

# The Treasury

## Budget 2011 Information Release

### Release Document

June 2011

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
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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.

## **Budget 2011 – Proposal to Grow Third Party Social Housing Providers**

### **Proposal**

- 1 This paper seeks an in-principle budget allocation for 2011/12 to grow third party provision<sup>1</sup> of social housing<sup>2</sup>, in a way that complements the long term growth strategy of the sector.

### **Background**

- 2 The Housing Shareholders' Advisory Group (HSAG) was established by the Minister of Finance and Housing in February 2010, to provide advice on improving the effectiveness and efficiency of social housing in New Zealand.
- 3 In response to HSAG advice, Cabinet agreed in December 2010 to a change in direction for the social housing sector, involving greater involvement by third party providers of social housing and increasing the effectiveness of social housing assistance [CAB Min (10) 44/8 refers].
- 4 At the same meeting, Cabinet also noted that greater involvement of third party providers offers the ability to grow the overall quantum of social housing, as well as the potential for improved efficiency and value for money, through greater innovation, diversity and specialisation; and access to additional sources of capital.
- 5 Cabinet agreed to replace the Tamaki Transformation Programme (TTP) Establishment Board in December 2010 with new governance arrangements to oversee the development of a new entity and delivery mechanism (SOC Min (10) 26/5 refers). The Interim TTP Board is due to report to Cabinet in June 2011 on the costs associated with establishing and funding an urban development agency to facilitate the transformation of Tamaki.
- 6 The Prime Minister stated in his Statement to Parliament on the 8<sup>th</sup> February 2011 that "this year we will be developing mechanisms to help grow the capacity of community organisations."
- 7 The Auckland Plan discussion document, due for release on 23 March 2011, identifies critical housing issues such as: under-supply, lack of choice, poor quality and overcrowding. It recognises that there is no single solution for improving housing affordability and access, and that the Council has an active role to play in facilitating additional housing supply.

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<sup>1</sup> Third party providers largely comprise "not-for-profit" social service organisations, such as IHC and the Salvation Army; community groups, Trusts and housing organisations; and iwi.

<sup>2</sup> Social housing is the provision of assistance to those who cannot otherwise access suitable housing. This may be due to inadequate income, because they have high and/or complex needs or difficulty in securing a tenancy with a private landlord.

## **Draft social housing strategy**

- 8 The Department of Building and Housing (in partnership with other government agencies such as The Treasury and Housing New Zealand Corporation) is finalising a report back on the future provision of social and affordable housing in New Zealand. This report will be presented to the Social Policy Committee for consideration on 13 April 2011. The report addresses:
- The potential scale and scope of third party provision of social housing
  - The future role of the Housing New Zealand Corporation (the Corporation), as a provider of social housing
  - Options for funding future growth of third party housing provision, including incentives, costs and funding sources to achieve this
  - The vehicle for funding social housing providers.
- 9 While the proposed strategy remains under development, it is consistent with the HSAG vision of growing the total stock of social and affordable housing, increasing third party provision of social housing and focusing the Corporation on providing housing to those most in need.
- 10 Increasing third party provision is critical to meeting future demand growth for social housing, given the Crown's constrained fiscal position. Preliminary discussions with a range of existing and potential new providers of social housing indicate considerable potential to grow the total stock of social housing over the next 10 years.
- 11 The extent and pace of change depends on a number of strategic choices available to Ministers, which will be presented to Cabinet on 13 April 2011.

[2]

## **Budget options**

- 13 I am seeking an in-principle budget allocation for 2011/12, to grow third party provision of social housing.
- 14 The Government also needs to confirm its commitment to growing the third sector, to allow the sector to plan and invest with a degree of certainty and to allow the grants to be used to fund scale investments which take longer than one year. The sector have strongly advised that a continuation of the current practice of annual "one-off" budget appropriations, which provide no certainty to the sector to allow for long term planning and capability building, will continue to be ineffective at capitalising providers' balance sheets and developing new properties.
- 15 This allowance for 2011/12 therefore represents only the first step in the process. I and the Minister of Finance expect to consider ongoing funding requirements in the course of the year, as we take further decisions on how best to grow the sector,<sup>[2]</sup>
- 16 The proposed budget allocation for 2011/12, with an *indicative* split between operating and capital funding, is shown in the following table:

<b>Social Housing Programme (\$ million)</b>	<b>2011/12</b>
Operating expenditure	30.5 – 34.3
Capital expenditure	9.5 – 10.7
<b>Total</b>	<b>40.0 – 45.0</b>

[2]

18 Given the pending Cabinet decisions on a long term strategy for growing third sector provision of social housing (on 13 April 2011), I will work with the Minister of Finance to firm up the indicative allocations outlined above, before the final Budget 2011 package is presented to Cabinet.

*Growing third party providers*

[2]

20 Since 2003, alternative providers of social housing have received support via the Housing Innovation Fund (HIF). In 2010/11, the Crown appropriated \$20.0 million to cover HIF loans (\$8 million), grants (\$8 million) and loan impairment (\$4 million). Five million dollars of this funding was allocated to Maori Demonstration Partnerships. HIF funding has achieved some modest growth of third party providers, but has not achieved 'at-scale' providers able to grow without ongoing support from the Crown.

[2]

## *Tamaki Transformation Programme*

[2]

- 25 Despite high levels of government expenditure<sup>3</sup>, Tamaki performs poorly relative to other communities; with high levels of deprivation, low educational attainment levels, low labour force participation, low incomes, high unemployment and high dependency on social security benefits.
- 26 To address the social issues that exist in Tamaki, the proposed approach is to move towards a place-based approach facilitated through an urban regeneration entity. This approach allows solutions to be matched to local conditions with input from local stakeholders on the use of resources, testing models for delivery of social services and providing opportunities for a different mix of private and not for profit provision.
- 27 Tamaki requires a catalyst to address these issues and transform its existing urban environment over the next 15 to 20 years to unlock its potential and encourage greater investment in the area. Housing can be this catalyst. It is proposed that an urban regeneration entity is established to bring together public and private sector investment; the appropriate authority and mandate to elicit change; and engage with local authorities' and communities over the next two years to deliver positive social and economic solutions for Tamaki.
- 28 Cabinet agreed to replace the Tamaki Transformation Programme (TTP) Establishment Board in October 2010 with new governance arrangements to oversee the development of a new entity and delivery mechanism (SOC Min (10) 26/5 refers). The new governance will be provided by an Interim TTP Board funded from re-prioritising existing Vote Housing baseline funding. The financial implications of any new urban regeneration entity will be assessed by the Interim TTP Board during the initial design phase, with final cost estimates to be reported to Cabinet in mid 2011.

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<sup>3</sup> 32% of the working age population in Tamaki receive a main benefit and 55% of the youth population are growing up in a welfare dependant household.

[2]

### **Funding Options**

39 I propose that an allocation is provided in the Budget through a tagged contingency, ahead of firming up how the funding will be distributed in 2011/12.

[2]

[2]

- Funding in 2011/12 can be offset by a higher than expected dividend from the Corporation (amounting to \$21.0 million) leaving a contribution from the operating allowance of \$19.0 – \$24.0 million

[2]

### **Consultation**

- 44 The State Services Commission, Housing New Zealand Corporation and Department of Prime Minister and Cabinet have been informed of this paper.
- 45 The Treasury has been consulted on this paper, and has provided the following comment.
- 46 The Treasury notes that decisions are expected in April on the establishment of a funding function for growth of third party provision. There are a number of options for how the 'funder' could invest in growing third party provision, including capital grants, stock transfers, or ongoing subsidies. It is intended that this activity be funded primarily through better use of the existing capital invested in the Corporation, rather than additional investment from Government. The Treasury therefore does not support providing significant ongoing funding for grants to providers in advance of the establishment of a funding function.

- 47 The Treasury recommends setting aside up to \$40.0 million for social housing initiatives for 2011/12 through the creation of a tagged contingency, to prevent a gap in support while the funding function is being established, [2]

### **Financial Implications**

- 49 The identified costs to be considered in this proposal require a final decision as part of Budget 2011. This decision, including agreement to financial recommendations, will be made when the Minister of Finance presents the final Budget package to Cabinet.

[2]

### **Human Rights**

- 51 The policies outlined in this paper are not inconsistent with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

### **Legislative Implications**

- 52 The policies outlined in the paper do not have any direct legislative implications. A new funding vehicle for resourcing social housing providers and a new urban regeneration entity for Tamaki may require special legislative powers to achieve their respective mandates. These implications will be assessed once specific proposals have been developed.

### **Regulatory Impact Analysis**

- 53 A regulatory impact analysis is not required, as the paper does not require any regulatory changes.

### **Publicity**

- 54 The proposals in this paper are Budget sensitive. Therefore, I do not plan to release any of this information publicly until authorised by Cabinet.

### **Recommendations**

- 55 I recommend that the Committee:
- a **Note** that this paper seeks an in-principle budget allocation to grow third party provision of social housing in 2011/12
  - b **Note** that a multi-year funding commitment is necessary to allow the sector to plan and invest with a degree of certainty, and to build capability and capacity
  - c **Note** I intend to bring further proposals to Cabinet in the course of 2011/12 for an ongoing funding arrangement in order to provide this certainty as quickly as possible

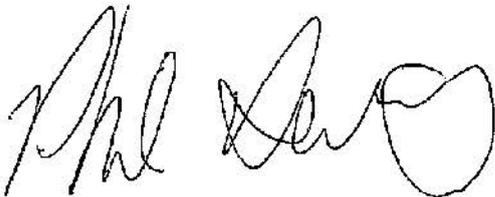
- d **Note** that funding for the two main programmes designed to grow third party provision of social housing and address substandard Maori housing – the Housing Innovation Fund and Rural Housing Programme – ends in 2010/11
- e **Note** that I will provide Cabinet Social Policy Committee with more detailed advice on the policy options for growing third party provision of social housing on 13 April 2011

[2]

- h **Agree** in-principle to provide a budget allocation of up to \$45.0 million for social housing initiatives from the Budget 2011, subject to suitable sources of funding being identified as part of the final Budget package
- i **Agree** in-principle to funding the budget allocation from the 2011 Budget Operating Allocation, with the exception of a \$21.0 million capital withdrawal from the Housing New Zealand Corporation to be used in 2011/12

[2]

- l **Note** that a final decision on the proposal, including agreement to financial recommendations, will be made when the Minister of Finance presents the final Budget package to Cabinet.



Hon Phil Heatley

**Minister of Housing**

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