and developing bespoke service offerings for social housing tenants (such as sustaining tenancies, or assisting independence from social housing), and thought might be given to how these are purchased within, or in parallel to, transfers.

### The opportunity for smaller CHPs and niche service providers

Officials have also been directed to develop a small-scale transfer model. [4]

[4] Once the Transactions Unit has proven a viable 'low-touch' model, there may be an opportunity to ramp this aspect of the programme up, or investigate whether HNZN is able to undertake these types for transfers directly.



The Transactions Unit is also investigating the involvement of smaller CHPs and niche service providers in any upcoming transfer at scale. The market response to this will be tested for the first time in Christchurch, and advice to you will follow.

### Looking ahead:

Expect to see a number of reports seeking your approval to proceed with key steps for new transfers of HNZN tenancies and properties to the social housing sector:

- An early session to discuss your priorities for individual transactions, and how those relate to the SHRP overall
- Reporting on each transfer as it unfolds, including decisions on objectives and elements of commercial design to realise those objectives
- The scoping of a small-scale transfers programme.



# 4 Minister Responsible for Housing New Zealand Corporation

**Contact person:** Tom Hall, Acting Head of the Transaction Unit, +64 4 917 6150 (wk)

Housing New Zealand Corporation (HNZC) has prepared a Briefing for the Incoming Minister for you, which provides a comprehensive discussion of its activities and responsibilities. This section highlights the main strategic issues that face HNZC and provides the perspective of the Treasury as the monitoring agency.

## Background

The primary relationship between the Government and HNZC is between the Minister Responsible for HNZC and HNZC's Board. As the responsible Minister you are responsible for:

- conveying the Government's expectations to HNZC
- specifying the Crown's social objectives for the provision of housing and services related to housing by HNZC (jointly with the Minister of Finance)
- overseeing the Statement of Intent and agreeing the use of any operating surplus
- appointing and dismissing members of HNZC's Board and monitoring the Board's performance, and
- monitoring HNZC's financial and operational performance.

The Treasury's Commercial Operations Group has the lead role as the responsible Minister's agent in monitoring the Crown's ownership and service delivery interests in HNZC. This monitoring includes ensuring HNZC's strategic direction is aligned with the interests of government and fits within the statutory framework; monitoring against the accountability and performance reporting framework; and providing assurance on the capability of HNZC and advice on the quality of the Board's systems for managing risk.

## Issues

The Treasury considers the main strategic issues facing HNZC to be the following:

- **Portfolio reconfiguration and renewal:** HNZC faces a significant challenge to reconfigure and renew its portfolio to meet the Government's objectives.
  - The average asset age of the portfolio is around 50 years with the bulk of the portfolio approaching the end of its economic life.



- The portfolio includes too many three bedroom houses and too few one bedroom and five bedroom properties. Fifty eight percent of tenants are not in a house matched to their needs (41% are underutilised and 17% are overcrowded).
- More properties are needed in metropolitan areas, particularly Auckland, and fewer properties in some provincial areas.
- Land use is inefficient with single houses on large sections.
- **Projected financial returns are weak:** rental returns, which include the Income Related Rent Subsidy (IRRS) provided by the Ministry for Social Development (MSD), are generally too low to provide commercial rates of return from social housing provision.
  - While HNZN's role is primarily to achieve social outcomes, it is important that HNZN takes a commercial approach to its activities. If HNZN subsidises the provision of social housing through accepting sub-commercial returns on its equity this acts as a barrier to market entry from other providers thereby precluding the development of a dynamic market which promotes efficiency and innovation. In addition, it is difficult for the Government to make decisions around how much and what type of social housing to purchase if it does not understand the cost of social housing.
  - Total shareholder return from HNZN has been good. The internal rate of return over the period 2003-2015 was 9.2% per annum. This figure, however, is bolstered by significant capital gains that occurred through this period that could not be expected to be replicated in the future. The return on equity from operations is typically under 2% per annum.
  - HNZN uses a weighted average cost of capital (WACC) figure of 5.89% to assess its investment decisions. The Treasury has commented that this figure is at the low end of the range of WACCs that could be used. Even with a low WACC, HNZN has indicated that a number of its redevelopment projects will have difficulty meeting investment hurdles under MSD's current payment levels. It intends to negotiate higher payments from MSD for individual projects to allow it to respond to the increased demand for social housing.
  - [4]
- **Property development is challenging:** HNZN faces the same challenges with property development that hamper private sector developers, such as restrictive land use regulation, local government fees and compliance costs, high building costs, and low productivity and limited capability and capacity in the construction sector.
  - HNZN has not typically demonstrated returns to scale. It appears to cost HNZN about the same amount to build a house as it does any other firm or individual. Significant cost savings should be possible as HNZN has the scale and capacity to do something about the challenges noted above while small scale operators are just forced to accept them.
  - HNZN has now recognised that it should be able to generate scale efficiencies. It intends to actively use its procurement processes to generate cost savings through negotiating contracts that reflect a multi-year pipeline of work, and through standardising construction designs and methods.



- As development activity will become a very significant component of HNZC's core operations we consider that it would be appropriate for a build cost target to be incorporated into its accountability documents. Our expectation would be that this target becomes progressively more ambitious over time. We will report to you on this as options around procurement approaches and cost saving initiatives develop.
- ***Social Housing Reform has the potential to produce good incentives but is undeveloped:*** the policy intent was that the purchaser of social housing (MSD) would purchase social housing places from Community Housing Providers (CHPs) and HNZC on an equal footing. Ministers choose how much social housing they wish to purchase and achieve this by providing funding and clear directions to MSD. HNZC then responds to the contractual requirements agreed with MSD with the Board of HNZC held accountable for implementation. It is desirable that there should be constructive tension in the relationship between MSD as purchaser and HNZC as a supplier. MSD should be a demanding purchaser with respect to quality and price and HNZC should require that it receives a reasonable price for its services. This would make the cost of social housing provision transparent rather than obscuring the cost through partial subsidisation via inadequate returns on capital invested at HNZC. This then supports the development of a dynamic market as other providers then have a chance of competing with HNZC. At present, however, the system is some distance from these objectives.
- HNZC has a market share of around 95%. The transactions currently proposed would only reduce HNZC's market share to around 90%. It is difficult to achieve the benefits that a market can provide with a party having this level of dominance. MSD has limited alternatives to purchasing from HNZC.
- The current supply contract with MSD only specifies a fairly mechanical process that rolls over existing terms and conditions. It provides HNZC with limited direction and few incentives to optimise its portfolio to tenant needs or improve quality. MSD and HNZC are working on new contractual arrangements. The first step will be to improve incentives to turn around properties between tenancies more quickly. Future iterations will provide incentives for improved asset utilisation through reductions in underutilisation and overcrowding. We would expect to reflect new contractual performance requirements in the government expectations in HNZC's accountability documents.
- At times, the Government's expectations of HNZC have been unclear. HNZC has received written guidance regarding the Government's social objectives for housing and the formal expectations of its ownership Minister. It has also, however, responded to informal guidance from social housing ministers more generally in an effort to be a good servant of the Government. This has led to changes in strategic direction in response to short term pressures rather than the longer term objectives of the reform process.
- Clarity of communication with HNZC may be of particular importance to you as you will hold the ministerial portfolios covering both the ownership and purchasing functions. Our advice is that you should avoid using the HNZC accountability documents to require unfunded activities in support of broader social housing goals. Instead changes in social housing provision should be directly purchased by MSD through its purchasing role. This allows for the cost of provision to be transparent, thereby supporting the development of a market. It also allows for an accurate assessment of HNZC's operational performance to be made.





[2]



[2]

## Monitoring Priorities

We will meet with you in early 2017 to discuss the priorities for the monitoring work programme. HNZN faces a number of changes in its operating environment. The combination of a more assertive and more sophisticated purchaser, a growing development role, price transparency, and transaction transfers are altering HNZN incrementally but over time potentially profoundly. We would be interested in discussing what you see as HNZN's goals, functions and role in this new environment. In the immediate timeframe we intend to take a particular interest in:

- [2]
- the new procurement approaches to be developed and used to encourage the introduction of new supply chains and innovations to drive reductions in building costs
- the development of contractual changes by MSD and HNZN to incentivise improved asset performance, and reflecting these changes in more demanding performance expectations in HNZN's accountability documents, and
- the potential benefits from simplifying the legislative framework relating to HNZN and social housing.

