

The Treasury

Budget 2015 Information Release

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- [12] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [13] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
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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.

Treasury Report: Development of vacant Crown land for housing in Auckland

Date:	24 April 2015	Report No:	T2015/835
		File Number:	SH-3-2-18

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Agree to the contents of this report	29 April 2015
Associate Minister of Finance (Hon Steven Joyce)	Agree to the contents of this report	29 April 2015
Associate Minister of Finance (Hon Paula Bennett)	Agree to the contents of this report	29 April 2015

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[9]			✓
Tom Hall	Manager - Housing	04 917 6150 (wk) (mob)	[4]

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

Return the signed report to Treasury.

Enclosure: No

Treasury Report: Development of vacant Crown land for housing in Auckland

Purpose of Report

1. Minister Smith has forwarded a proposal to Budget Ministers to establish a \$120 million capital contingency to facilitate housing developments in Auckland on vacant Crown land. The intention is to announce this as part of the Budget 2015 package.
2. This report provides our advice on this proposal and focuses on the fiscal impact and the feasibility of including this in Budget 2015 given most decisions related to the Budget package have already been taken by Cabinet and the Budget moratorium has commenced.

Summary

3. Although we support the overall policy direction, our understanding is that there is still significant uncertainty around how much new funding will be required to progress these developments as due diligence on the land parcels is yet to be completed. **There is a risk that the contingency will be underspent as (i) a significant portion of the vacant land is likely to be held by departments and the transfer or sale within the Crown is fiscally neutral and will not require new funding and (ii) some of the sites identified are currently going through a Public Works Act (PWA) offer back process and may not be available for development.**
4. If Minister Smith would like to announce an initiative at Budget, there are alternative options which do not involve committing funding beforehand. A capital contingency can be established at a later date, when there is more certainty around what land can be developed, who owns the land and how much it will cost.
5. Therefore, we propose that Budget Ministers agree to defer the funding decision associated with progressing developments on vacant Crown land in Auckland.

Background on the proposal

6. The proposal seeks funding to facilitate more affordable housing development in Auckland, leveraging surplus land available to the Crown. There are around 100 hectares of vacant Crown-owned land which is currently zoned for residential housing in Auckland and, provided any Right of First Refusal (RFR) and Public Works Act (PWA) issues can be addressed, can be brought to the market for development.
7. The Minister's proposal for use of the contingency is consistent with the approach taken to recent housing developments in Christchurch (i.e. Awatea, Welles St and Colombo St). There a market-led approach was adopted with land sold to private developers at market prices, and the developer taking on all development risks. The Crown is providing the land on a deferred-settlement basis, and in return the developments are being progressed at a faster pace and at lower price-points than would otherwise be expected.
8. MBIE has prepared a paper titled "Development of vacant Crown land for housing in Auckland," which includes further detail on the proposal. **We support the overall**

policy direction outlined in the MBIE paper as it provides an opportunity for the Government to increase supply in Auckland in the short term with minimal risk to the Crown. Progressing these developments at pace will also help the Government gain momentum with respect to developments on HNZC land under the Social Housing Reform Programme (SHRP).

9. If Budget Ministers agree to go ahead with this proposal, Cabinet agreement would be required to establish a contingency fund as well as agree on the overall policy. Once established, authority to draw down on this contingency for specific developments can be delegated to Joint Ministers.

Fiscal impacts and alignment with Budget 2015

10. The Minister's proposal involves establishing a \$120 million capital contingency through Budget 2015 to fund the purchase of the land, which will then be provided to the private developer on a deferred-settlement basis. If the developments follow the approach taken in Christchurch under which the land is sold at market price, it is unlikely that any operating expenditure will be required.
11. **There is significant uncertainty about how much new capital funding will be required to progress these developments and there is a risk that the contingency will be under spent.** If the surplus land is held by a department (for example, Ministry of Education) then new funding is not required as the purchase of the land represents a transfer within the core Crown. However, if the land purchased is held by entities outside the core Crown (for example, NZTA or Auckland City Council) this transaction will not be fiscally neutral from a core Crown net debt perspective and new funding would be required. At this stage, it is unclear what the split of departmental and Crown entity land is and therefore how much should be put aside in a contingency to progress this work.
12. Some of the sites identified are also going through the PWA offer-back process where they could be sold to the original owner and therefore not be available for development. Further, departments may have already recognised the revenue from these sales in their forecasts. We are likely to get more clarity on this over the coming month.
13. [9]
[9] We have a precedent in Christchurch where a \$75 million capital contingency was established as part of Budget 2014 and only \$13.8 million has been drawn down for housing developments in the last year. The paper proposes to use a portion of the under spend in the contingency (\$32.5 million) to offset the \$120 million required for developments in Auckland.
14. **Cabinet has already signed off on the Budget 2015 package and the Budget moratorium has commenced.** The moratorium commenced on 20 April and means that Cabinet can no longer make any decisions with fiscal implications until after Budget Day. This is to ensure that the fiscal forecasts and other budget documents accurately reflect decisions that have been taken to date. Late decisions risk not being included in the documents tabled on Budget day.
15. **If Minister Smith would like to announce work on developments in Auckland there are two alternative options:**
 - a. Announce at Budget the Government's *intention* to increase the supply of housing in Auckland by facilitating development on vacant Crown land. Given the uncertainty around the funding required, the fiscal impact of this decision can be captured in the Specific Fiscal Risks chapter in the *Budget Economic and Fiscal Update*.

- b. Make a post-Budget announcement on both the policy and funding once there is more certainty around what land can be developed, who owns the land and how much it costs. This will also provide greater clarity around whether the \$32.5 million underspend in the Christchurch Housing Accord Fund is sufficient to cover any new funding required for 2015/16 to progress this work.

Recommended Action

We recommend that you:

- a **note** that Minister Smith proposes to establish a \$120 million capital contingency through Budget 2015 to facilitate housing developments in Auckland on vacant Crown land
- b **note** that it is not clear that \$120 million of new funding will be required to progress these developments and, given the Budget moratorium has commenced, there is a risk that late decisions will not be included in the documents tabled on Budget day
- c. **agree** to defer funding decisions on Crown developments in Auckland until there is greater certainty around the costs as there is a risk that the contingency will be underspent if funding is committed before due diligence is carried out on the land parcels

Agree/Disagree

Agree/Disagree

Agree/Disagree

Hon Bill English
Minister of Finance

Bennett Hon Steven Joyce
Associate Minister of Finance

Hon Paula
Associate Minister of Finance

- d **note** that if Minister Smith wants to announce something at Budget, he can announce the general policy-direction with the fiscal impact being captured in the Specific Fiscal Risks chapter in the *Budget Economic and Fiscal Update*

Tom Hall
Manager - Housing

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Hon Paula Bennett
Associate Minister of Finance