

# The Treasury and Office of the Minister of Finance

## Budget 2019 Information Release August 2019

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Treasury Report: **Bilateral Discussion: Minister of Finance and Minister of Housing and Urban Development and Transport**

<b>Date:</b>	Thursday 25 October	<b>Report No:</b>	T2018/3043
		<b>File Number:</b>	SH-3-2-18-16

**Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Grant Robertson)	<p><b>Discuss</b> the talking points contained in this report at the bilateral meeting with Minister Twyford</p> <p><b>Refer</b> this report to the Associate Minister of Finance (Hon Dr David Clark)</p> <p><b>Refer</b> Annex 2 to the Minister of Housing and Urban Development (Hon Phil Twyford)</p>	Wednesday 31 October, before 4.45pm

**Contact for Telephone Discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
[34]	Graduate Analyst	[39] (wk)	N/A (mob)
Tom Hall	Manager, Housing	[39] (wk)	[23] (mob) ✓

**Actions for the Minister's Office Staff (if required)**

**Return** the signed report to Treasury.

**Refer** this report to the Associate Minister of Finance (Hon Dr David Clark).

**Refer** Annex 2 to the Minister of Housing and Urban Development (Hon Phil Twyford)

Note any feedback on the quality of the report

**Enclosure:** No

Treasury Report: Bilateral Discussion: Minister of Finance and  
Minister of Housing and Urban Development and  
Transport

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**Executive Summary**

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You will be meeting with Minister Twyford at 4.45pm on Thursday 31 October 2019 for his initial Budget 2019 bilateral. This bilateral will cover Minister Twyford's Housing and Urban Development (HUD) and Transport portfolios.

There is an estimated total of \$5.5 billion in scope for prioritisation in Minister Twyford's HUD portfolio and \$450 million in scope under his Transport portfolio. As at the October 23 check-in, there has been \$2.2 million per annum offered in prioritisation for HUD and \$1.2 million offered in Transport. We recommend discussing with Minister Twyford further options for prioritisation.

We understand that Minister Twyford will discuss with you what funding is within the scope of the prioritisation exercise, as a large portion of the HUD baseline funds the Income-Related Rent Subsidy (IRRS). Minister Twyford is likely to seek to exempt it from prioritisation. You have indicated that there will be a no-exceptions policy to exempting in-scope appropriations.

Minister Twyford will submit<sup>[33]</sup> initiatives totalling <sup>[33]</sup> under the HUD portfolio and <sup>[33]</sup> initiatives totalling <sup>[33]</sup> under the Transport portfolio.

The full amount sought in both portfolios cannot be managed within Budget 2019 allowances. We recommend discussing with Minister Twyford how to reduce his Budget bids to fit within allowances.

The Ministry of Housing and Urban Development (MHUD) has begun cross-agency collaboration with key agencies and stakeholders. There is overlap between some of the initiatives submitted in the Housing and Māori Development portfolios. We recommend inviting Minister Twyford to further engage with the Minister for Māori Development to ensure a whole-of-government approach to Budget bids related to Māori housing.

There are a range of strategic issues associated with housing-related expenditures. Annex 2 discusses these issues and provides more information on the strategic context of the HUD portfolio. We recommend you forward the material in this Annex to the Minister, and invite the Minister to address these issues as the Budget round proceeds.

The Ministry of Transport is collaborating with KiwiRail, the NZTA and the Treasury on the Future or Rail Review, which will inform the final nature and scale of the rail-related Budget bids. The Ministry of Transport is also collaborating on bids with LINZ and MSD. Further information relating to the Transport bids is included in Annex 3.

To assist you with your discussion with Minister Twyford, your key talking points can be found in paragraph 45, as well as in Annex 4.

## Recommended Action

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We recommend that you:

- a **note** the estimated 1% prioritisation target is \$54.9 million over four years for the combined Housing and Urban Development and Transport portfolios, subject to confirmation of the October Baseline Update 2018
- b **note** there are <sup>[33]</sup> in the Housing and Urban Development portfolio, totalling approximately <sup>[33]</sup> over the forecast period
- c **note** there are <sup>[33]</sup> bids in the Transport portfolio, totalling approximately <sup>[33]</sup> over the forecast period
- d **note** the cross-agency collaboration to date on bids under Minister Twyford's Housing and Urban Development and Transport portfolios
- e **note** the strategic context on Housing and Urban Development in Annex 2
- f **refer** Annex 2 to Minister Twyford and him to address these issues as the Budget round proceeds

*Refer/not referred*

- g **note** the further information on the Transport bids in Annex 3
- h **discuss** the talking points in paragraph 45 of this report and in Annex 4 with Minister Twyford
- i **refer** this report to the Associate Minister of Finance (Hon Dr David Clark).

*Refer/not referred*

Tom Hall  
**Manager, Housing and Urban Growth**

Grant Robertson  
**Minister of Finance**

**Treasury Report: Bilateral Discussion: Minister of Finance and  
Minister of Housing and Urban Development and  
Transport**

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**Purpose of Report**

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1. This report provides background information and advice for your bilateral discussion with Minister Twyford at 4.45 p.m. on Wednesday 31 October, covering the Housing and Urban Development (HUD) and Transport portfolios.
2. This report has been prepared with information from agencies.
3. The report covers:
  - baseline prioritisation for Minister Twyford's portfolios
  - new initiatives for which funding is likely to be sought in Budget 2019 by Minister Twyford
  - cross-agency collaboration
  - contextual information for the portfolios
  - talking points for your discussion with Minister Twyford.
4. There are 4 annexes to this report:
  - Annex 1: Budget 2019 initiatives likely to be submitted by Minister Twyford
  - Annex 2: information on the strategic context of the HUD portfolio
  - Annex 3: further information on Transport Budget bids
  - Annex 4: talking points for your discussion with Minister Twyford

**Baseline Prioritisation**

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5. There is an estimated total of \$5.9 billion in the housing and transport portfolios over the forecast period (2019/20 to 2022/23). The provisional 1% prioritisation target therefore is \$59.1 million. Annex 1 provides a breakdown of possible prioritisation initiatives by portfolio submitted by agencies.
6. These prioritisation figures are provisional, as they are based on figures from Budget 2018. The final prioritisation figure will be confirmed following the October Baseline Update.

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Table 1: Baselines in scope for prioritisation by portfolio

Portfolio	Total in scope for prioritisation	1% Target
Housing and Urban Development	\$5.5 billion	\$54.6 million
Transport	\$450 million	\$4.5 million
Total	\$5.9 billion	\$59.1 million

### Housing and Urban Development

7. MHUD has proposed a narrower scope for its prioritisation baseline. It has proposed prioritisation initiatives totalling \$8.8 million over the forecast period (an average of \$2.2 million operating per annum):
  - Housing New Zealand Support Services (\$1 million per annum);
  - Management of Crown Properties held under the Housing Act (\$1 million per annum);
  - Housing Assistance (\$0.2 million per annum)
8. MHUD's prioritisation is based on 1% of eligible baselines after excluding the *Purchase of Public Housing Provision* non-departmental output expense (NDOE) in the *Public Housing* multi-category appropriation (MCA) and the *KiwiBuild Housing* multi-year appropriation (MYA).
9. The *Purchase of Public Housing Provision* NDOE category is the largest appropriation in Vote Housing and Urban Development, and includes Income-Related Rent Subsidy (IRRS) payments. It is allocated \$4.5 billion across the forecast period. The *KiwiBuild Housing* MYA is allocated \$210 million over five years. These two appropriations make up most of the eligible prioritisation baseline for Housing and Urban Development.
10. Minister Twyford will likely seek to exclude the above two appropriations in MHUD's eligible baseline – reducing required savings from \$54.6 million to \$8.8 million over the forecast period.
11. Based on your decisions on the baselines for appropriations (TR2018/2535 refers), the *Purchase of Public Housing Provision* NDOE and *KiwiBuild Operations* MYA do not fall within an eligible category of exemption. Excluding these NDOE appropriations from prioritisation would result in a departure from the exemptions you have agreed, and raise questions around the fairness of the process for other Ministers.
12. We recommend you discuss with Minister Twyford options for further prioritisation, and including are potential underspends within the larger appropriations.

### Transport

13. The Ministry of Transport (MoT) has provided a list of possible prioritisation initiatives totalling \$4.48 million over the forecast period (an average of \$1.12 million operating per annum). The largest appropriations being:
  - Ministry of *Transport Policy Advice* MCA (\$0.3 million per annum);
  - Meterological Service Weather Forecasts and Warnings Contract (\$0.2 million per annum);

**BUDGET-SENSITIVE**

- SuperGold Card Public Transport Concessions (\$0.3 million per annum)
  - Other initiatives (\$0.3m per annum)
14. These prioritisation amounts are based on 1% of eligible baselines after excluding the large Capital appropriations and *National Land Transport Fund* (NLTF) PLA appropriations.
15. MoT considers that achieving a 1% reduction across the eligible appropriations may be difficult to achieve as some are subject to contractual obligations. An alternative approach you could discuss with Minister Twyford is to consider whether there are any options to fund some existing appropriations from other sources, such as the NLTF. An example of this would be to fund the transport benefits derived from the SuperGold Card (up to \$29.2 million per annum) through the NLTF, rather than funding directly from the Crown.

**New initiatives that may be submitted for Budget 2019**

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16. The following initiatives are likely to be submitted for Budget 2019. This is based on the information provided through the 23 October check-in and information provided to the Treasury by MHUD, MoT and Land Information New Zealand (LINZ).
17. Minister Twyford, covering the HUD and Transport portfolios, may seek up to <sup>[33]</sup> in operating expenditure and <sup>[33]</sup> in capital expenditure across both portfolios, as per Table 2 below. Annex One provides a breakdown of possible initiatives by portfolio and initiative type.

Table 2: Overview of funding sought by Minister Twyford for Budget 2019

<b>Portfolio</b>	<b>Operating (Total over forecast period)</b>	<b>Capital (10 year total)</b>
Housing and Urban Development	<sup>[33]</sup>	
Transport		
Total		

**Housing and Urban Development Bids**

18. Minister Twyford will submit <sup>[33]</sup> bids – <sup>[33]</sup> across three packages for his Housing and Urban Development portfolio.

<b>Package 1</b> <sup>[33]</sup> :
• <sup>[33]</sup>
•

**Package 2** focuses on responding to homelessness and supporting tenants at risk of slipping out of private accommodation. HUD officials have indicated that the costings around the homelessness package are early costings and that work is underway to test them. This package includes:

- An initiative focused on increasing tailored support services through additional transitional housing supply and the maintenance and strengthening of Housing First;
- An initiative increasing Housing Assistance Payments;
- [33]

**Package 3** is focused on funding for MHUD capability and seeks funding to:

- Address the cost pressures arising from the establishment of MHUD;
- Develop additional capability for its housing and urban policy functions related to the Urban Growth Agenda and large scale developments.

19. There is an additional standalone bid for Pacific Financial Capability.
20. MHUD has indicated that Minister Twyford will not be pursuing bids for KiwiBuild or the Urban Development Authority for Budget 2019.
21. Minister Twyford will likely support a bid from MSD seeking additional frontline resourcing to respond to increasing demand for housing services.

### Transport Bids

22. For his Transport portfolio, Minister Twyford will submit <sup>[33]</sup> bids. This can be broadly broken down into the following categories:
  - a Bids to support KiwiRail and development of the national rail network , the majority of which will be subject to the outcome of the Future of Rail Review: <sup>[33]</sup>  
<sup>[33]</sup>
  - b Bids to support transport sector Crown Entities and the MetService deliver more services and meet cost pressures: <sup>[33]</sup> , phased over 6 years.
  - c An unquantified placeholder bid to meet potential cost escalation for the City Rail Link.
23. <sup>[33]</sup>

## Cross-agency collaboration efforts

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### Housing and Urban Development

24. You have indicated that collaboration will be a central feature of Budget 2019.
25. The Ministry of Housing and Urban Development (MHUD) has already begun cross-agency collaboration with a number of agencies, including the Ministry of Social Development (MSD), Oranga Tamariki, Ministry of Health, Te Puni Kōkiri (TPK), Department of Internal Affairs, Ministry of Business, Innovation and Employment and Ministry of Pacific Peoples. These are agencies which have links with MHUD across the Government's housing programme.
26. MHUD has also engaged with housing and service providers, such as Housing New Zealand (HNZ) and Community Housing Providers (CHPs), as well as local councils.
27. We agree with MHUD that the bids related to the new Ministry's capability do not require cross-agency collaboration.
28. There is overlap between some of the initiatives submitted in the housing and the Māori Development portfolios. These relate to improving housing outcomes for Māori. For example, the "Prevention and Response to Homeless" includes <sup>[33]</sup> We recommend inviting Minister Twyford to further engage with the Minister for Māori Development to ensure a whole-of-government approach to Budget bids related to Māori housing.
29. MHUD is also likely to further engage with relevant agencies and stakeholders, depending on the outcome of the Mental Health Inquiry report in November and the MSD Baseline Review in January 2019.

### Transport

30. MoT is working with the Treasury, KiwiRail and the NZTA on the Future of Rail Review, which will help to inform final decisions on the majority of the rail-related bids.
31. <sup>[33]</sup>
32. The development of the Green Transport Card bid is also a cross-portfolio and cross-agency initiative. The Ministry of Transport and Ministry of Social Development will have joint responsibility for developing the initiative. NZTA and Regional Councils will have joint responsibility for delivery, similar to the arrangements for the SuperGold scheme, which provides free off-peak travel for seniors.

Further contextual information for these portfolios

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**Housing and Urban Development**

33. A large amount of government spending on housing is focused on interventions that provide subsidies or other financial assistance for housing, such as the Accommodation Supplement, Income-Related Rent Subsidy and Community Group Housing. Spending on Accommodation Supplement and IRRS has consistently grown, in large part due to general housing unaffordability. This rise in expenditure is consistent with a large increase in applicants on the Public Housing Register and increasing housing prices.
34. If systemic issues around land and housing supply are not addressed, the pressure to increase expenditure on housing is likely to continue, and become fiscally unsustainable.
35. Annex 2 sets out strategic issues that impact on the housing bids for Budget 2019 (and later years). We recommend you refer the material in Annex 2 to Minister Twyford, and invite him to address these issues as the Budget round proceeds.

Previous Budget Funding

36. In Budget 2018, the Housing and Urban Development portfolio received \$490.7 million in operating funding across the forecast period 2018/19 to 2021/22 and \$369.4 million in capital funding. Key Budget bids approved in full or in part were:
  - “Additional Public Housing” (\$234.4 million operating)
  - “Transitional Housing” (\$101.0 million operating and \$68.9 million capital)
  - “Tāmaki Redevelopment Company” (\$300.0 million capital)
  - “Housing First Expansion” (\$43.9 million)
37. Additional public housing was also funded through external borrowing by HNZ of around \$1.3 billion. The Treasury has previously provided you advice on the implications of HNZ debt borrowing, and Ministers will need to be take into account HNZ’s capital requirements if additional public housing supply is approved.

Ministry of Housing and Urban Development

38. MHUD has inherited a number of cost pressures due to relevant baseline funding approaching expiry in 2018/19, particularly in relation to the KiwiBuild Unit. This cost pressure, alongside MHUD’s role of providing strategic leadership on housing policy, may require it to upscale its capability to:
  - advance policy to deliver the Urban Growth Agenda (*i.e.*, housing affordability policy);
  - explore partnership models with councils for the purpose of spatial planning;
  - support local government capability to meet demands placed upon territorial authorities by the Urban Growth Agenda;
  - deliver on the Government's aspirations for Māori housing; and
  - Invest in the analytics and insights capability required to provide system leadership in housing and urban development.

39. We recommend you discuss with Minister Twyford the Government's ambitions for MHUD, and what this implies for capability and cost.

**Transport**

40. The Government Policy Statement on Land Transport (GPS) was released in June 2018. The GPS guides the Government's priorities for land transport and funding ranges for land transport activity classes. The GPS 2018 established two new activity classes: "Rapid Transit" to support investment in light rail and "Transitional Rail" to support investment in urban and interregional rail services. Project level investment decisions are taken by the Board of the NZTA.
41. MoT and transport agencies have a number of work programmes underway to deliver the Government's transport priorities. To successfully implement the intended direction, investment will be required across the sector (including in physical investments, and/or regulatory change).
42. Much of this investment is already guided through the GPS 2018 or has been submitted as a bid for Budget 2019. There are also a number of areas that may require new or reprioritised funding. For example:
- a [33]
  - b
  - c
  - d
  - e
43. NZTA's current forecasts suggest that the NLTF may be nearly, or fully committed over, the next ten years once planned investments in light and transitional rail are taken into account.
44. Across all work programmes, MoT is considering options for delivery including funding sources, the role of financing and the potential to implement new funding tools such as value capture and transport pricing.

**Talking points for your discussion with Minister Twyford**

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45. You may wish to discuss the following:
- a Note the high-quality, proactive nature of MHUD and MoT's approach to the Budget 2019 process.
  - b Reinforce the requirement to offer up 1% for prioritisation and the agreed definition of the baselines for prioritisation. You should also discuss the feasibility of the Ministry of Transport's suggested approach to achieve this outcome through investigating alternative funding sources for some Transport appropriations. Additionally, granting exemptions to in-scope appropriations raises the issue of fairness for other Ministers.

## BUDGET-SENSITIVE

- c Encourage Minister Twyford to reduce the amount of bids or funding sought, as the current scale of the bids cannot be accommodated within Budget 2019 allowances. You should also discuss what Minister Twyford's priorities are for the Budget.
- d The Budget implications of MHUD's cost pressures alongside its intended role to provide strategic leadership on housing policy.
- e The range of strategic issues, as set out in Annex 2, and its impact on bids for Budget 2019 (and expenditure in later years). Minister Twyford should address these issues in the development of his bids for Budget 2019.
- f Discuss the importance of aligning the Future of Rail Review with the Budget 2019 process and the need to reduce the amount of the rail bids, as referred to in Annex 3.
- g Talking points in Annex 4 on Budget 2019 requirements and expectations.

## Annex One: Funding Sought and Prioritisation review by Minister Twyford by Portfolio

### New Initiatives for Portfolio Housing and Urban Development

Initiative type <sup>1</sup>	Initiative (by package)	\$ millions		Initial comment on initiative
		Oper. funding (total over forecast period)	Capital funding (10 year total)	
	[33]			
Priority-aligning (Priority 4)				
Priority-aligning (Priority 4)	[33]			
<b>Subtotal</b>		[33]	-	
	<b>Prevention and responses to homelessness</b>			
Priority-aligning (Priority 5)	Prevention and Response to Homelessness Through Tailored Support Services	[33]		The TSY Vote Team has no view on this bid yet.  This initiative funds support services within the context of a full spectrum response to homelessness. Funding may increase to respond to findings of the Mental Health Inquiry.

<sup>1</sup> Initiative types are based on the agency's assessment of whether they are priority aligning.

**BUDGET-SENSITIVE**

Non-discretionary cost pressure	Housing Assistance Payment (HAP) to Prevent People Slipping Out of Private Rentals	[33]		<p>The TSY Vote Team has no view on this bid yet.</p> <p>This initiative would provide flexible and discretionary payments to assist with a wide range of housing needs (sustain existing housing). The type of payment in question could repurpose several types of assistance into one.</p>
[33]				
<b>Subtotal</b>				
	<b>Ministry of Housing and Urban Development Capability</b>			
Non-discretionary cost pressure	Retain Current HUD Service Levels – Corporate and Delivery			TSY Vote Team agrees that HUD has inherited non-discretionary cost pressures; however, we have not yet developed a view on the amount of funding sought.
Priority-aligning (Priority 5)	Create New Capability to Deliver the Urban Growth Agenda and Large Scale Development Support			The TSY Vote Team considers this bid of high strategic priority for the government to deliver on its housing programme. We do not yet have a view on the amount of funding sought.
<b>Subtotal</b>				
Priority-aligning (Priorities 1)	Pacific Financial Capability	3-5	-	
<b>Subtotal for priority-aligning initiatives</b>		[33]		
<b>Subtotal non-discretionary cost pressures</b>				
<b>Subtotal out-of-scope</b>				
<b>Total for Portfolio Housing and Urban Development</b>				

**BUDGET-SENSITIVE**

**BUDGET-SENSITIVE**

New Initiatives for Portfolio **Transport**

Initiative type	Initiative	\$ millions		Initial comment on initiative
		Operating funding (total over forecast period)	Capital funding (10 year total)	
[33]				
Priority-aligning (Priorities 1, 2, 3 and 4)	Green Transport Card	[33]		<p>The Treasury Vote team does not support this bid.</p> <p>This bid seeks funding to provide free public transport for Community Services Card (CSC) holders and their dependent children during off-peak travel periods.</p> <p>Our preference is that the costs and benefits of a range of options to support access to education and employment are evaluated before funding is committed.</p>
[33]				
[33]				
Priority-aligning (Priority 2)	Sustainability of Rail in New Zealand - Investment in Rolling Stock (replacement and growth) and Maintenance Facility Upgrades.		[33]	We expect that this bid will be subject to the outcome of the Future of Rail Review.

**BUDGET-SENSITIVE**

**BUDGET-SENSITIVE**

Priority-aligning (Priority 1)	[33]			[33]
Priority-aligning (Priority 1)	Inter-Island Resilient Connection: safe, resilient, reliable fleet and terminal configuration supporting customer needs [Project iReX].		[33]	<p>We expect that this bid will be subject to the outcome of the Future of Rail Review.</p> <p>It is our preference that financing options for this project are also considered as the InterIslander is a profit generating part of KiwiRail.</p>
Priority-aligning (Priority 1)	KiwiRail Capital Requirements (BAU)		[33]	<p>We expect that this bid will be subject to the outcome of the Future of Rail Review.</p> <p>This initiative reflects an estimate of KiwiRail's required level of capital investment for FY20 and FY21.</p>
Priority-aligning (Priority 1)	Maritime NZ: Maritime incident response (non-oil) capability	[33]	[33]	<p>The TSY Vote Team has no view on this bid yet.</p> <p>This bid is for funding to maintain and evolve readiness and response capability to respond to non-oil elements of major maritime incidents to mitigate and help reduce the extent to which New Zealand is exposed to the consequences of major maritime incidents</p>
[33]				
[33]				

**BUDGET-SENSITIVE**

**BUDGET-SENSITIVE**

[33]				
<b>Total for priority-aligning initiatives</b>		[33]	[33]	
[33]				

**BUDGET-SENSITIVE**

**BUDGET-SENSITIVE**

[33]				
Non-discretionary cost pressure	Auckland City Rail Link Cost Re-baselining (incorporating future proofing) [Placeholder]		Not determined at this stage	City Rail Link Limited are currently undertaking a reforecast of the project costs. This information should be available to Sponsors in late 2018. Tenders are also with the market for the project's two largest contracts. Further information will be known about the project costs when these close in March/April 2019.  At that stage Sponsors may be able to adjust the scope to scale the bid.
[33]				

**BUDGET-SENSITIVE**

**BUDGET-SENSITIVE**

[33]			
Total for non-discretionary cost pressures		[33]	
[33]			
<b>Subtotal for priority-aligning initiatives</b>		[33]	
<b>Subtotal non-discretionary cost pressures</b>			
<b>Subtotal out-of-scope</b>			
<b>Total for Portfolio Transport</b>			

**BUDGET-SENSITIVE**

## BUDGET-SENSITIVE

### Prioritisation for Portfolio **Housing and Urban Development**

Housing New Zealand Support Services	\$1 million per annum
Management of Crown Properties held under the Housing Act	\$1 million per annum
Housing Assistance	\$0.2 million per annum
<b>Total Prioritisation</b>	<b>\$2.2 million per annum</b>

### Prioritisation for Portfolio **Transport**

<i>Ministry of Transport Policy Advice</i> MCA	\$0.298 million per annum
Meteorological Service Weather Forecasts and Warnings Contract	\$0.240 million per annum
SuperGold Card Public Transport Concessions	\$0.292 million per annum
Other	\$0.290 million per annum
<b>Total Prioritisation</b>	<b>\$1.12 million per annum</b>

## Annex Two: Housing and Urban Development Context and Strategy

### Overview

This century New Zealand has had two periods of rapid housing price increases: 2002–2007 and 2013–2018. Our housing is amongst the least affordable in the OECD. Increases in housing costs have reduced homeownership, increased hardship, reduced economic growth, lowered wellbeing and increased inequality.

Successive Governments have responded by increasing housing assistance through:

- Increases to public housing purchasing-budgets (social housing purchasing rose from \$286m to \$1,013m since 2002);
- Increases to private housing income assistance (Accommodation Supplement (AS) rose from \$706m to \$1,508m since 2002);
- Increases to home-ownership support;
- Initiated housing supply programmes of affordable and market housing (HNZ build programme, followed by KiwiBuild);
- Borrowed capital for housing through HNZ;
- Emergency housing including Housing First, purchasing motels and providing special needs grants;
- Introducing new rental regulations that aim to help tenants; and
- Re-organising the provision of housing policy and delivery advice.

These approaches have not improved housing affordability, as poorly-functioning housing markets – most importantly inelastic land supply – lead to government expenditures leaking into increased costs rather than more and/or cheaper housing supply.

The public housing waiting list is at record levels. Across all AS recipients (half the rental market), the share of income devoted to housing costs in 2017 was 50 percent, which is four percentage points higher than in 2006.

To increase wellbeing the housing market needs a structural fix. This fix will rely on institutional and regulatory changes to the land, infrastructure and construction markets. If this does not happen, the budgetary cost of income transfers or subsidies required to make homeownership possible for more than a limited number of middle-income households will be prohibitive.

For Budget 2019 this means:

- Budget initiatives that support improved functioning of the housing market are likely to leverage high benefit from modest expenditure; and
- Additional demand or supply subsidies for housing should be targeted, because broad-based subsidies will be captured to a large extent in land prices.

### KiwiBuild

KiwiBuild aims to supply 100,000 affordable homes to first homebuyers over 10 years without subsidy. In the current market, however, KiwiBuild has to produce houses with expensive land, infrastructure and building cost inputs.

## BUDGET-SENSITIVE

Therefore subsidies – whether to financiers, developers or homebuyers – are becoming a part of the actual or expected KiwiBuild toolkit. Given the combination of actual housing costs, affordability goals and construction targets, this is in practice inevitable until reforms to regulatory settings and more-efficient construction take hold. However, such subsidies are an expensive intervention that benefits relatively well-off households, and risk distracting from the deeper goal of reducing actual build costs.

There are no budget bids for KiwiBuild in Budget 2019. Potential future budgetary impact comes from two sources:

- The implications of strategic decisions taken this year on the future capital; requirements of meeting KiwiBuild targets. These decisions include delivery methods and subsidy requirements; and
- The potential fiscal costs of underwrite contracts if house prices fall.

For Budget 2019 this means:

- Understanding the likely scale of funding requirements for future Budgets
- Ensuring policy settings for KiwiBuild that achieve value for money;
- Setting parameters to quantify and manage fiscal risks associated with KiwiBuild, including for guarantees; and
- Most importantly, establishing an unambiguous path to move from “affordability from subsidy” to “affordability from policy reform”. Establishing a declining subsidy envelope per KiwiBuild place may be a part of this approach.

### Urban Development Authority

The Urban Development Authority (UDA) is intended to be the lead developer on 10 to 15 large-scale urban developments, drive delivery of affordable homes through KiwiBuild and deliver on the Government's other urban-development priorities. Legislation to establish the UDA is still being developed, so operation could be 12 to 18 months away.

Funding for establishment of the UDA was included in the \$2.1 billion appropriated for KiwiBuild. Once established, the UDA will need to implement its programmes, acquire land for development, and, due to the lag between development spending and revenue, have access to capital to enable these programmes to proceed. Precisely what funding/financing is needed by the UDA will in part be a function of the choices Cabinet makes on entity form, the programmes being undertaken by the UDA, and the resources brought to these programmes by other participants.

For Budget 2019 this means:

- No budget bid for the UDA in 2019 unless pre-establishment work determines that the existing appropriation will be inadequate; and
- Understanding the likely scale of funding requirements for future Budgets.

## **Public Housing**

Increasing funding for public housing in recent years has surfaced a growing range of challenges:

- very high per-house cost of additional public houses from newly-built public housing
- questions about the capacity of HNZ and CHPs to increase supply beyond current levels;
- pressure to increase supply from repurposing existing housing (in particular council housing) as public housing vs the desire for additional public housing to be achieved from new-built housing (*i.e.*, from increasing actual housing supply);
- the high costs of upfront capital funding for CHPs; and
- the growing housing register, despite increased public-housing supply.

These issues coalesce into the need for a more clearly-articulated strategy looking forward.

For Budget 2019 the key issues are:

- Proposals to build more public houses should be a part of an articulated overall strategy to respond to growing demand for public housing, including:
  - a understanding and managing demand, supply costs and constraints
  - b acceptability to the Government of repurposing existing housing as public housing
  - c managing demand for public housing vs increasing supply of public housing
  - d the priority between renewing HNZ's existing housing stock vs new stock
  - e the role of upfront funding for CHPs
- Fiscal strategy implications of the current approach to HNZ borrowing.
- Niche versus scale. CHPs do not have the scale to increase supply consistent with the Government's ambitions, and their supply is likely to be more expensive than HNZ's. On the other hand, CHPs can offer niche support services more readily than can HNZ. Decisions on CHP supply therefore should derive from a clear strategy of the place of CHPs and HNZ both for supplying houses, providing support services for tenants and achieving value-for-money.

[33]

## **Transitional Housing and Response to Homelessness**

A focus on Transitional Housing (previously referred to as emergency housing) is a recent development. It provides those with immediate need for accommodation a short-term stay of approximately 12 weeks with a transitional housing provider, before they can move into more permanent housing, such as public housing or a private rental.

Compared with public housing, the transitional housing programme is less developed and also faces significant challenges in bringing on supply in appropriate locations. Fiscal risks associated with transitional housing include:

- Managing the costs of transitional housing supply and services within the allocated funding envelope; and
- A delay in bringing on transitional housing supply may lead to pressure elsewhere, particularly in an increase in Emergency Housing Special Needs Grants.

For Budget 2019 this means:

- understanding the future pipeline of transitional housing;
- achieving the value for money in purchasing transitional housing;
- developing a co-ordinated approach to the delivery of places nationally;
- moving away from the use of leased motels for transitional housing;
- developing a long-term strategy;
- robust evaluation; and
- introducing a regulatory framework for transitional housing providers.

## **Ministry of Housing and Urban Development**

The Ministry of Housing and Urban Development (MHUD) began its operations on 1 October 2018. Cabinet approved new funding for the establishment costs of MHUD in 2018/19 only. To achieve its purpose, however, MHUD has to expand its functions and capabilities.

For Budget 2019, the key issues are that:

- MHUD has inherited considerable cost pressures from MSD and MBIE when existing policy functions transferred to the new Ministry; and
- MHUD will require further funding for additional capability.

## **Annex Three: Further Information to Support Discussion of the Transport Budget Bids**

### Vote Transport Revenue Sources

1. Vote Transport is predominantly funded through targeted taxes:
  - a Petrol Excise Duties and Road User Charges contribute 85 percent of funding
  - b Fees and levies contribute 8 percent
  - c Crown funding represents only 5 percent.
  
2. Funding for the transport agencies is based on funding principals that focus on more direct charges such as fees, levies or targeted taxes. Crown funding has therefore being limited to functions with broad, indirect or widely-distributed benefits. As a result of this approach, Crown funding has been minimised over the years.

### Vote Transport Expenditure and Cost Pressures

3. Vote Transport is dominated by the hypothecated funding for the National Land Fund and Crown support for KiwiRail, the rebuild of the South Island Transport Corridors and City Rail Link. The Vote also supports MoT's departmental costs, the policy and regulatory functions of the Crown Transport Agencies and annual funding for the MetService contract and the SuperGold Card public transport scheme.
  
4. The largest appropriations in 2018/19 for Vote Transport are:

<b>Appropriation</b>	<b>Operating (\$m)</b>	<b>Capital (\$m)</b>
NLTF Operating PLA	2,332	
NLTF Capital PLA		1,253
Rebuild of South Island Transport Corridors (Road and Rail combined)	35	347
KiwiRail Equity Injection		230
City Rail Link (Crown share)		234

## BUDGET-SENSITIVE

### Budget 2019 Rail Bids and the Future of Rail Review

- Approximately <sup>[33]</sup> of the transport capital bids relate to rail. The breakdown and phasing of this is shown below:

Budget Initiative	2018/19 (\$m)	2019/20 (\$m)	2020/21 (\$m)	2021/22 (\$m)	2022/23 (\$m)	2023- 2028 (\$m)	Total (\$m)
[33]							
Sustainability of Rail in New Zealand - Investment in Rolling Stock (replacement and growth) and Maintenance Facility Upgrades.	[33]						
Main North Line railway reinstatement - additional investment to deliver equivalent level of service and resilience of rail to road.							
Inter-Island Resilient Connection: safe, resilient, reliable fleet and terminal configuration supporting customer needs [Project iReX].							
KiwiRail Capital Requirements (BAU)							
<b>Total</b>							

5. You could acknowledge the role that the Future of Rail Review will have on the eventual scale and content of the bids for rail. It is important that this work continues to have regard to the affordability of the rail bids in the context of the Government's fiscal goals and the Budget 2019 allowances.

- Some options to scale the rail bids that you could discuss with the Minister of Transport are:
  - i Testing the full range of design, procurement and financing options for the <sup>[33]</sup> bid for new ferries.
  - ii <sup>[33]</sup>

## BUDGET-SENSITIVE

- iii Agree that a portion of the investment in the proposed <sup>[33]</sup> Main North Line is required for safety post the 2016 Kaikoura earthquake, <sup>[33]</sup>  
[33]  
[33]

- Delivery risk – the rail sector is potentially receiving an increasing amount of funding from a number of sources (PGF, Crown capital support, NLTF), we need to be mindful of what is achievable over the next ten years and the skills and resources available to deliver the work. This is especially the case with competition for similar resources from the light rail and City Rail Link projects, and large Australian projects.
- Note that you and the Minister of Transport have asked the City Rail Link Limited Board for an early indication of any estimated cost increases and you would expect these to allow you to consider them as part of the 2019 Budget process.

### Green Transport Card

- You could discuss whether there are more efficient ways to achieve access to employment and education opportunities for community service cardholders. This scheme may not be seen as equitable as it will provide more benefits for cardholders in urban areas with access to public transport and will not benefit cardholders who need to travel during peak periods.
- A learning from the SuperGold Card scheme is that it has the potential to create an uncapped financial liability for the Crown. Commercial input to the design of any scheme to ensure the best outcome for taxpayer investment is advised.
- Acknowledging the funding pressure on the NLTF, you could also discuss whether the transport benefits of this scheme could be funded from the NLTF. SuperGold Card transport benefits could also be funded in the same way. This approach could potentially provide more certainty of funding and allow for better management of both schemes.

### Satellite Based Augmentation System

- Minister Twyford is leading a collaborative bid with LINZ to procure an SBAS system. <sup>[38]</sup>  
[38] . SBAS is commonplace in Europe, America and Asia and is a required technology for accurate positioning of autonomous vehicles and drones. It would also support the accuracy of future road pricing systems.
- Given the wide range of applications for this technology you could discuss whether a wider group of Ministries should be involved? Could a contribution be funded from existing baselines or some form of commercial revenue.
- [38]

### Transport Crown Entity and MetService Bids

- You could commend the thorough funding reviews carried out over the past year by Maritime New Zealand, the Civil Aviation Authority and the Transport Accident Investigation Authority.

## BUDGET-SENSITIVE

- The bids identify a number of new services and cost pressures that cannot be met from third party or commercial revenue. Further analysis of scaling and deferral options for these bids will need to be worked through in the context of the tight budget allowances.

### Requirements for Budget 19 and Wellbeing Analysis

- You could also commend the Minister for the Ministry of Transport positive approach to engaging with the requirements for B19 and their efforts to integrate wellbeing analysis into their Budget bids and development of the Ministry's Transport Outcomes Framework.
- You could also acknowledge the roles of Minister Genter and Minister Jones as Associate Ministers of Transport, and Minister Shaw in his Acting Associate Minister of Transport in supporting the Budget process.

## Annex Four: Talking points for Budget 2019 bilateral meetings

### Purpose

#### *The purpose of each bilateral meeting is to:*

- Go over some of the key requirements for Budget 2019;
- Understand your priorities, what initiatives you are planning on submitting for Budget 2019, how these relate to Budget priorities, and how you are working across portfolios and agencies on the initiatives; and
- Understand how you are approaching the prioritisation exercise for Budget 2019.

### Expectations and Requirements for Budget 2019

#### *Budget 2019 is our first Wellbeing Budget. For it to be successful, there are a number of changes for us as Ministers and for our agencies.*

- Budget 2019 will be anchored around five priorities, which were established based on analysis from the Living Standards Framework, sector understanding and engagement across the public sector. These will drive the development of initiatives and decision making, and ensure a wellbeing focus is embedded at the heart of the Budget.
- While priority-aligned initiatives will be the main focus, non-aligned cost pressures where the Government has little discretion will also be within scope. A high bar will be set for any initiatives outside of these two areas. This high bar means that initiatives will need to achieve a strong assessment from the Treasury in the following areas:
  - Government direction and priority-alignment
  - Wellbeing analysis and intervention logic
  - Cost understanding
  - Collaboration
- We can't achieve any of the priorities without working across portfolios and agencies. As a result, collaboration between Ministers and across agencies is expected and will be a component of how Finance Ministers and the Treasury will look at and assess initiatives and Budget packages.
- All initiatives will also be required to present a wellbeing analysis – something your agencies will be working on. This involves identifying the impacts of initiatives on the 12 wellbeing domains, the four capitals and whether the initiative adapts to or absorbs risk and builds resilience. This wellbeing analysis will also play a role in how we consider packages and make decisions through the Budget process.

***Budget 2019 allowances are tight.***

- It is important that we continue to stick to the Budget Responsibility Rules. But doing so, while also achieving our objectives for the Wellbeing Budget, will require considerable effort.
- After pre-commitments, we have under \$2 billion operating per annum available for Budget 2019 (as at 15 October). On the capital side, our shift to a multi-year capital allowance will provide greater flexibility, but it won't increase the total amount of funding available. There have already been significant calls on the capital allowance as well.
- The tight allowances are another reason why the prioritisation exercise of identifying low-value and non-priority aligning expenditure is important. We want to ensure that our focus is not just on marginal expenditure but also on ensuring existing expenditure supports this Government's direction and priorities.
- I also want to re-enforce that pre-commitments against these allowances only further reduce the amount that we have to spend for the Wellbeing Budget. These should only be considered where there is an urgent need for funding in 2018/19 and the BBC has been exhausted.

**Understanding each Minister's approach to their initiatives for Budget 2019**

- The rest of this meeting is about you and your portfolios.
- I'm keen to understand your priorities, what is most important to you, and what initiatives you're developing with your agencies and other Ministers for Budget 2019.
- I'm also interested in how you're approaching the prioritisation exercise, and any high level areas you're considering with this.
- Finally, I'd like to understand how you have found the Budget process so far, and confirm that you have the information and support you need.