The Treasury

Budget 2017 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2017/740 SH-3-2-18-16

Date: 24 March 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: None
(if any)

Aide Memoire: Treatment of the Housing Infrastructure Fund in Budget 2017

This aide memoire provides advice on the treatment of the Housing Infrastructure Fund (HIF) in Budget 2017. The HIF budget initiative seeks $330 million in operating funding in 2017/18 only to fund the concessionary charge on the loans issued by the fund. An additional $3.5 million in operating is sought to manage the fund. It is in the Business Growth Agenda (BGA) stream of the budget process.

The fiscal impact of the HIF

The HIF is intended to provide up to $1 billion in interest free loans (over ten years) to assist high-growth councils facing financial constraints in financing the infrastructure needed to unlock residential development. The capital cost of the loan itself is designed to be fiscally neutral from a fiscal management approach as it is intended to be repaid within 10 years.

There is an operating expense to reflect the revenue forgone by not charging interest on the loans, referred to as a concessionary charge. The budget initiative seeks $330 million, in contingency, to cover the cost of the concessionary charge which is expected to be incurred in 2017/18. This is consistent with earlier Treasury advice, that the concessionary charge should be incurred when the loans are issued. The $330 million of forgone interest is based on Treasury's best estimate and is subject to significant uncertainty. Only when final bids are received and the Independent Assessment Panel makes it recommendations to Ministers in June on the volume, duration and terms of loans can we be more precise.

Given the uncertainty around the size of the concessionary charge and its impact on the operating allowance in the 2017/18 year, we now recommend spreading the concessionary charge across the 10-year period of the loans. There would still be a non-cash expense of an estimated $330 million to the Crown to reflect the valuation change, which would directly impact OBEGAL in 2017/18 but not the operating allowance. Instead this approach would see forgone interest revenue being recognised in the year it would otherwise have been received, and impacting the Budget 2017 operating allowance. This approach is used for similar loans to the New Zealand Transport Agency (NZTA) for the Auckland Transport package in Budget 2014. The revised Budget 2017 funding for the HIF would be $183.5 million across the forecast period, with the following profile:

	$million increase/(decrease)				
Vote Building and Housing	2016/17	2017/18	2018/19	2019/20	2020/21 & outyears
Housing Infrastructure Fund					
Concessionary Charge	-	15.000	45.000	60.000	60.000
Operating	-	1.500	1.000	0.500	0.500
Total	**-**	**16.500**	**46.000**	**60.500**	**60.500**

This funding profile is based on a $500 million in capital being loaned from the HIF in December 2017/18, with the balance loaned in December 2018/19 (we have assumed this profile for net debt purposes).

Note that based on the indicative bids received in December there is a likelihood that some councils will ask for a longer repayment period for the HIF loans. If agreed by the Government this would affect the fiscal treatment. If the period of the loans was to extend beyond 10 years then the balance of the loans remaining after 10 years may need to be charged against the capital allowance (unless the Fiscal Management Approach was adjusted in parallel). If the loans continued to be interest free after the initial 10-year period the concessionary charge would continue for the full duration of the loan.

Uncertainty remains around bids to the HIF

The final cost of the concessionary charge and impact on OBEGAL is dependent on several factors including:

- if the loan is to a council or the NZTA
- the quantum of the loans
- when the loan is agreed to
- the appropriate interest rate foregone (e.g this would depend on the credit rating of the borrowing council), and
- the repayment profile.

Further certainty will only be available when the HIF panel makes its recommendations to Ministers in June. However if the total value of final bids sought under the HIF, due on 31 March, was less than $1 billion then the concessionary charge could be reduced in proportion.

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[23] Analyst, Housing, [39]

Nick McNabb, Team Leader, Housing Affordability Policy, Housing, [23]