

# The Treasury

## Budget 2011 Information Release

### Release Document

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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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.

**Vote Housing**

# Four-year Budget Plan

Version 2

10 February 2011

Submitted by:

**The Department of Building and Housing**

This Plan has been prepared by the Department to reflect the Minister of Housing's priorities for the next four years

## Section 1: Strategies to fund new Vote Housing initiatives

### ***New housing priorities are funded from within Vote Housing only (Scenario 2 revised)***

This proposal recognises the current fiscal environment and constraints that the Government has in funding new initiatives across all Votes. This proposal also incorporates Budget Ministers feedback and changes requested in their letter dated 20 December 2010.

Aside from the Social Housing Partnership Programme, the new housing initiatives are of a scale and scope to ensure that Vote Housing can manage this expenditure within its existing baseline funding. Cabinet will consider the Social Housing Partnership Programme separately from this plan in Budget 2011.

All Vote savings and re-prioritisations have been identified and included in this proposal.

\$17.742 million in new priorities and initiatives are proposed to deliver these objectives.

\$17.742 million in total savings and funding reprioritisations have been identified within the current Vote baseline to offset this expenditure over the four years of the plan.

**No additional Crown funding is required to deliver this Budget Plan as it balances to zero within the existing baseline.**

### ***Overall Impact***

Operating	Impact (\$000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Current Baseline	1,441,279	771,894	837,068	898,927	910,147
Cost of new/increased activities	2,150	4,648	3,648	3,648	3,648
Amount reprioritised	-3,042	0	-2,400	-2,400	-2,400
New baseline	1,440,387	776,542	838,316	900,175	911,395

Capital	Impact (\$000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Capital proposals seeking new funding in Budget 2011.	0	-3,000	-1,500	-1,500	-1,500
Capital proposals seeking decisions in Budget 2011 funded within baselines.	208,480	186,310	169,183	169,418	169,418
Total capital intentions	208,480	183,310	167,683	167,918	167,918

The following funding diagram illustrates this proposal in detail.



## Section 2: Vote Priorities and Pressures

### Shifting emphasis from home ownership assistance to addressing rental affordability

As a result of static/declining house prices, low buyer demand and rising incomes, home ownership affordability has improved over the past two years. With this trend expected to continue, large scale home ownership assistance is not considered the highest priority in the medium term. To continue supporting this improvement, a significant agenda is being implemented to remove some of the barriers to the broader supply of affordable housing, including:

- driving down the regulatory costs associated with building without compromising building quality;
- removing unnecessary regulation that adds cost and delivers little benefit;
- supporting and encouraging improved productivity across the building and construction sector;
- improving the way liability works in relation to building work;
- ensuring ongoing confidence and investment in the housing sector, as this is critical in terms of economic activity, jobs and skill retention; and,
- getting better results from the Government's investment in resolving weathertightness issues.

Maintaining the supply of housing at a reasonable level to ensure New Zealanders' housing needs are met is critical so that major supply issues do not start to emerge in the short to medium term negatively affecting affordability. Home ownership assistance should seek to strengthen and increase the overall housing supply rather than provide subsidies to individual households to help them afford existing homes.

Rental market pressures (tightening supply in some locations and the risk of reduced levels of new investment) suggest that addressing rental affordability should be a higher priority for scarce Government resources. The Government sees meeting this as its greatest affordability challenge, in particular at the lower-income end of the rental market, with the most direct pressure being on social housing. To address this challenge, the main priorities for Vote Housing over the next four years are:

1. Social Housing Partnership Programme - grow the third sector to facilitate more effective provision of social housing;
2. Tamaki Transformation Programme – design and develop a regeneration entity to deliver integrated outcomes for the community;

[2]

4. Crown programmes delivered by Housing New Zealand Corporation (HNZC) - provide Ministers with purchasing options on service delivery/levels and transition these programmes to be fully funded through appropriation to improve transparency.

Further details on each of these are:

#### **1. Social Housing Partnership Programme - Growing the third sector: a new direction for social housing**

The Government recognises that the current model for social housing is failing to meet the needs of a growing number of households and, at the same time, is increasingly unaffordable for the Government. In response to the Housing Shareholders Advisory Group's (HSAG) advice, joint Ministers propose a new direction for the social housing sector to transform future delivery and commence a process of change over the next four years.

Through this change we intend to achieve four main imperatives:

- Greater involvement of third party providers of social housing: promoting choice, contestability, innovation and access to a wider pool of capital to significantly increase social housing provision in the next 5 to 10 years;
- Increase the effectiveness of financial assistance [2]
- Focus HNZC on providing social housing to high need tenants and empower it to do so; and,
- Align the organisation and responsibilities of government agencies to support this change.

## **2. Tamaki Transformation Programme**

Despite high levels of Government expenditure, 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.

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. It is proposed that an urban regeneration entity is developed 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.

[2]

## **4. Crown housing programmes delivered by Housing New Zealand Corporation**

At present, there are appropriated Crown programmes, delivered by HNZN, that are part funded from HNZN's internal resources to maintain current service delivery levels. Joint Ministers have agreed that all Crown programmes are to transition to be fully funded through appropriation with a consequential increase in the Corporation's surplus distribution.

This will provide:

- Ministers with options to establish the services and delivery levels they wish to purchase from providers, including HNZN, in the medium to long term, for each programme and fund them accordingly; and,
- greater transparency on the true costs and the effectiveness of the Crown's existing housing initiatives.

### **Section 3: Proposed Changes for Budget 2011 (Reprioritisation)**

#### ***Social Housing Partnership Programme - Growing the third sector: a new direction for social housing***

The Government sees an increasing role for the third sector (private and not-for-profit organisations) in developing and supplying social housing in addition to the state. Third sector organisations are cost effective providers, however, they tend to be undercapitalised.

As requested by Budget Ministers, the Department will submit a separate paper on this programme for Cabinet to consider in late February 2011. This paper will identify the strategic approach for developing social housing and the financial implications for the Crown.

#### ***Tamaki Transformation Programme***

To address the social issues that exist in Tamaki, the government is moving 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.

Cabinet agreed that the existing Tamaki Transformation Programme (TTP) Establishment Board be replaced 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 new governance will be provided by an Interim Tamaki Transformation Programme Board. This decision results in \$1.600 million in operating savings becoming available from HNZN's internal Tamaki Transformation Programme budget that will be returned to the Crown as surplus in 2010/11.

Operating funding of \$1.600 million (in total) is required over the next two years to establish the new Interim Board and design and develop an appropriate delivery entity and mechanism.

**It is proposed that \$1.600 million of operating funding is reprioritised from the Mortgage Insurance Scheme 2009/10 carry forward to fund the establishment of the Interim TTP Board and the design of the new development mechanism. This funding will be split between 2010/11 (\$0.500 million) and 2011/12 (\$1.100 million) only.**

#### ***Crown programmes delivered by Housing New Zealand Corporation***

Joint Ministers have agreed to re-prioritise the following Vote Housing funding recognising that HNZC contributes funding from its internal revenue sources towards the cost of providing Crown programmes. Fully funding these programmes by appropriation will increase transparency on the costs of programme delivery and have the effect of increasing the surplus of HNZC's core business operations. This decision will result in commensurate operating savings becoming available from HNZC's internal resources resulting in higher surpluses that, after tax has been paid, can be consider for distribution to the Crown.

#### *Legacy Loan products*

HNZC administers \$86 million of legacy loans issued prior to the current financial year for third party provision. The loans were largely provided through the Housing Innovation Fund (HIF) in previous years. The ongoing operating costs to manage the legacy loans relate to loan impairment charges, interest costs (the HNZC pays interest to the Crown for the debt that was drawn to fund these facilities) and administration costs total \$1.700 million per year. HNZC also administers other housing related lending products and initiatives, such as Shared Equity, that currently have an operating surplus of \$1.000 million per year that will be used to offset these costs.

**It is proposed that \$0.700m operating funding per year from 2010/11 onwards is reprioritised from the Energy Efficient Warm Homes Programme to fund the remaining administration costs being incurred by HNZC for the Government's Legacy Loan Products.**

#### *Wellington City Council Housing Assistance Grants expenditure monitoring*

The Wellington City Council is receiving a \$220 million grant to upgrade its social housing portfolio over the ten years from 2008/09. This ensures the Council retains the portfolio for thirty years and completes the upgrade programme in years ten to twenty from its own resources. While HNZC currently monitors the programme's delivery, Ministers have agreed that the Department is better placed to provide this function as monitoring this programme is not considered core business for the Corporation.

**It is proposed that operating funding of \$0.150 million for 2010/11 (to HNZC) and \$0.148 million per year from 2011/12 (to the Department) is reprioritised from the Mortgage Insurance Scheme in part and the Energy Efficient Warm Homes Programme to monitor WCC Housing Assistance Grant expenditure through until the grant finishes in 2018/19.**

#### *Kiwibank Interest Subsidy*

HNZC entered into an agreement with Kiwibank to fund an interest subsidy for ten years in 2008/09, in relation to a loan Kiwibank made on behalf of the Auckland Community Housing Trust to provide social housing. Funding was appropriated for this purpose but was returned to the Crown in Budget 2009 when the HIF was changed. This subsidy is contractually bound and is currently funded by the Corporation.

**It is proposed that \$0.400m per year of operating funding is reprioritised from the Energy Efficient Warm Homes Programme to fund the third party Kiwibank Interest Subsidy until the subsidy finishes in 2018/19.**

#### *Housing Innovation Fund programme delivery and administration in 2010/11*

The Minister of Housing has reviewed the current service delivery levels involved in administering and delivering the HIF programme in 2010/11. This funding increase ensures that expected service delivery levels are maintained to provide organisations with sufficient support to deliver the Government's objective of increasing third sector capability and housing delivery.



**It is proposed that \$0.400m of operating funding is reprioritised from the Mortgage Insurance Scheme savings to fund HIF administration for 2010/11 only.**

#### *Community Group Housing*

The Community Group Housing (CGH) portfolio ensures that community providers can access suitable group housing to provide specialist care and support services to their clients. HNZC either builds or modifies large homes to lease to community groups that support people with physical, intellectual or mental disabilities, youth, or people unable to live in their own homes due to violence or abuse. Providers occupying CGH properties are charged a market rent on entering a new tenancy, but the rents are not then market adjusted once the providers have taken the tenancy. All CGH properties were last adjusted to a market rent in 2002.

The main issues with the current CGH delivery model are:

- with CGH rents being held at below market rates, the difference between the rents charged by HNZC and the market rent is increasing over time impacting the financial performance of the Corporation;
- the Crown does not have transparency across government funding agencies about what other agencies pay to individual CGH providers. This makes it difficult for agencies to ensure that funding for CGH across government agencies is aligned and appropriate;
- the CGH portfolio may not respond to changes in the priorities of service funding agencies;
- funding is not equitable across CGH providers, with some CGH providers having an advantage over new providers who pay market rents and over providers who rent from the private sector or own their own property.

**It is proposed that \$2.300 million in 2011/12 is reprioritised from the Energy Efficient Warm Home programme plus \$2.400 million in operating funding per year from 2012/13 onwards from the Home Ownership Education Programme within the Vote Housing baseline to fund HNZC's rental shortfall as a first stage in addressing the pricing problem that currently exists across Votes in this area.**

#### **Proposed baseline savings for re-prioritisation**

##### *Mortgage Insurance Scheme (Welcome Home Loans)*

Welcome Home Loans is a mortgage insurance scheme, designed to help people who can afford a home loan but have trouble raising a deposit. HNZC receives premiums from borrowers (via lenders) and the Government to underwrite lenders' risk and manage the insurance portfolio. Reduced activity in the residential property market, particularly for first home buyers, has lowered demand for this product in 2010/11. However, Westpac has requested to join the scheme and, as a result, demand is forecast to significantly increase in 2011/12.

At the October Baseline Update, \$3.612 million was approved for transfer from 2009/10 to 2010/11 with this funding identified as being available for reprioritisation in Budget 2011. Current demand projections for 2010/11 have identified an additional \$0.430 million in savings is also available. Cabinet agreed to re-prioritise \$1.000 million for the policy work needed to formulate the new direction for social housing [SOC Min (10) 128 refers].

**\$3.042 million in operating funding savings from 2010/11 only is available for Ministers to re-prioritise within Vote Housing.**

##### *Home Ownership Education Programme*

The Home Ownership Education Programme educates people seeking to enter into home ownership and is delivered through third parties. HNZC markets the programme and provides training material and funding to service providers. Reduced activity in the residential property market, particularly for first home buyers, has lowered demand for this product. This service is no longer considered a core activity for HNZC as home ownership lending advice is provided by the private sector, principally through mainstream banks, and is not required beyond the expiry of the current contractual obligations to the service providers.

**It is proposed that all Home Ownership Education funding (\$2.400 million operating funding per year ongoing) is re-prioritised from 2012/13 onwards to support funding the provision of existing Crown programmes delivered by HNZC.**

### *Energy Efficient Warm Homes*

The Energy Efficient Retrofits capital appropriation reduces from \$6.5m in 2010/11 and 2011/12 to \$1.5m ongoing in out years. HNZC considers upgrading its portfolio to meet tenants' needs and ensure that the portfolio meets current building requirements and regulations as core business. By absorbing these programmes into the general upgrade programme from 2011/12, HNZC can take a more co-ordinated approach to this work providing better value for money. This establishes clear responsibility for funding improvements to its existing housing portfolio with HNZC.

**Capital funding of \$3.000 million in 2011/12 and \$1.500 million in out years becomes available for Ministers to re-prioritise within Vote Housing.**

## **Section 4: Summary of Financial Movements**

This section details the changes to appropriations (including new appropriations) which are required to implement all of the proposed changes in section 3.

**Departments should generate this report from CFISnet.**