The Treasury

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Date: 1 November 2017

To: Minister of Finance (Hon Grant Robertson)
Minister of Housing and Urban Development (Hon Phil Twyford)

Deadline: None

Aide Memoire: Public housing pressures

This Aide Memoire provides information on fiscal pressures in the public housing (state housing and community housing) portfolio. Some of these flow from commitments outlined in your 100 day plan, and from other Government policy intentions. Other fiscal risks result from longer-standing or recent pressures.

Where possible, this Aide Memoire provides an order-of-magnitude cost of the fiscal risks. Such amounts cover the four-year forecast period, except if stated otherwise.

If realised, these fiscal risks would impact on the operating balance and net core Crown debt. Where estimated costs exceed what is outlined in your fiscal plan, the additional impact on the operating balance before gains and losses (OBEGAL) and net core Crown debt would need to be managed to meet the Budget Responsibility Rules.

Annex 1 sets out in a table the fiscal risks discussed in this Aide Memoire. Officials are available to discuss this Aide Memoire with you.

Fiscal pressures arising from 100 day plan

Pass the Healthy Homes Guarantee Bill

The cost to Housing New Zealand (HNZ) of complying with the Healthy Homes Guarantee Bill is likely to include the cost of installing heat pumps and potential additional costs of associated more general refurbishing of its properties (for example, draught-proofing and insulation).

- HNZ estimates that the cost of installing heat pumps in its properties could be around $90 million, based on the cost of installing a heat pump at $3,000 for 30,000 houses.
- HNZ currently intends to refurbish its properties at an average cost of $50,000 per property. HNZ has budgeted to refurbish an average of 600 to 700 places per annum. If this needs to be accelerated to comply with regulations, additional funding is likely to be required.

MBIE has also estimated its additional administration costs - compliance, enforcement, information and education costs - at $8 million.

Issue an instruction to Housing New Zealand to stop the state house sell-off

The Crown will be foregoing proceeds of up to [38] (commercially sensitive - the value of bids from the Christchurch sales process), which was to be retained by HNZ for capital investment. To maintain HNZ's existing programme of development, the Crown may need to borrow this amount with a corresponding effect on net debt.

There are contractual costs associated with stopping the sale of state houses. Bidders in current sales processes have a contractual right to compensation for their bid costs. These amount to $2.5 million for Christchurch and a discretionary $200,000 for Invercargill. Funding set aside for the sales processes will be sufficient to meet this cost.

[37], [38]

[37], [38]

Cabinet would need to approve a business case for this investment.

Begin work to establish the Affordable Housing Authority and begin the KiwiBuild programme

You have set aside $2 billion of capital funding and $100 million of operating funding in your fiscal plan to fund the establishment of the Affordable Housing Authority (AHA) and to commence the KiwiBuild programme.

Given the scale of KiwiBuild, there is inevitably a large fiscal risk associated with it, although we have no basis as yet for quantifying this.

You intend the $2 billion to be a 'recyclable' fund. Based on our understanding of your intentions and the relevant accounting treatment, this funding would have an upfront impact on net debt. Once we have more information on KiwiBuild, we will let you know the appropriate accounting treatment.

Your coalition agreement with the Green party includes a Rent-to-Buy Scheme as part of KiwiBuild. There is a tension between the goals of recycling the $2 billion and including a Rent-to-Buy scheme or public housing within KiwiBuild, as a Rent to Buy scheme limits the capital available for recycling. As such, an additional capital injection may be required, which could impact on net debt.

KiwiBuild has the following criteria for the price of houses:

- stand-alone houses in Auckland will be priced between $500,000 and $600,000, with apartments and terraced houses priced under $500,000
- house prices outside Auckland are likely to range from $300,000 to $500,000

If a KiwiBuild house is sold for less than market value or its cost to build, the Crown would need to account for this expense. If this is a policy decision, this will impact both OBEGAL and the operating balance. If it is not a policy decision (i.e., it is market-driven) this will only impact on the operating balance.

There may be an increase in demand for the KiwiSaver HomeStart grant from first-home buyers as they aim to take advantage of KiwiBuild's affordable houses. If so, this will have a negative impact on OBEGAL. We have no basis for estimating this potential impact.

Fiscal pressure from policy intentions beyond the 100 day plan

HNZ Institutional Form

The fiscal impact of cost pressures on HNZ depends on its institutional form. It is the Government's policy for HNZ to become a government department. HNZ is currently a Crown agency*, i.e.,* it is outside the core Crown. You have choices about whether HNZ's asset management and development functions are inside or outside the core Crown as part of your intended change to HNZ. If these functions move into the core Crown, there would be associated fiscal costs:

- The former Minister of Finance agreed that HNZ could borrow up to $1.1 billion from the private market to contribute to the funding of the AHP. This did not impact on Crown net debt as HNZ sits outside the core Crown. If the asset-ownership function moved into the core Crown, the Crown would have to fund this borrowing instead through a capital injection or loan of up to $1.1 billion, with a corresponding impact on Crown net debt.
- HNZ would come under the Crown's capital charge regime, and would also need to fund depreciation on assets through an appropriation. (While HNZ funds depreciation already, it does so currently from its balance sheet.)
- There would be costs to establish a new department.

SSC reported today to the Minister of Housing and Urban Development today on HNZ's institutional form.

Additional public housing places

As noted below, MSD considers there is insufficient funding to cover the cost of the 2016 Purchasing Strategy. The Government has stated it intends to deliver 2,000 additional public housing places per year. If these places are additional to the growth in public housing envisaged in the 2016 Purchasing Strategy, the additional cost would be $200-$360 million per year, based on MSD's cost estimates. The Government will need to consider how its intentions relate to the existing Purchasing Strategy, to determine whether and how much additional funding will be required.

State housing fiscal pressures

The Government has indicated that it wishes to improve state housing. To the extent that it wishes to refurbish HNZ homes beyond existing plans and what is needed to comply with the Healthy Homes standard, there would be additional fiscal costs.

If the Government wishes to increase the state and affordable housing proportions of Crown-led developments, and therefore decrease the proportion of market-priced housing, this could have an impact on revenue to the Crown (from land sales) of tens to hundreds of millions of dollars.

The Government has indicated it prefers a conservative approach to HNZ's business-as-usual property disposals. If the number of business-as-usual HNZ disposals reduces to 100 houses per year, there would be a potential impact on HNZ of around $300 million over the forecast period.

Already-existing fiscal pressures

MSD's purchasing of public housing

MSD considers that there is insufficient funding to cover the costs of delivering the 2016 Social Housing Purchasing Strategy, which specifies an additional 6,400 places by June 2020. It estimates the additional cost as $330 million over the forecast period.

In order to maintain the current social housing register levels (assuming continued growth in demand), the Government would need to purchase places additional to the current purchasing strategy. Additionally, there is a Better Public Services target to reduce the time to house for Priority A public-housing clients from the social housing register by 20 per cent by 2021. Overall, these pressures could cost $600 million to $1 billion over the forecast period.

There is currently insufficient funding to cover the costs of delivering 2150 transitional housing places specified under the current transitional housing strategy. Further capital and operating funding is likely to be required to acquire the full 2150 places and to support social services for these places. MSD estimates this at $120 million over the forecast period.

Tamaki Redevelopment Company: Large-Scale Development

The procurement process for TRC's Large-Scale Development project requested bids from investors who would fund and own redeveloped public housing. It has not achieved these goals. This means that, assuming the redevelopment continues, the Crown will need to fund the redevelopment and ongoing ownership of the properties. This additional cost may be of the order of several hundred million dollars over the 10-15 year life of the project. TRC and Treasury will be reporting to you on the Large-Scale Development project.

Rachelle Earwaker, Analyst, Housing, [39]

Tom Hall, Manager, Housing, [39]

Appendix One

Description	Nature of pressure	Estimated cost over forecast period

Fiscal pressures arising from 100 day plan

Healthy Homes Guarantee Bill – Impact on HNZ	Non-discretionary following enactment of the Bill; dependent on the level of minimum standards	up to $90m
Bringing forward HNZ property refurbishment	Non-discretionary following enactment of the Bill; dependent on the level of minimum standards	unquantified
Healthy Homes Guarantee Bill – Impact on MBIE	Non-discretionary following enactment of the Bill	$8m
[37]		
Bid costs for Christchurch and Invercargill transfers	Contractual obligation of $2.5 million for Christchurch, and a discretionary $200k for Invercargill	$2.7m
[37], [38]		
Additional AHA/KiwiBuild costs	Dependent on decisions on KiwiBuild	unquantified
Kiwisaver HomeStart grants	Potential additional demand to take advantage of Kiwibuild	unquantified

Fiscal pressures arising from policy intentions beyond the 100 day plan

Crown funding of the HNZ AHP loan	Will only eventuate if HNZ's asset management and development functions are transferred to the core Crown	$1100m
Capital charge and depreciation	Will only eventuate if HNZ's asset management and ownership functions are transferred to the core Crown	unquantified
New institutional arrangements for HNZ	Establishment costs for a new department (and any related institutional changes)	unquantified
Public housing additional to Purchasing Strategy	Dependent on your goals for numbers of public housing places and relationship to Purchasing Strategy	up to $200m-$360m per year
Improve the quality of state housing	Depends on the improvements the Government wants beyond requirements of Healthy Homes Guarantee Bill	unquantified
Decreased sales of market-priced housing in Auckland	Policy dependent	tens to hundreds of millions
Decreasing BAU HNZ disposals	Policy dependent	up to $300m

Already-existing fiscal pressures

Achieving Purchasing Strategy	Non-discretionary if you want to meet Purchasing Strategy numbers	$330m
Achieving Better Public Service goal	Non-discretionary if you want to achieve current BPS targets	$600-$1000m
Transitional Housing	Non-discretionary if you wish to reach the current target of 2150 transitional housing places with attached social services	up to $120m
Tamaki Redevelopment Company	Dependent on your intentions for large-scale development in Tamaki	several hundreds of millions (over 10-15 years)