

The Treasury

Budget 2013 Information Release

Release Document

July 2013

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

Budget Report: Budget 2013 Vote Housing Update

Date:	28 February 2013	Report No:	T2013/456
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Indicate your preferences about the Vote Housing package to Treasury.	Monday 4 March 2013.

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Nicholas Green	Team Leader, Housing	04 917 6006 (wk)	[3]
Ruth Isaac	Manager, Health & Housing	04 917 6174 (wk)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Enclosure: No

28 February 2013

DH-51-9

Budget Report: Budget 2013 Vote Housing Update

Executive Summary

You have indicated that you wish to see housing as a centrepiece of Budget 13. This note updates you on the current Vote Housing initiatives being considered for Budget 13, highlights gaps in the current package, and seeks your guidance on the areas Treasury should pursue with the Ministry of Business, Innovation and Employment (MBIE).

Fourteen Vote Housing initiatives have been submitted for Budget Ministers' consideration, targeting housing affordability, Christchurch recovery, social housing and Maori housing objectives. 3 of the 14 were submitted by Hon Turia. The initiatives are in varying states of development. As a number of these initiatives require further information and are potentially high-priority items, we recommend that decisions on some be deferred until your second Budget Ministers' meeting.

There are no initiatives currently in the system for:

- i. the extension of the Income-Related Rent Subsidy (IRRS) scheme to non-government providers;
- ii. [6] and
- iii. the transfer of needs assessment from Housing New Zealand Corporation (HNZC) to the Ministry of Social Development (MSD).

On (i) and (ii), MBIE are not currently seeking funding on the grounds that:

- there are still some significant policy issues to be resolved with the IRRS extension that require resolution;
- it is unlikely that the necessary legislative changes to enable an extended IRRS prior to Budget; and
- [6]

There is some merit to these arguments, but if you wish to [6] signal the Government's intention to extend IRRS through Budget 13, we can work with MBIE to ensure contingencies or placeholder initiatives are loaded. It would also help if you discussed these matters with the Minister of Housing.

On the needs assessment transfer, we understand that Hon Bennett may not wish this to proceed during 2013/14. We recommend that you discuss the timing and funding for the transfer with the Minister as soon as possible.

There are currently a number of initiatives in Vote Housing targeting housing affordability, which will require prioritisation. Treasury's current stance is that the Urban Development Agency (UDA) and [6] are the higher value items.

Finally, Vote Housing currently does not meet Cabinet's expectation of a net zero impact on the operating allowance. If you wish to pursue a net zero Housing package, you will need to consider savings options [6]

If you do not wish to pursue a net zero package, it would be helpful for Budget planning purposes to indicate a maximum funding envelope.

Recommended Action

We recommend that you:

a **note** that Hon Turia has submitted 3 housing initiatives, which you may wish to consider as part of your wider discussions with the coalition partners about their Budget objectives

b [6]

Agree/disagree.

c **indicate** whether you want a placeholder initiative for the Income-Related Rent Subsidy extension included in Budget 13

Agree/disagree.

d **discuss** with Hon Bennett the timing and funding for the transfer of the needs assessment function from the Housing New Zealand Corporation to the Ministry of Social Development

Agree/disagree.

e **indicate** whether you agree with Treasury's view that the Urban Development Agency and [6] are the highest priority housing affordability initiatives, and

Agree/disagree.

f **indicate** whether you wish to:

i. pursue a net zero package for Vote Housing; or (YES / NO)

ii. set a maximum spending cap for housing initiatives (YES / NO)

Ruth Isaac
Manager, Health & Housing

Hon Bill English
Minister of Finance

Budget Report: Budget 2013 Vote Housing Update

Purpose of Report

1. This paper summarises the current state of initiatives for Budget 2013 in Vote Housing, highlights some gaps, and seeks clarification on your priorities for the Budget package particularly around housing affordability.

Current initiatives – what's in the system

2. There are currently 14 Vote Housing initiatives loaded for consideration by Budget Ministers. A number of these were loaded at late notice and we are still awaiting supporting information. Several initiatives should be treated as placeholders only, as final costings cannot be prepared until policy decisions are made. As a result, we are recommending that decisions on a number of the housing affordability-related initiatives be deferred until 18 March, to allow Budget Ministers to take better-informed decisions at your second meeting.

	Initiative	Initial Treasury View	\$m Impact Operating Allowance 2013 - 2017
Hou	[6]		
	Running Productivity Partnership and Secretariat	Defer decision till 18 March - Scalable	5.760
	Urban Development Agency	Defer decision till 18 March	10.000
	[6]		
Canterbury Recovery	Admin for Royal Commission Inquiry	Agree (funded from reprioritisation)	0.000
	Post disaster building management	Agree (funded from reprioritisation)	0.000
	Canterbury Recovery Programme	Agree (funded from reprioritisation)	0.000
SHRP	Impact of Reviewable Tenancies on IRR	Agree	34.000
Minis Turia	[6]		
	Kainga Whenua – Infrastructure Grants	Decline	12.000
[6]			
HNZC	Community Group Housing rent shortfall	Agree (but fund from reprioritisation).	0.000

3. The current set of initiatives raises some questions about relative priorities for Vote Housing, which we discuss below. There are, however, two particular issues related to the current set of initiatives you should note:

[6]

delivering social housing through non-government providers, rough approximations can be drawn from HNZC's costs. The annual average IRRS cost for an HNZC property is \$9,516. So if Ministers wished to provide 500 social housing places through the non-government sector, the total expense might be in the vicinity of \$4.75m pa. **If you wish to proceed with a placeholder appropriation for IRRS costs in 2013/14, we can progress this with MBIE.** This could be funded from the operating allowance or [6]

7. The Ministry of Social Development was intending to load a Vote Social Development initiative for transition costs associated with the transfer of the housing needs assessment function from HNZC. However, we understand that Hon Bennett may not wish this to proceed in 2013/14. **We recommend that you clarify with Hon Bennett her expectations about the timing and funding of the needs assessment transfer as soon as possible.**

8. We also understand from talking to your Office that Ministers are keen on a wider set of housing initiatives in Budget 13, including:
 - [6]
 -
 - An [7] reviewable tenancies policy; and
 - Introduction of a housing Warrant of Fitness (WOF), starting with HNZC.

9. We are not currently in a position to cost out these options, and doubt whether MBIE will be in a position to do so in time for Budget 13 either. It is worth noting that most of the options outlined above have potentially significant fiscal or balance sheet impacts:
 - [6]
 -
 - The current reviewable tenancies initiative assumes a phased introduction to market renters. If Ministers wish to go faster, this will involve higher fiscal costs, as market renters are replaced with tenants who are eligible for IRRS.
 - A Warrant of Fitness may create a significant liability for HNZC, and require a revision of its Asset Management Strategy (AMS) in order to bring substandard properties up to regulated standards. The current AMS assumes that HNZC's asset reconfiguration programme will be self-funding. Changing the AMS in response to a WOF may create future pressures for capital contributions from the Crown, require revision to your dividend expectations or lead to a reduction in housing provision.

10. Treasury is planning on providing advice to you [6]
 - as part of the wider Social Housing Reform Programme.
 Implementation of any decisions is likely to require further work beyond this (including commercial advice), and realistically any fiscal costs will need to be considered as part of Budget 14.

11. [6]

Prioritising housing affordability initiatives

12. The current set of Budget initiatives does not give a clear sense of the Government's top priorities for housing affordability:
- The Urban Development Authority (UDA) aims to deal with resource consent processing;
 - [6]
 -
13. We acknowledge that the UDA appears to be the highest priority for Hon Smith, and we concur that dealing with resource consents will be important for affordability objectives. [6]

14.

15.

Keeping to the fiscal strategy

16. When Cabinet confirmed the strategy for Budget 13 last year, it agreed that all Votes, except Health and Education, should work on the assumption of no new funding from the centre. Vote Housing currently does not meet this expectation. If the current set of initiatives were accepted in their entirety, this would have a \$157m impact on the operating allowance (over four years). Treasury's preferred package has a fiscal impact of at least \$34m over four years and probably higher depending on what further information is provided on the UDA.

17. There are options available to reduce or eliminate the impact on the fiscal strategy:

[6]

18. **If you wish to pursue a net zero Vote Housing package, one or more of these options will need to be agreed with the relevant Vote Minister(s).**

19. **If you do not wish to pursue a net zero Vote Housing package, it would be helpful to set a maximum figure you wish to commit to policies.** Uncertainty around the housing package is one of the major risks facing the operating allowance. Setting a cap would help with overall Budget planning, and would assist with prioritising initiatives.

[6]