

# The Treasury

## Budget 2013 Information Release

### Release Document

July 2013

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**From:** [7]  
**Sent:** Friday, 1 March 2013 5:07 p.m.  
**To:** ^Parliament: [7]  
**Cc:** John Laxon  
**Subject:** RE: level5.1R-\_copier

**Categories:** Other

Hi [7]

Few points:

- \$5 of benefits for every dollar invested – is an average across ALL groups who have used the scheme – therefore if we don't insulate any households with over 65's it is likely that the cost benefit ratio will be much lower (around 1.1:1 as about 77% of all calculated benefits related to their value from the scheme). [7]
- [7]
- The figures like "80% of estimated households with children in poverty" were removed from our advice as we had reservations about their accuracy. The total pool of low income children households was based upon those with incomes under \$30k a year. However actual eligibility for the programme will be based upon CSC where it is possible for a two parent family with 2 children to earn around \$65k and be eligible. Therefore we think that the pool of people who will be eligible will be much bigger, meaning our contribution to addressing households with children in poverty will be much smaller.

[7]

[7] | Analyst | Natural Resources | **The Treasury**

[7]

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**From:** [7] [mailto:[7]@parliament.govt.nz]

**Sent:** Friday, 1 March 2013 4:25 p.m.

**To:** [7]

**Subject:** FW: level5.1R-\_copier

As discussed

**From:** level5.1R\_copier@parliament.govt.nz [mailto:level5.1R\_copier@parliament.govt.nz]

**Sent:** Friday, 1 March 2013 4:31 p.m.

**To:** [7]

**Subject:** level5.1R-\_copier

## Warm Up New Zealand New Programme Funding Options – Summary 1 March 2013

Warm Up New Zealand: Heat Smart is a nationwide grants programme installing insulation. The programme delivers significant health, energy, economic, and social benefits, valued at \$5 for every dollar invested.

Funding under the current programme is due to end around September 2013.

The programme has been successful. The original target of 188,500 houses was reached six months early and under budget forecasts – allowing another 41,500 houses to be budgeted for delivery. This means that, by the end of the programme, 230,000 houses will have been insulated. To date, more than 200,000 houses have been retrofitted with insulation.

EECA estimates that, once the current programme ends, around 700,000 homes will remain to be insulated. Options are now being considered for a new two-year programme which would target delivery to those households most in need. It would also allow time to transition to a self-sustaining, high quality industry, which is no longer reliant on direct government funding.

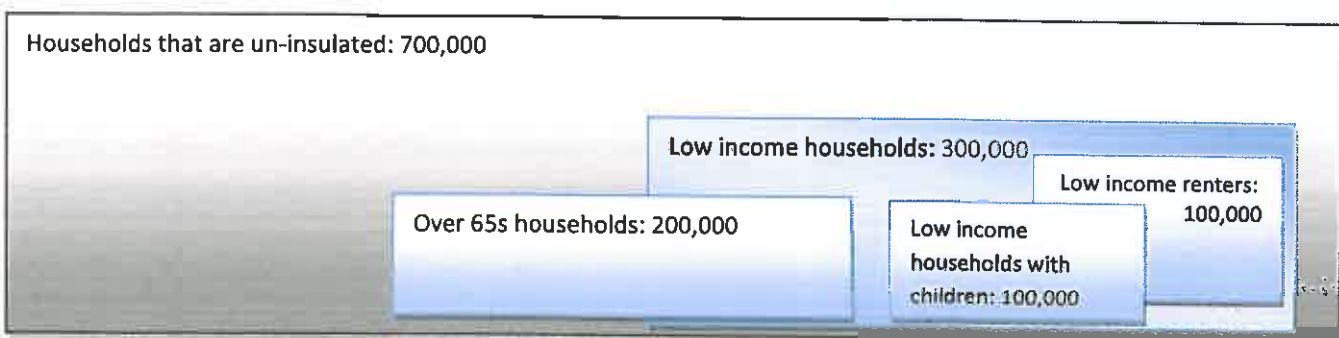
### Objectives for the new programme

- To target low income households to capture the health benefits to people with high health needs. 'High health needs' is used here for people *most at risk* from suffering ill health from cold damp homes, e.g. children, the elderly, and people with existing respiratory or cardiovascular illness.
- Reducing the incidence of rheumatic fever is a specific target under the Government's 'better public services' priority area. Studies have shown that children and babies are healthier in warmer, drier homes and therefore less likely to suffer from infectious diseases such as flu and rheumatic fever. Improving the energy efficiency of homes also delivers other benefits for children, such as increased participation in early childcare and school.
- To design a scheme that will transition the market from reliance on significant government funding to a more self-sustaining industry.
- To build on the current momentum so that we reach a point where insulated houses and rental properties are expected as the norm and we achieve the goal of New Zealanders living in warm, dry, healthy homes.

### NZ Housing Market – Targeting a new programme to those most in need

There are a total of 1.7m households in New Zealand. The 700,000 houses that will remain un-insulated when the current programme ends are made up from the overlapping categories of (see diagram below):

- 300,000 low income households
- 100,000 low income renters
- 100,000+ low income households with children under 17
- 200,000 households with elderly people



## Options for the future

Options for a new and targeted programme are listed below. All options are targeted towards those most in need – i.e. low income households with high health needs (with a focus on children under 17 and the elderly, and possibly the low income rental market if programme scale is sufficient to allow this). The programme will target these groups through contractual obligations on service providers and via special projects funded by third parties. Under the smaller options, the programme will only be available where it is matched to third party funding. This means that the funders will decide where and who to target, within the broad parameters set by EECA.

When considering options, it is worth noting:

- There is still a big job left to do – 700,000 un-insulated homes – 300,000 of those low-income.
- The success of the programme relies on government funding being used to leverage additional funding contributions from other organisations such as private companies, iwi, community and philanthropic groups and DHBs. These 'third party' contributions are used to top up the government funding and make the programme affordable for low income households. The smaller the government funding portion, the harder it is to leverage additional funding .
- Targeting people with high health needs results in the greatest net national benefit. Targeting low income households also ensures we reach those most in need and least able to pay themselves (e.g. children in poverty, people with respiratory illnesses or prone to conditions such as rheumatic fever). The targeting of 'low income' is predominantly via a Community Services Card. However, officials are examining if the programme should allow a small proportion (e.g. about 20%) to be targeted at low income households who are slightly above the CSC threshold (but still have high health needs), because this would allow greater operational flexibility in the programme and make it easier to attract third party funding.
- Continuing in a targeted way allows time to develop a self-sustaining insulation market that does not rely on government funding (i.e. new initiatives, funding mechanisms, and quality assurance processes etc).
- We need time to develop and promote flexible payment options e.g. through banks and councils (it costs between \$3-\$4k to fully insulate a home which is out of reach for many people).
- Momentum is building. Over \$82 million Government funding and \$25 million third party funding is being invested in insulating homes in 2012/13. At the end of the programme, 230,000 houses will have received insulation retrofits. While this is a huge success, this is only about a quarter of the houses that were estimated to be un-insulated at the start of the programme in 2009. The programme to date has also helped build awareness of insulation and more people are seeking warmer; drier homes. Maintaining this awareness keeps the momentum going until insulating our homes becomes the norm.

Four options for delivering a more targeted programme for two years are listed below. In considering the options, it is important to note that below a certain funding level (approximately \$100 m), it is harder to:

- reach target groups and make an impact in one area
- provide national coverage (i.e., in both rural and urban areas)
- maintain industry momentum and jobs
- implement an effective transition plan, i.e., establish non-govt funding and quality assurance mechanisms
- leverage third party funding

Option	Total Cost (over 2 years)	Homes retrofitted	Total net benefit	Expected third party funding	Target options (indicative)	Strengths	Weaknesses
1	\$150m	80,000	\$450m	\$40m+	Up to 80,000 low income households with children (including renters)  OR 40,000 low income households with children (inc renters)  AND 40,000 low income households with over 65s.	<ul style="list-style-type: none"> <li>Significant impact in one area – targets up to 80% of estimated households with children in poverty</li> </ul> OR <ul style="list-style-type: none"> <li>Targets 40% of estimated households with children in poverty PLUS 20% of over 65s</li> <li>Makes a visible impact in a sector/s that benefits most (health)</li> <li>Provides national coverage and coverage for rental homes</li> <li>Leverages more third party funding and therefore reaches more households for the government investment</li> <li>When added to previous 4 years total – programme will have reached 50% of all low income households</li> <li>Limited impact on the industry – estimate 10% reduction in employment in manufacturing and installation</li> <li>Allows time for effective transition to industry delivery (a less abrupt change)</li> <li>Equates to a total government commitment of half a billion dollars over the whole programme (inc previous 4 years), for net benefit of \$1.7 BN</li> </ul>	<ul style="list-style-type: none"> <li>Will see a reduction in employment in insulation industry (estimated 200 jobs)</li> <li>Targets specific groups over others</li> </ul>
2	\$100m	40,000	\$230m	>\$20m	Regionally targeted special projects  AND/ OR low income households with children (including renters)	<ul style="list-style-type: none"> <li>40% of estimated households with children in poverty</li> </ul> OR <ul style="list-style-type: none"> <li>Targets 20% of all elderly</li> <li>Limited to urban areas with highest population</li> </ul>	<ul style="list-style-type: none"> <li>Unlikely to get full national coverage</li> <li>Estimated 60% reduction in employment in manufacturing and installation (estimated 1,000 plus jobs)</li> <li>Lower impact in each target area, with fewer third party funded projects</li> </ul>
3	\$75m	30,000	\$165m	>\$15m	Regionally targeted to low income children only (non-rental)	<ul style="list-style-type: none"> <li>Targets up to 30% of households with children in poverty</li> </ul>	<ul style="list-style-type: none"> <li>No delivery to low income households in rural areas</li> <li>Only a few service providers (estimated 1-5, currently 60 in the programme) needed to deliver the programme = significant loss of industry and jobs</li> <li>Much lower third party funding contribution</li> </ul>
4	\$50m	20,000	\$100m	>\$10m	Limited to a few projects only (for efficiency)  For example - either over 65s as a focus or children living in poverty in selected urban centres	<ul style="list-style-type: none"> <li>Targets 20% of households with children in poverty</li> </ul> OR <ul style="list-style-type: none"> <li>10% of all elderly</li> </ul>	<ul style="list-style-type: none"> <li>Only delivered to one or few centres, e.g. this could be only a single Auckland project</li> <li>No access to the programme for needy sectors of the community</li> <li>Potentially only one service providers needed to deliver the programme = permanent loss of industry and jobs, and failure to transition to self-sustaining industry</li> <li>Much lower third party funding contribution in the short term, due to funders finding larger scale and/or better value-for-money options</li> </ul>