

The Treasury

Budget 2021 Information Release

August 2021

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Not in scope
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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Treasury Report: Housing Budge Advice - Outstanding decisions

Date:	26 March 2021	Report No:	T2021/785
		File Number:	SH-18-5-2

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Discuss the contents of this report with your colleagues at Budget Ministers 3 on 29 March 2021.	29 March 2021

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: No

Treasury Report: Housing Budget Advice - Outstanding decisions

Purpose of Report

1. This report provides you with advice on outstanding Housing Budget 21 decisions ahead of your meeting with Budget Ministers at 4pm on Monday 29 March.
2. The key outstanding decisions in the Housing Budget package relate to:
 - a the revised Māori Housing initiative that has been jointly submitted by the Minister of Housing and the Minister for Māori Development
 - b increasing investment in Kāinga Ora's Sustainable Baseline initiative
 - c Kāinga Ora's borrowing costs relating to the recently announced Kāinga Ora Land Programme, and
 - d the recently-announced Housing Acceleration Fund, including the Large Scale Projects.
3. We have provided detailed advice relating to each of the above in the following section.

Analysis

Joint TPK-HUD Māori Housing Initiative

4. Following the Housing Budget bilateral on 17 March 2021, a revised joint Ministry of Housing and Urban Development-Te Puni Kōkiri Māori housing initiative has been submitted (AMI20/21030479 refers). This seeks \$380 million in new operating funding over four years. This is expected to provide:
 - Approximately 1,050 new build places in areas experiencing high rates of Māori housing deprivation over four years (\$315 million over four years, or an average of \$300,000 per place).
 - Repairs for approximately 700 existing places over four years (\$35 million over four years, or an average of \$50,000 per place).
 - \$30 million over four years to support the capacity and capability of iwi, hapu and Māori housing providers to deliver Māori housing solutions.
5. The initiative targets rural Māori at the acute end of the housing affordability crisis, and aligns with your commitment to partner with Māori to realise Māori housing aspirations. [33]
 - [33]
 -
6. On balance we are supportive of the case for sizable investment in this area. However we also note that the revised initiative has been developed at pace and that the implementation and monitoring plans requested by you at the Housing Budget bilateral are yet to be fully worked through. If you wish to agree this funding, we recommend that you also agree the following conditions be met before funding can be drawn down by agencies:

- Funding should be held in contingency until agencies report back to Joint Ministers (yourself, the Minister of Housing, the Minister for Māori Development, and the Minister of Housing (Māori Housing) with satisfactory implementation and monitoring plans for the two proposed workstreams.
 - Implementation and monitoring plans should provide sufficient details on operating and delivery models, governance structure and decision-making rights, criteria to ensure that Crown investment for each project is enabling developments that would not go ahead in the absence of new funding, and how programme implementation and outcomes will be monitored and evaluated.
7. There are also several potential implementation risks that will need to be carefully worked through to ensure the initiative can be delivered as intended:
- It is possible that the land for the second stream is yet to be infrastructure-serviced. We recommend that the report-backs and implementation plans also include details on how the delivery will be progressed in conjunction with infrastructure investments from the Housing Acceleration Fund.
 - We understand that the delivery model will also utilise and develop the building and construction skills of local iwi members. Implementation plans should also outline how existing skills and training programmes will be leveraged to mitigate the risk of insufficient construction sector capacity.
8. Should you agree to this approach, officials can finalise additional recommendations to give effect to the above in the Significant Budget Cabinet paper.

Kāinga Ora Sustainable Funding

9. This bid seeks [33] opex over the forecast period for additional Kāinga Ora FTEs to deliver its legislated urban development functions. The bid and subsequently provided information did not include enough information for Treasury to provide comprehensive advice on the value for money or implementation readiness of the proposal or scaled funding options. While HUD has provided additional information on what functions may not be delivered if scaled funding is provided (eg, supported housing, [25,38]
10. [34]
11. We understand that Minister Woods's position is that 100% funding is required given the recent \$3.8 billion investment in housing. We agree additional resource is likely required, but given limited information cannot give a detailed assessment about the value for money of particular funding levels.
12. The current Budget package includes a scaled version of this bid [33]). 100% funding will require an additional [33] opex over the forecast period. Some of this could be offset if the Residential Development Response fund is reprioritised, although the outyears impact would not be covered by this.
13. If you want to consider funding 100% of the bid, we recommend you require drawdown of funding from 2022/23 onwards to be conditional on Joint Ministers' satisfaction with a October 2021 report-back on planning for and progress towards establishing the urban development functions and the outcomes these functions will deliver. Should you and Minister Woods want to influence the establishment of Kāinga Ora's urban development functions, the report-back could include options regarding how to move forward with establishing the functions. This report-back could also be an opportunity align with and feed into work to improve HUD's monitoring of Kāinga Ora's delivery and performance.

Kāinga Ora Borrowing Costs

14. \$184 million over four years is being sought to help Kāinga Ora to service its \$2 billion Land Programme funded through private borrowing.
15. While HUD has shared further work on these costings, additional work and information from Kāinga Ora is needed to confirm this funding is sufficient to cover Kāinga Ora's interest and holding costs, as well as non-market outcomes sought. We recommend that Ministers ask that Kāinga Ora to report back to Joint Ministers with an outline of how it intends to sequence its borrowing. We also recommend that a new appropriation be established to provide Ministers with increased visibility over this spend.

Large Scale Projects (LSPs) and Housing Acceleration Fund (HAF)

16. [38]
- 17.
18. Given the complexity and size of the Large Scale Projects, the Ministry of Housing and Urban Development and Treasury are working together on drawdown conditions and report-backs tied to the release of funding. We seek Budget Ministers' feedback on drawdown conditions and report-backs covering:
 - a Governance structure, including the approach to stakeholder and community engagement and monitoring plans.
 - b An outline of the schedule for subsequent drawdowns and progress reports, and proposed conditions and business case requirements which would need to be met and approved before funding is released.
 - c A business case going to Cabinet.
 - d Any further drawdown conditions or report-backs Ministers would like attached to this funding.
19. We note that Cabinet has invited the Minister of Housing to report back by 30 June 2021 to confirm the design parameters for the Infrastructure Fund component of the HAF. We recommend that this Ministers also use this opportunity to agree additional draw down conditions.

Next Steps

20. Following your discussion at Budget Ministers 3 on 29 March, Treasury will continue to work with the Ministry of Housing and Urban Development (and Te Puni Kōkiri) to develop and finalise any additional recommendations to be included in the Budget Cabinet paper.

Recommended Action

We recommend that you:

- a **agree** that additional draw down conditions for the Māori housing initiative are required, should you wish to fund it, and that Treasury will work with the Ministry of Housing and Urban Development and Te Puni Kōkiri to finalise these

Agree/disagree.

- b [34]

c

Discuss/not discussed.

- d **note** that work and information is still required to confirm that the funding sought for the Kāinga Ora land acquisition fund is sufficient

- e **agree** to direct Kāinga Ora and HUD to report back on the phasing of borrowing and how all sought outcomes will fit into allocated funding

Agree/disagree.

- f **confirm** the following outstanding questions regarding the Housing Acceleration Fund (HAF):

- i [38]

Agree/disagree.

- ii the HAF will be charged against the CRRF

Agree/disagree.

- iii note that this will have a different fiscal impact due to \$1.0 billion being capex and \$2.8 billion being opex

- iii funding will be subject to drawdown conditions, including report-backs on the governance structure, business casing, and progress reporting

Agree/disagree.

John Beaglehole
**Acting Manager, Housing and
Urban Growth**

Hon Grant Robertson
Minister of Finance