

The Treasury

Budget 2015 Information Release

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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.



Reference: T2015/531

SH-3-2-18

Date: 19 March 2015

To: Minister of Finance (Hon Bill English)

Deadline: None

Aide Memoire: Weathertight appropriations in Vote Housing

This note provides you with additional information on Weathertight appropriations in Vote Housing, which were set up to support the Government's financial assistance package for leaky-home owners. The take up of the scheme has been lower than expected resulting in consistent underspends in both departmental and non-departmental appropriations. In the past, these underspends have been reprioritised to support other housing initiatives resulting in a reduced baseline.

Expenditure is expected to increase in the future, following an increase in assessment costs for multi-unit dwellings and changes to eligibility criteria as a result of Supreme Court decisions. Given the level of uncertainty around expenditure in outyears, our judgement is that the appropriation can be reduced by a small amount and used to fund some housing initiatives in Budget 2015. However, any further reductions should be considered during the March Baseline Update process in future years when there is more certainty around the level of underspends in the appropriation.

Why were the funds set up?

In 2010, Cabinet agreed to introduce a financial assistance package for leaky-home owners where the Crown will contribute 25% of costs for households that are eligible for repairs [CAB min (10) 13/11 refers]. This was in addition to the mediation services already provided by the Government under the Weathertight Homes Resolution Services (WHRS) Act 2002 and was introduced to help move the sector beyond disputes and litigation. The package also included a loan guarantee offer if households decided to take out a loan from the bank to fund their share of the repair costs.

Cabinet agreed to set up the following appropriations to support the scheme [EGI min (10) 25/9 refers]:

Appropriation	Description	Average funding per annum	Last year of funding	Potential to reduce OBEGAL
Weathertight Services	Departmental funding required to administer the scheme including building assessment, eligibility and litigation costs. This includes baseline funding of \$15m already provided for mediation services.	\$35 million	2016/17	Yes – potential to reprioritise or reduce appropriation
Payments in respect of the Weathertight loan guarantee (PLA)	Funding supports payments made to banks under the loan guarantee scheme if households default on their mortgage.	\$1.8 million	2025/26	Yes – potential to reforecast expenditure
Weathertight Services: guarantee fee subsidy	Funding accounts for the expense associated with guaranteeing loans under the Weathertight scheme.	\$2.6 million	2014/15	No – there is no funding left in outyears
Unwind of discount rate used in present value calculation of liability	Technical appropriation used for balance sheet management. This is a non-cash expense which is recalculated each year based on changes to the liability.	\$27.5 million	2017/18	No – funding can only be reprioritised into a non-cash appropriation

How has expenditure been tracking against baselines?

At the time the scheme was set up, it was expected that approximately 42,000 households would be eligible for financial assistance with an expected liability of around \$1.1 billion. However, uptake has been lower than expected and, according to the latest actuarial assessment, the liability is currently estimated to be around \$113 million for 2,987 dwellings.

The table below compares actual expenditure against the appropriated amount for the departmental Weathertight Services appropriation.

Weathertight Services	2010/11	2011/12	2012/13	2013/14	2014/15*
Actual expenditure	16,674	15,776	12,299	9,793	9,089
Current baseline	19,559	18,662	13,800	12,332	13,983
Original appropriation 2010	40,458	37,474	35,715	34,848	32,954

*Expenditure has been calculated on a pro-rata basis, based on actual expenditure to February 2015.

Funding has already been reprioritised out of the original appropriation in previous budgets to support initiatives across different Votes such as administration of Kiwisaver deposit subsidies, MBIE policy advice, extension of IRRS to community housing providers, and removal of import barriers on building materials.

\$5.0 million was also reprioritised from the non-departmental 'Weathertight guarantee fee subsidy' appropriation to Vote Finance to support work on social housing transactions until June 2015. Only \$1.3 million remains in this appropriation for 2014/15.

When is funding expected to expire?

The financial assistance package is time limited and the scheme is expected to end in July 2016. However, departmental funding will still be required after 2016/17 to support households who have applied for financial assistance before this date and to continue to provide business-as-usual mediation services (as an alternative to court action) for leaky-building owners under the WHRS Act 2002. An ongoing departmental baseline already exists to fund the services provided under the Act.

Is further reprioritisation feasible?

The key focus for further reprioritisation options is the departmental Weathertight Services appropriation, which has an ongoing baseline of around \$16.5 million. MBIE has indicated that expenditure is expected to increase in outyears primarily due to the assessment costs associated with multi-unit dwellings which have only started to enter the scheme and have not been reflected in previous expenditure. There are also risks around unexpected increases in demand for financial assistance due to (i) changes in eligibility criteria as a result of Supreme Court decisions and (ii) more interest in the scheme as it begins to wind up.

Based on past actual expenditure, our judgement is that there is scope to reduce the appropriation by a small amount in outyears while still leaving a buffer to fund unexpected Weathertight costs as identified by MBIE above. We recommend that funding be reprioritised to support the following two housing initiatives in Budget 2015 with any further reductions considered during the March Baseline Update process in future years. This has been signalled in our advice on the BGA budget package.

(\$m)	2015/16	2016/17	2017/18	2018/19
Building and housing priorities	2.1	2.6	2.3	2.3
HNZC: Resources to support the Homestart package.	0.8	0.9	0.9	0.9
Total to be reprioritised from Weathertight Services appropriation	2.9	3.5	3.2	3.2
Amount remaining in the Weathertight Services appropriation	15.7	13.3	13.2	13.2

MBIE consider that, due to the proposed reduction in the appropriation, there is a risk that there will not be sufficient funds to cover future litigation costs that are not covered by the financial assistance package. [6a]

It is anticipated that there may be further judicial review proceedings in the future.

Our view is that there are likely to be underspends in 2015/16, following reprioritisation at Budget, which can be re-phased at MBU to cover any unexpected costs in outyears.

[9]

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