

# The Treasury

## Budget 2014 Information Release

### Release Document

### July 2014

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Reference: T2014/324

DH-3-2-3-9-1-2014

Date: 28 February 2014

To: Minister of Finance (Hon Bill English)

Deadline: None  
(if any)

## Aide Memoire: Discussion on the social housing package for Budget 2014

You are meeting with the Minister for Social Development on 3 March to talk about her housing package for Budget 2014. We think she will talk to you about funding for:

- Social housing needs assessment and allocation, and

[7]

### Assessment and allocation of social housing

This section describes the costs involved in the transfer of the social housing needs assessment function that were noted by Cabinet in 2013. **We think the costs for the needs assessment transfer are robust based on the verification by Treasury and KPMG at the end of 2013.** There are additional costs for:

- Reviewable tenancies,
- Purchasing to support a contestable market, and
- Products and services to support people into secure private rental tenancies.

Cabinet agreed to implement the transfer of needs assessment functions from Housing New Zealand Corporation (HNZC) to the Ministry for Social Development (MSD) in November 2013 [CAB Min (13) 39/7 refers] with a go-live date of 14 April 2014. The Cabinet paper provided funding for 2013/14 and noted that MSD would seek the ongoing funding through Budget 2014.

Table 1: Net costs for the transfer of functions from HNZC to MSD

Costs for MSD and Savings for HNZC (\$m)	Operating				Total Operating	Capital 14/15
	14/15	15/16	16/17	17/18		
Costs for MSD to deliver needs assessment	16.381	16.467	15.094	15.094	<b>63.036</b>	16.400
HNZC cost reduction - expect to see through increased dividend	(2.600)	(10.075)	(10.075)	(10.075)	<b>(32.825)</b>	-
<b>Net costs</b>	<b>13.781</b>	<b>6.393</b>	<b>5.019</b>	<b>5.019</b>	<b>30.211</b>	<b>16.400</b>

MSD has additional costs for property, depreciation and capital charge which explains the higher ongoing operating costs.

To compare MSD and HNZN it is best to compare the outyears cost of \$10.8 million for MSD to deliver the ongoing operating costs with HNZN's savings of \$10.075 million.

MSD will have improved service levels, cater to increased volumes, and provide on-line resources for clients for similar costs to HNZN's savings. It should also be noted that the MSD costs include management and support positions required to maintain the housing assessment service (11 FTEs). These equivalent positions are being retained by HNZN and are not included in the HNZN cost reductions above.

**Table 2: Break down of costs to deliver MSD needs transfer functions**

<b>\$m</b>	<b>14/15</b>	<b>15/16</b>	<b>16/17 &amp; Outyears</b>
Needs Assessment	7.384	6.034	5.775
Options and Advice	0.975	0.975	0.975
Income Relate Rent	2.832	2.412	1.968
Investigation and Legal	2.116	2.116	2.046
Debt Management	0.056	0.056	0.056
<b>Total Ongoing Operating Costs</b>	<b>13.363</b>	<b>11.593</b>	<b>10.82</b>
Transition Costs	1.45	0.6	-
Other Costs	0.61	0.61	0.61
Capital Charge	0.729	1.385	1.385
Depreciation	0.229	2.279	2.279
<b>Total Costs</b>	<b>16.381</b>	<b>16.467</b>	<b>15.094</b>

Additional resources are required in the 2014/15 to manage both the expected increase in demand (15% in the first year and 5% ongoing) and the double handling of information while MSD builds an integrated IT system. As efficiencies are realised and volumes settle the resources required are expected to drop back to a similar level to the current HNZN service.

**MSD's operating model has higher service levels for similar costs to HNZN**

MSD expects it can provide a faster service for screening and assessment of social housing need and can use its existing information about welfare recipients to produce efficiency gains of \$1.8 million from 2016/17 onwards. MSD's call centre also has a target of answering 80 percent of calls within 20 seconds compared to HNZN's call centre that has a response target of answering 70 percent of calls within 4 minutes.

There are large volumes that go through the screening and assessment for social housing which is the reason MSD has focused on options to triage demand and more effectively support households into alternative housing options.

**Table 3: Housing Assessment Activity Volumes per Year**

Functions	HNZC Current Volume	MSD Estimate 14/15	MSD Estimate 15/16	MSD Estimate 16/17 & Outyears
<b>Pre-assessment</b> 75% phone, 25% in person	35,000	48,570	39,700	39,700
<b>Assessment</b> 90% phone, 10% in person	19,000	26,410	21,546	21,546
<b>Housing related phone calls</b>	293,000	304,750	278,250	278,250
<b>Option and Advice Seminars</b>	-	5400	5400	5400
<b>Confirm IRR for new tenant</b>	7,000	7,000	7,000	7,000
<b>IRR review</b>	60,000	60,000	60,000	60,000

**Note:** These estimates are from KPMG review of needs assessment transfer in October 2013 and only provide an indicative scale of new IRR places and IRR reviews. These figures do not include the volumes for reviewable tenancies.

The cost estimates are subject to needs assessment volume and efficiency estimates.

**Any additional functions that support MSD’s social housing assessment role will require funding**

In addition to the social housing needs assessment MSD has been asked to:

- Roll out reviewable tenancies, and
- Trial a new approach to the purchasing of social housing to support a contestable market.

**We support new funding for MSD to deliver this activity.** The scale of reviewable tenancies and the options for a social housing purchaser were not developed in time for the November 2013 Cabinet paper and that paper noted that further funding may be required to enable MSD to deliver those functions.

In addition MSD is seeking new funding for a range of products and services to help manage the expected demand for social housing. We think there could be a lot of value from trialling these products but it is discretionary, scalable and you can ask about further reprioritisation options.

**Table 4: Funding sought in Budget 2014 for social housing assessment and allocation package**

\$m Sought in Budget	Operating				Total Operating	Capital 14/15
	14/15	15/16	16/17	17/18		
Transfer of Needs Assessment (as discussed above)	16.381	16.467	15.094	15.094	<b>63.036</b>	16.400
Social Housing Purchase Function	0.315	0.315	0.315	0.315	<b>1.260</b>	[7]
Reviewable Tenancies	0.572	1.106	1.768	1.709	<b>5.155</b>	1.810
Housing Support Fund	1.000	1.800	2.600	2.600	<b>8.00</b>	-
<b>MSD Social Housing Package</b>	<b>18.268</b>	<b>19.688</b>	<b>19.777</b>	<b>19.718</b>	<b>77.451</b>	[7]

We don’t think that MSD can reprioritise operating funding from within the needs assessment bid but there are options to explore wider reprioritisation options. MSD will require additional funding for the operating costs associated with reviewable tenancies and the trial of a new purchasing function.

You could ask the Minister for Social Development about options to scale the capital costs for reviewable tenancies. However reducing the IT investment may make it difficult to track who is being reviewed. The capital cost for a purchasing function should be deferred until next Budget so that the long term framework for a purchaser can be agreed.

**Table 5: Funding in proposed Treasury Package for social housing assessment and allocation**

\$m in Treasury Package	New Operating Funding				Total Operating	Capital 14/15
	14/15	15/16	16/17	17/18		
Transfer of Needs Assessment <b>Agree in full</b>	16.381	16.467	15.094	15.094	<b>63.036</b>	16.400
Social Housing Purchase Function <b>Agree operating for trial</b>	0.315	0.315	0.315	0.315	<b>1.260</b>	- Defer till Budget 2015
Reviewable Tenancies <b>Agree in full (option to scale capital)</b>	0.572	1.106	1.768	1.709	<b>5.155</b>	1.810 Scalable but has risks
Housing Support Fund <b>Scale operating (ask about reprioritisation from across Vote Social Development)</b>	1.000	1.000	1.000	1.000	<b>4.000</b>	-
<b>Treasury Social Housing Package</b>	<b>18.268</b>	<b>18.888</b>	<b>18.177</b>	<b>18.118</b>	<b>73.451</b>	<b>18.210</b>

We have not scrutinized the operating and capital costs for the reviewable tenancies function at this stage and we can provide further advice through the Budget process.

**You may want to ask the Minister for Social Development whether the Housing Support Fund could be funded through reprioritisation from Vote Social Development.** However the Ministry of Social Development has identified unfunded cost pressures of \$8.986 million in 2015/16, rising to \$38.748 million in 2017/18.

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If Ministers agree to fund additional initiatives within baselines, it may be necessary to revisit the scale and quantum of others.

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**If you want to do something for housing in Canterbury at this Budget then we think there is a stronger case for supporting supply side initiatives.** The Business Growth Agenda (BGA) Ministers will be considering options for Canterbury housing which are also listed in the appendix below.

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**Ruth Isaac**, Manager, Housing, Housing, 04 917 617

**Appendix One: Canterbury Housing Initiatives that could be considered through BGA Package**

Type of Initiative	Initiative	Comment
Supply-side	<b>Awatea Mixed Tenure Housing Development</b>	Proposal to relieve pressure on the Canterbury housing market through supporting affordable housing development on surplus Crown land at Awatea c300 units. A market sounding exercise concludes in early March. <i>Treasury considers this initiative to be discretionary, but of the current initiatives represents the best value in facilitating supply of affordable housing.</i>
Supply-side	<b>New Temporary Accommodation Villages - Operating</b>	Additional temporary accommodation for quake effected Christchurch residents, with a second life as permanent housing c180 units. <i>Treasury considers that there is a case for addressing housing supply issues in Canterbury but is not convinced that this is a good value option.</i>
Supply-side	<b>New Temporary Accommodation Villages - Capital</b>	As above. Additional capital funding in 2016/17 is for the purpose of decommissioning the villages and preparing them for sale. <i>Treasury is not convinced that this is good value.</i>
[7]		
Demand-side	<b>Canterbury Earthquake Temporary Accommodation Service (CETAS) increase</b>	CETAS are expecting to receive more short term applications for assistance to cover the shortfall between the expiry of insurance cover and the completion of the repair/rebuild. <i>Treasury considers this discretionary, there is demand for this but the assistance is poorly targeted.</i>
Insurance settlement resolution	<b>Resolution through assessment of multi-units in dispute</b>	Seeks MBIE input to facilitate engineering review of repair and rebuild proposals to support the repair and rebuild of multi-units. This is for the resources to implement the DPMC initiative going back to Ministers by 30 April. <i>Treasury considers this discretionary and scalable.</i>