

The Treasury

Budget 2011 Information Release

Release Document

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THE TREASURY

Kaitohutohu Kaupapa Rawa

Treasury Report: Budget 2011: Options for Funding a Social Housing Package [2]

Date:	17 March 2011	Report No:	T2011/471
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note the contents of this report in relation to draft Cabinet paper on social housing funding for Budget 2011 Refer this report to the Minister of Housing for his information	Friday, 18 March 2011 (expected date of draft Cabinet paper)

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Jolanda Meijer	Manager, Children and their Families	[1]	✓
Nicky Lynch	Senior Analyst, Children and their Families		

Minister of Finance's Office Actions (if required)

If agreed, refer a copy of this report to the Minister of Housing's office.

Enclosure: No

17 March 2011

Treasury Report: Budget 2011: Options for Funding a Social Housing Package^[2]

You met with the Minister of Housing on 21 February 2011 and agreed in principle to provide around \$35-\$40 million in Budget 2011 for social housing initiatives. This paper outlines options for what may need to be funded during 2011/12, and what your options are for funding these costs.

The Minister of Housing is due to report back to Social Policy Committee (SOC) in early April with recommendations on the approach to growing alternative provision, including the establishment of a funding function. We expect that there will be much greater clarity about the approaches to funding alternative provision following these decisions. **[2]**

HNZC has been directed to improve efficiency in how it manages state housing assets and tenants. However, the benefits arising from changes to HNZC's management of its portfolio will take time to be realised. We therefore recommend setting aside up to \$40 million in 2011/12 in the Budget, in order to keep momentum ahead of realising the benefits of more effective management of the portfolio, and avoid taking major spending decisions ahead of the establishment of a new funding function and decisions about what it will purchase.

Provided that sufficient savings options in other areas are confirmed in coming weeks, we recommend funding the \$40 million in 2011/12 through a combination of up to \$25 million from the operating allowance and **[2]**

The Budget report discussed by Budget Ministers on 15 March included sufficient savings to fund these proposals within Budget 2011.

[2]

[2]

Recommended Action

We recommend that you:

- a **support** providing up to \$40 million in 2011/12 only through the Budget for social housing initiatives, in the form of a tagged contingency

[2]

Agree/disagree

- i **refer** this report to the Minister of Housing for his information.

Agree/disagree

Jolanda Meijer
**Manager, Children and their Families
for Secretary to the Treasury**

Hon Bill English
Minister of Finance

Treasury Report: Budget 2011: Options for Funding a Social Housing Package [2]

Purpose of Report

1. This report outlines the options available for funding a social housing package in Budget 2011 and/or during the course of 2011/12, [2]

Previous consideration

2. You met with the Minister of Housing on 21 February 2011 to discuss a draft SOC paper on a Social Housing package for Budget 2011. This paper sought an envelope of \$335-\$400 million over 2011/12-2015/16 to fund:
 - growing third party providers
 - the Tamaki transformation programme
 - Māori Housing
 - operating costs of running these programmes.
3. We understand that you and the Minister of Housing agreed that:
 - the SOC paper would be redrafted and reconsidered
 - it would be desirable to make some provision for social housing in 2011/12 in order to 'keep the faith' with wider commitments made on growing the social housing sector
 - [2]
4. You indicated that funding of at least \$35-40 million during 2011/12 may be needed to cover:
 - funding to support small providers (equivalent to the current level of funding for the Housing Innovation Fund (HIF))
 - a replacement for the Rural Housing Programme
 - the costs of setting up a funding function
 - potential third sector capitalisation early in 2012.

Upcoming decisions on third party provision

5. The Department of Building and Housing (DBH) is currently preparing advice for a report back to SOC in early April on the approach to growing third party provision, including the establishment of a funding function.

[2]

7. Both approaches carry risks, and require considerable testing before firm decisions are made. However, under either scenario the aim would be to reallocate and make better use of existing capital, including using it to support small-scale providers. It is not clear at this stage that significant, ongoing additional funding from Government (on top of what is already invested in HNZC) is required.
8. We therefore recommend caution about taking decisions now to provide significant ongoing funding through the Budget for 'growing third party provision', as this would incur a large, and potentially unnecessary, opportunity cost. It is also not clear how these funds would be used.

Options for what to fund in 2011/12

9. The most likely options for what to fund in Budget 2011, or in the course of 2011/12, are outlined below.

Option	Comment
Provide funding for 2011/12 only, of approximately \$35-40 million, which would cover around: [2]	Provides funding on an interim basis pending further decisions on the set up of a funding function and the approach it should take to growing provision. Limits opportunity costs of committing to a greater level of spending until preferred long-term arrangements are clear. Does not provide providers with a greater level of certainty over future funding. Creates some risk of raising expectations that additional grant funding will be forthcoming for the same providers in future years.
Provide the same amount of funding on an ongoing basis.	Provides greater level of certainty to some providers. Would require identifying a significant ongoing funding source now, with an associated opportunity cost.
Defer until Budget 2012.	Avoids risk of potential low-value spending on interim measures. Creates a gap in Government support for one year, as no replacement for HIF or Rural Housing until next year.

10. If you are concerned about keeping up momentum, we recommend going with the first option. This would avoid a gap in support, and would be able to be funded without significant trade-offs in other Votes. This option also avoids the very real risk of creating ongoing low value spending through setting up a grants programme in advance of the creation of a funding function with a longer-term investment strategy.

Options for funding sources

11. There are three main options for funding a social housing package in Budget 2011:
 - fund from the operating allowance (through a tagged contingency)
 - [2]
 - use the 2009/10 HNZC surplus funds to be returned to the Crown (the 'dividend').¹These options are discussed in more detail below.
12. If you wish to fund a one-off package worth up to \$40 million in 2011/12, we recommend funding this through a combination of \$25 million from the operating allowance and [2]

Funding from the operating allowance

13. The most transparent option for funding social housing would be to make a provision from the Budget 2011 operating or capital allowances. This could be in the form of a tagged contingency, as the details of the package are not yet sufficiently well developed for appropriations to be made.
14. This option would require finding matching savings in other areas. At present, there are savings on the table that, if confirmed, would allow this cost to be funded from within the allowances. The Budget Report discussed by Budget Ministers on 15 March included sufficient savings to fund these proposals within Budget 2011 [BR2011/4 refers].

[2]

Using the 2009/10 HNZC dividend

17. In general, reallocating HNZC's surplus funds to other priorities, rather than returning them to the Crown, results in an impact on the operating balance. This is because HNZC's forecast surplus is included in Treasury's forecasts for revenue.
18. DBH is currently intending to advise Ministers to agree to a surplus distribution of \$71 million for 2009/10, compared with a forecast of \$50 million, resulting in a revenue 'surprise' of \$21 million. DBH has suggested that you could treat this additional revenue as offsetting the cost of any social housing spending in counting it against the

¹ Technically HNZC does not provide dividends, but rather returns any surpluses to the Crown.

operating allowance. We do not recommend this option. From a transparency perspective, this approach is less desirable than funding spending from the allowance, and as noted above, this should be possible. In general, Treasury's advice is to use revenue surprises to reduce debt.

[2]

[2]

[2]

[2]

Recommended way forward

41. DBH will be submitting a revised paper for consideration shortly. Based on the drafts we have received, we are concerned that the proposals in the paper may not match your expectation for a one-off package of around \$35-\$40 million in 2011/12, positioned within a long-term strategy. We have communicated this concern to DBH.
42. Policy papers on Budget matters need to be considered prior to 4 April at the latest in order for decisions to be incorporated in the Budget Cabinet paper to be considered on 11 April. In the event that a paper is not considered by a Committee before that date, Budget Ministers could decide to create a tagged contingency.
43. We recommend the following approach to decisions if a Cabinet paper does proceed:
 - agree in principle to a funding amount: we suggest up to \$40 million in 2011/12 only

[2]

[2]