

The Treasury

Budget 2021 Information Release

August 2021

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Treasury Report: Budget 2021 Bilateral Advice ahead of Meeting with Minister Woods

Date:	11 December 2020	Report No:	T2020/3772
		File Number:	SH-18-5

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note advice on the Housing portfolio ahead of your Budget 2021 bilateral discussion with the Minister of Housing on 17 December	17 December 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Alex Smith	Analyst, Housing and Urban Growth	[39]	[35] ✓
John Beaglehole	Acting Manager, Housing and Urban Growth		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

[Annex Two: Overview of Budget 21 Initiatives in the Housing Portfolio - Minister Woods Bilateral Advice.docx](#)

Treasury Report: Draft Budget 2021 Guide for Agencies

Recommended Action

We recommend that you:

- a **note** advice on the Housing portfolio ahead of your Budget 2021 bilateral discussion with the Minister of Housing on 17 December

Agree/disagree.

John Beaglehole
Acting Manager, Housing and Urban Growth

Hon Grant Robertson
Minister of Finance

Treasury Report:

Purpose of Report

1. This report provides you with initial advice about the funding needs for Portfolio Housing in Budget 2021. This advice can inform discussions during your bilateral meeting with the Minister of Housing on 17 December 2020, and your letter of invitation to the Minister to submit Budget 2021 initiatives.

Background and Context

2. Housing has been identified as one of the Government's key wellbeing focus areas, and we have provided you with separate advice on measures to improve housing affordability (T2020/3529 refers).
3. Despite the economic ramifications of COVID-19, housing costs have continued to rise, with the national median year-on-year house price increasing 19 percent to \$749,000. This has serious distributional implications: the young and those on low to middle incomes or in industries impacted by COVID-19 will increasingly struggle to meet growing housing costs, while those who own properties are set to become wealthier. There are now over 21,000 applicants on the Public Housing and Transfer Register, and [34]
4. The underlying driver of housing unaffordability is the lack of responsive and affordable housing supply. The work to replace the Resource Management Act provides a critical opportunity to remove some of the barriers that currently hinder the development of a responsive and affordable housing market, and in successfully realising the full benefits of existing and future Government investments. We are conscious that in order to have the desired effect, the Resource Management Act reforms must enable intensification and increase the supply of urban land, and there are risks that the reforms will have an adverse effect should they fail to address the barriers to intensification and expansion.
5. Despite initial concerns, the residential construction sector has not been impacted by COVID-19 as expected and is forecasting a steady project pipeline well into next year.
6. Vote Housing and Urban Development's baseline at Budget 20 for 2020/21 was approximately \$2.1 billion (this is including operating and capital annual and multi-year appropriations). This does not include the \$2.4 billion (approximately) in Accommodation Supplement and Emergency Housing Special Needs Grant (EH-SNG) funding in Vote Social Development or the significant capital investment funded through Kāinga Ora's private borrowing, which is now capped at \$7.1 billion. The Housing portfolio also includes approximately \$117.8 million within Vote Build and Construction's baseline at Budget 20 (excluding MIQ funding).

7. The Housing portfolio received significant new funding through Budget 2020 and the COVID-19 Response and Recovery Fund, including:
 - \$670 million in operating funding over four years to support the development of 8,000 additional public and transitional housing places, along with an approximately \$5 billion investment in the residential construction sector through the Kāinga Ora borrowing programme and investment in community housing providers (CRRF)
 - \$287.9 million in operating funding over four years to support the operation of the Progressive Home Ownership (PHO) scheme, including for the write down and write off of loans, as well as support services and policy advice and servicing (Budget 20)
 - \$100.4 million in operating funding over four years for the Ministry of Housing and Urban Development (HUD) (Budget 20)
 - \$100 million in operating funding over three years to establish the Residential Development Response Fund to support the residential construction sector amid COVID-19 (CRRF)
 - \$100 million in operating funding over four years to increase the supply of transitional housing for people experiencing homelessness (Budget 20)
 - \$40 million in operating funding over four years for Te Whare o Te Whare Māori, Māori and Iwi Housing Innovation (MAIHI) (CRRF)
 - \$10 million in operating funding over four years to support the Housing Policy and Services Kaupapa Inquiry (Budget 20).
8. We are seeing delivery issues with several of these initiatives:
 - a *Public housing*. The target total number of additional public houses to be built and acquired appears broadly on track. [34]

HUD has also advised that there will be outyear cost pressures starting from the last year of the Budget 22 forecast period due to the timing of new delivery. These pressures are over and above the expected pressures from rising market rents.

- b *Progressive Home Ownership (PHO)*. HUD has just completed the pilot phase of the PHO scheme and struggled to spend the allocated funding. [34]

- c *Residential Development Response Fund*. The residential construction sector was not impacted by COVID-19 as expected, and consequently the Fund has not been implemented. In our view this funding is no longer needed and is a strong candidate for reprioritisation through Budget 21 (see Treasury Report T2020/3694 for our full advice).
- d *Māori and Iwi Housing Innovation (MAIHI)*. This funding was initially held in contingency and has since been drawn down. HUD is reporting that implementation is underway and that investment-ready opportunities exceed current funding. We are yet to see the output of this in our Implementation Unit data.

Key Funding Issues

- 9. The Minister of Housing has provided you with a list of initiatives that she believes should be considered for funding at Budget 21. While some of these initiatives are genuine cost pressures and align with manifesto commitments, there are others that do not fit either criteria.
- 10. The Minister of Housing is yet to rank these initiatives in order of priority or to present potential scaling or phasing options. The package of interventions to improve housing supply and affordability is yet to be quantified, although initial estimates have been provided for the other initiatives. Excluding the package of interventions to improve housing supply and affordability, these initiatives are seeking up to \$860 million in new funding per annum (some of this may be capital).
- 11. Our advice on the key funding issues in the Housing portfolio for Budget 21 below. We have provided a more detailed description of each initiative and our initial comment in the attached table, as well as a recommendation for the invite process.

Progressing housing supply and affordability: at least \$900m – Treasury recommends this receives an invite, but seeks additional scoping and costing information, as well as alignment with the government response programme.

- 12. We strongly support a goal of making housing more affordable for all New Zealanders as a way of achieving your wider goals – housing unaffordability is a critical barrier to improving outcomes in several other wellbeing domains, and disproportionately and inequitably impacts young, Māori and Pacific New Zealanders.
- 13. Treasury is working with HUD and Inland Revenue to develop advice on measures to improve housing supply, moderate the growth of house prices, boost levels of home ownership, and improve outcomes for renters (T2020/3529 refers). The Minister of Housing has noted that some of these interventions are likely to require funding through Budget 21. It is not yet clear what this full package will look like and the quantum of funding needed (although HUD have indicated that the first two items listed below are likely to require at least \$900 million). The Minister of Housing has indicated that this programme may include measures to:
 - accelerate infrastructure investment through a targeted fund to expedite infrastructure development in specific urban areas;
 - enable Kāinga Ora to purchase land through a Strategic Land Fund;
 - [33]

and

 - support demand through increasing First Home Grants price gaps for new builds in certain areas.

14. We are broadly supportive of this funding being sought through Budget 21, but further work needs to be done on the scope, cost, and timing of this package. We consider this to be part of the Government response to recent Treasury and HUD housing affordability reports T2020/3529 and BRF20/21120809.
15. On the proposed infrastructure and land funds, we recommend that you use this opportunity to set expectations around the information that needs to accompany these bids: ranges of funding, how these funds would fill a different gap from funds and programmes already in place, such as Land for Housing and the Housing Infrastructure Fund, and an understanding of how far this would get you towards reaching your housing objectives. [33,34]

16. [38]

17.

18. The \$350 million Residential Development Response Fund (the Fund), funded from the COVID-19 Response and Recovery Fund (CRRF) and unallocated recyclable KiwiBuild funding, has not been needed as the residential construction sector has not been impacted by COVID-19 as initially expected. [33]

We recommend that the \$100 million allocated to the Fund from the CRRF be reprioritised towards progressing the measures to boost housing affordability. You may wish to test with the Minister of Housing where she would reprioritise this funding along value for money lines. We have provided separate advice in the Treasury Report T2020/3694.

Kāinga Ora's baseline funding: Treasury recommends this initiative receive an invite.

19. Kāinga Ora does not have tagged sustainable funding in place to deliver the initiatives and roles it is responsible for, including KiwiBuild initiatives and the urban development functions it has been mandated in the Kāinga Ora – Homes and Communities Act 2019. These have been delivered through temporary funding transfers or the use of Kāinga Ora's operating surplus, which is tagged for public housing renewal and delivery. There is a real risk that without funding the functions Kāinga Ora has been tasked with, Kāinga Ora will not be able to carry out its core public housing responsibilities in the future.
20. You recently asked the Minister of Housing to consider Kāinga Ora reprioritisation options (BRF20/21110789 / T2020/3306 refers). HUD has started working with Kāinga Ora on their bid and has signalled they will rigorously interrogate it. We recommend you discuss with the Minister of Housing your support for this approach.

Large-scale projects: Treasury recommends this initiative receive an invite, along with scaling and phasing options.

21. Kāinga Ora is delivering six large-scale projects that aim to deliver a total of 36,000 houses, made up of a combination of public, affordable and market houses.
22. There are significant land and infrastructure development costs associated with the projects. The funding streams for these projects are yet to be decided between central and local governments. [38]

23. HUD is preparing advice on options to scale and phase these projects, and we are supportive of this approach. There are significant financial and Crown-Māori relationship risks in delaying funding decisions to future Budgets – [25]

We recommend inviting the Minister of Housing to submit an initiative for these cost pressures, along with phasing and scaling options.

Homelessness

24. The Minister of Housing is intending to seek funding for several initiatives to support individuals experiencing, or at risk of, homelessness. These are:
- Cost pressure funding to continue the 1,200 motel units contracted in response to COVID-19
 - Cost pressure funding to continue current service levels of Housing First, Sustaining Tenancies, and Rapid Rehousing
 - Funding to accelerate immediate Māori housing solutions, including portable housing on whenua Māori
 - [33]
25. The first two may not meet your definition of a critical cost pressure. However, we do think these initiatives merit consideration at Budget 21. This funding would enable these services to continue at their current levels, which were ramped up in response to COVID-19.
26. While motel units are not a long-term solution, in the absence of an adequate supply of affordable housing, they provide a better alternative than the Emergency Housing Special Needs Grants (EH-SNGs). Contracted motels are both more cost efficient and lead to better outcomes, as they enable people to access wrap around services. Without funding it is likely that those currently in motels will return to rough sleeping or will have to rely on EH-SNGs. This risk also applies should no new funding be received for Housing First, Sustaining Tenancies, and Rapid Rehousing. The funding for motel places would be time limited while more permanent housing supply is brought online. You may wish to ask the Minister of Housing what work is underway to reduce reliance on EH-SNGs.
27. [33]

Further funding may also be sought to build on the Māori and Iwi Housing Innovation (MAIHI) work. We understand the Minister for Māori Development has included bids for papakāinga and housing repairs in his letter to you. [33]

28. The Waitangi Tribunal's inquiry, Housing Policy and Services Inquiry (Wai 2750), is currently underway. The timing for the inquiry's findings is currently unclear, but will likely result in a series of recommendations that will also require funding.

29. [33]

Ministry of Business, Innovation and Employment housing cost pressures

30. The Minister of Housing's letter seeks cost pressure funding for:
- The replacement of the Tenancy Bond ICT system
 - Departmental operating funding for the Residential Tenancy and Unit Titles Services
 - The expansion of Tenancy Services to undertake Healthy Homes compliance interventions
31. These are some of several requests for baseline funding for the Ministry of Business, Innovation and Employment (MBIE), which has significant revenue issues stemming from the current economic environment. We recommend you discuss with the Minister of Housing and other key MBIE Ministers that you expect them to deliver a reprioritisation proposal across MBIE's baseline in conjunction with bids for baseline funding.
32. For tenancy services, we support inviting bids for these three areas accompanied by reprioritisation options. In particular, the Tenancy Bond ICT system is at risk of service failure. Bond system failure could significantly negatively impact renting New Zealanders (for example, bond money could be lost) and reduce engagement and compliance with the tenancy regulatory system, risking the success of recent tenancy law reforms. We also note that the funding sought is relatively small (approximately \$21 million) proportional to the potential risk.

Annex One: Talking Points

General Budget 2021 talking points

- *The approach to Budget 2021 will require greater discipline. Given the constrained fiscal environment, there will be a high bar for new spending, and it is important that spending is prioritised effectively, and focus is placed on achieving value for money.*
- *To maximise progress on the change we want to deliver, we need to shift focus and resources towards targeting the drivers of wellbeing that matter most to New Zealanders.*
- *New spending is not the only lever for achieving the Government's objectives. You should consider all the levers available to you before requesting new funding, including examining baseline expenditure, ensuring that your agencies are delivering on the significant investments we have already made, and progressing non-spending initiatives such as regulatory reforms.*
- *As agreed by Cabinet, the Priorities for Budget 2021 are:*
 - *Continuing the COVID-19 response,*
 - *Delivering priority and time-sensitive manifesto commitments*
 - *Supporting core public services through managing critical cost pressures and manifesto commitments, and*
 - *Continuing to deliver on existing investments.*
- *In contrast to previous Budget processes, only Ministers who I have invited will be able to submit initiatives for consideration through Budget 2021. These initiatives will be limited to critical cost pressures and the highest priority manifesto commitments.*
- *In addition to the letter you recently sent me, today is an opportunity for you to outline the cost pressures and manifesto commitments you expect to face in the Housing portfolio over the next three years. We have three Budgets to meet our commitments, so I encourage you to make a strong case for why I should invite you to submit these for consideration through Budget 2021.*

Housing-specific talking points

- *Even with the invite-only process I am expecting the allowances to be heavily oversubscribed. We are not able to accommodate all cost pressures and manifesto initiatives within current allowances and have tough decisions to make about what can be deferred to future Budgets. I want to know what your three highest priority initiatives are.*
- *Which initiatives have the lowest risk of deferring to future Budgets?*
- *I am conscious that regulatory reforms and levers will play a critical role in achieving our housing affordability objectives and in maximising the potential impact of any investment in housing and the wider social sector.*
- *What can be reprioritised within the current spend to help offset existing pressures and ensure funding is allocated to where it is most needed?*
- *Given the tight fiscal environment, I want to get a better understanding of the value for money of the current spend across the Housing portfolio. This will help inform future decision making and ensure that investment is going in the areas that will have biggest impact on lifting living standards. Being able to provide this information will also be looked on favourably at future Budgets. What plans do you have in place to develop future purchasing frameworks based on value for money and defined outputs or outcomes?*