The Treasury

Budget 2024 Information Release

September 2024

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Budget 2024 Multilateral: Hon Chris Bishop (Housing) and Hon Tama Potaka (Associate Housing)

Proposed Agenda

- Overview of budget package
- The Vote Housing and Urban Development savings submission and the credibility of Ministry of Housing and Urban Development's (MHUD) savings options
- Interactions between this exercise, the funds and programmes review and the Kāinga Ora Independent Review
- Discussion of new spending proposals, including those excluded and scaled

Budget 2024 Package – General Information

- Following agency submissions for Budget 2024, both operating and capital demands are significantly higher than the funding available.
- This ambition for new spending will not be achievable from both a fiscal and delivery perspective.
- We therefore recommend you emphasise to Ministers that it will be necessary for them to consider what the Government does at this Budget versus future Budgets.
- We also recommend that you continue to push Ministers on where further savings could be realised, particularly with regards to stopping funds and programmes not aligned with your priorities, or addressing back office and contractor and consultant growth.
- Finally, we recommend that – where appropriate – you re-emphasise that you are taking a stricter approach to out-of-cycle requests for funding ahead of Budget 2024, to ensure that the Government can assess the relative benefits of proposals across the full Budget package.

Vote Housing and Urban Development package summary

- MHUD's initial savings Budget submission was $54m short of its enduring savings target of $108.8 million. We understand that Minister Bishop has directed the Ministry to provide an updated Savings submission. We recommend you ask Minister Bishop:
  - *What are the further efficiencies and savings in the Housing portfolio to operationalise as part of Budget 2024*?
  - *Do these savings track through to improvements in the OBEGAL position?*
  - *Following the Housing funds and programmes advice, we have taken decisions that will likely result in further savings as part of Budget 2024. Can you provide an update on the progress of the Cabinet paper?*
- The significant expenditure of Kāinga Ora presents a challenge to the Government's goal of returning to surplus. We need to continue to push for performance improvements and efficiencies over the coming years. However, any savings must be realisable. We recommend asking of Minister Bishop:
  - *How will he get assurance that the 27% maintenance efficiencies will be realised?*

- *If we do not have sufficient assurance for the significant maintenance efficiencies, alternative savings proposals will be needed. What alternatives will he consider?*
- *How will he hold Kāinga Ora to account for realising reductions beyond Budget 2024?*

- We have recommended deferring consideration of funding for social housing to Budget 2025 and indicated that the supporting information was severely limited. We consider that Kāinga Ora will be able to continue operations at a reduced scale without this additional funding. We recommend asking Minister Bishop:
  - *What additional risks should you be aware of if no further funding is provided for social housing until Budget 2025?*
  - *We need more robust information to support future funding. What steps will Minister Bishop take to provide confidence that any future funding represents value for money?*
- [33]

Background on Vote Housing and Urban Growth

1. Vote Housing and Urban Development was appropriated $9.972 billion for FY23/24, and $3.173 billion in FY27/28, at HYEFU23/24. This funded a range of services across MHUD and Kāinga Ora, including policy functions, support for transitional and emergency housing users, housing provision for renters and first home buyers, social housing delivery and management, provision of land and dwellings in high-demand areas, and infrastructure delivery/support.
2. The Minister of Housing also has responsibilities for funding and services within Vote Building & Construction and Vote Social Development. This funding represented approximately $2,855m in FY23/24. The Minister of Building and Construction and the Minister for Māori Development are also responsible for housing-related funding of $96m and $114m respectively in FY23/24.
3. Further vote-specific information is outlined in the table can be found in the attached annex.

The Government's ambitious housing programme must be seen in the context of its fiscal and economic sustainability objectives

4. You have an ambitious housing programme, underpinned by the Going for Housing Growth policy to substantially improve housing affordability by significantly increasing the supply of developable land for housing. In parallel, you have launched the Kāinga Ora Independent Review, with a focus on its

financial situation, procurement, and asset management to be completed in March 2024. [33]

5. The combined impact of this work is likely to offer long-term savings. In the interim, the Government will need to make choices about how, and what, it wishes to fund in the housing portfolio, to meet its fiscal and economic sustainability objectives.

Minister Bishop has directed MHUD to construct an updated savings package, after their initial submission did not reach the enduring savings target of $108.8m

6. You set MHUD an enduring savings target of $108.8m, of which they were short by $54m per FY in their original submission. There were several issues with MHUD's original submission, including their counting tagged contingencies towards the target and failure to provide sufficient options to reach the target in outyears.

7. Notwithstanding, each of the eligible savings' proposals in the initial submission have broad credibility and are generally found from lower value work or from programmes with underspends that will not affect the provision of service delivery.

8. The Minister of Housing has directed MHUD to construct an updated package that satisfies the original savings target. A MHUD briefing shared with Treasury indicates further savings will be sourced from Youth Transitional Housing places (representing $5m p.a. in outyears) and from further expenditure reductions by Kāinga Ora.

9. Information provided on these additional initiatives did not explicitly address effects on the provision of services. The targeted savings initiative to wind-down the First Home Grants is also included in the revised package, despite originally not being submitted. This provides $70m p.a. of savings that do not count towards the Ministry's $108.8m target.

Savings: Initiative Specific Information

Title	Draft package		Treasury recommendation and Comment	
	Total Operating ($m)	Total Capital ($m)		
Kāinga Ora – Reduced Expenditure	*160*	*0*	*Support*	*We support this savings initiative subject to a plan and monitoring. Savings in this initiative are achieved through revised expenditure forecasts submitted by Kāinga Ora - not explicit changes to appropriations, with impacts on OBEGAL. Although we anticipate downward adjustments to forecasts for Kāinga Ora, including these adjustments explicitly in the Budget affords the Crown additional opportunities for monitoring and oversight. This will provide confidence that proposed savings will be realised and provides central Crown levers to ensure that operating expenditure actuals match forecasts. There is a possibility that this initiative could be scaled up given signalled changes in forecasts.*
Kāinga Ora led Large-Scale Projects	*120*	*0*	*Support*	*We support this savings initiative because between the return of contingency, value for money review and project deferral levers, there is at least $120 million in potential savings. Ministers are yet to make decisions on proposed Kainga Ora investments in these neighbourhoods, and we consider a value for money review of the LSP projects would be beneficial for the LSP programme overall. We recommend treating the return of contingency and value for money*

				elements of this initiative as part of the reduced expenditure for Kainga Ora, [33]

10. A MHUD briefing shared with Treasury indicates further savings can be sourced from Kāinga Ora. Key elements of this initiative include removing vacant positions ($200 million) and finding efficiencies in maintenance spend ($674 million). We do not have sufficient information to assess whether the maintenance efficiencies will be realised. We recommend you ask the Minister of Housing to provide assurance for the maintenance savings as well as confirm whether these savings are in addition to or inclusive of savings previously submitted.

11. The Kāinga Ora Independent Review is considering areas for savings that may be cemented at subsequent fiscal updates. These include cessation of specific services, changes to the way social housing is 'purchased', and broader housing system adjustments.

Title	**Draft package**		**Treasury recommendation and Comment**	
	Total Operating ($m)	**Total Capital ($m)**		
HUD Departmental Baseline reduction 7.5%	*19.2*	*0*	*Support*	*We support this savings proposal, as it comes from non-essential back-office functions (including professional services). We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.* [33]

12. As various programmes administered by MHUD are wound down, we anticipate a reduction in resourcing requirements. Any further scaling of this initiative will require trade-offs concerning departmental capacity and government programmes.

13. [33]

14. Other Savings Initiatives are as outlined below:

Title	**Draft package**		**Treasury recommendation and Comment**	
	Total Operating ($m)	**Total Capital ($m)**		
Affordable Housing Fund: Return of Innovation Pathway Funding	*10*	*50*	*Support*	*We are supportive of this savings proposal. The funding remains unallocated as work has not begun on the Innovation Pathway. The return of this funding will have no impact on any planned delivery from HUD. There is no risk to returning this funding.*
Emergency housing system and Homelessness Action Plan – Return of Tagged Contingency	*128.507*	*0*	*Support*	*We are supportive of this funding being returned to centre. The funding sits in two tagged contingencies and therefore has not been appropriated. We do not consider there to be any risks associated with the return of this funding as it is not tied to any specific proposals. Both tagged contingencies are set to expire at the end of this financial year. No action is required to realise this saving.* *It should be noted that these savings cannot be counted towards MHUD's baseline target as tagged contingencies are not eligible.*

Emergency Housing Review and Homelessness Action Plan – Return of Funding	*46*	*0*	*Support*	*We are supportive of this savings proposal. Whilst this programme does align with the Government's priorities, MHUD have noted that delivery is unlikely to be achieved due to capacity constraints. There is no reduction in services already provided, and this saving will only impact the procurement of future contracts. We consider the risks associated with this initiative are outweighed by the fiscal benefit to the Crown.*
Progressive Home Ownership – Return of Operating Funding	*17*	*0*	*Support*	*We support return of this funding, which is not required to meet commitments under the PHO scheme. Due to the truncated assessment period, we have been unable to determine the percentage of overall funding relating to contractual obligations. As a result, there may be opportunities to return further funding to the centre, however, additional work would be required to determine the feasibility of this and it is likely that ongoing savings will be minimal. We recommend instead that HUD is directed to return additional underspends to the centre at the time of programme close.*
Contracted Emergency Housing – Return of Underspends	*20*	*0*	*Support*	*We are supportive of this savings proposal. The contracts within this programme are in the process of being exited, with two exits having already been completed. Demand is expected to reduce further over time. Given expected reduction in demand, it is possible there could be additional savings within this programme at a later date. However, we are comfortable this represents a realistic level of savings to be committed as part of Budget 2024.*
Māori Housing – Reducing Funding for New Supply and Capability	*40*	*0*	*Support*	*On balance, we support return of this funding on the basis that it was identified as the lowest-value spend in the Māori housing area. Notwithstanding, targeted interventions in the Māori housing space, are generally more cost effective than the provision of social housing. Further, we note that Māori are disproportionately represented in poor housing statistics. Also, we recognise that this programme generally represents good value for money, including by leveraging off existing land-ownership arrangements where possible, and targeting areas where the market is unlikely to provide comparable alternatives.*

New Spending

Title	Draft package		Treasury recommendation and Comment	
	Total Operating ($m)	Total Capital ($m)		
Kāinga Ora Crown-Funded Programmes and Statutory Obligations	*87.11*	*0*	*Support scaled*	*We support baselining funding to support statutory obligations to avoid a fiscal cliff, costing $87.11m over the forecast period. The cost represents Kainga Ora's business case option submitted to support statutory obligations. This results in a 123.7 FTE reduction relative to 2023/24, requiring trade-offs like pausing the Kāinga Ora Land Programme, conducting no further specified development projects assessments, and only managing delivery of the contracted Buying off the Plans portfolio. It is possible that the Independent Review's findings may call for further or reduced scaling, so funding can be returned or moved as necessary.*

15. Our recommendation is based on the indication from Kāinga Ora that this is the minimum amount required to support statutory functions, relating to urban development, climate change, and Māori and iwi engagement. We have recommended baselining this funding, noting that if legislative changes occur the need for this funding should be re-visited.

16. Other funding sources for this work (such as cross-subsidisation from social housing) are financially unsustainable due to Kāinga Ora's loss-making nature.

Title	**Draft package**		**Treasury recommendation and Comment**	
	Total Operating ($m)	**Total Capital ($m)**		
Social Housing Supply – Maintaining Delivery of New Social Houses	*0*	*0*	*Defer to Budget 2025*	*Although we recognise value in growing and renewing social housing stock, we have little confidence in the costings or deliverability of this initiative. Supporting information is severely lacking with no business case presented and limited information on value for money of previous Budget funding. We recommend deferring decisions to Budget 25, subject to the findings of the independent review. KO's recent forecasts indicate around $1.1 billion of the capital appropriated at Budget 23 is not needed for the original purposes, and we consider that this could be used to continue renewals into 25/26. If funding is to be provided for additional social housing this Budget we recommend it is targeted towards CHPs subject to further analysis to determine their delivery capacity.*

17. We consider that Kāinga Ora has sufficient appropriated capital expenditure headroom to maintain its construction pipeline and we recommend you ask the Minister of Housing for information on how the pipeline can be phased to manage within existing funding. These adjustments should flow through to savings in the final Kāinga Ora BEFU submission.

18. If desired as part of Budget 2024, we recommend focusing on operating funding for a limited number of new places (350) being made available to CHPs.

[33]

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