

DOIA21/22040723

s 9(2)(a)

Dear s 9(2)(a)

Thank you for your email dated 12 April 2022 requesting the following information under the Official Information Act 1982 (the Act):

I would like access to each of the documents referred to in WPQ 9677 (2022)

Six papers are released to you with some information withheld under the following sections of the Act:

Section of Act	Reason to withhold
9(2)(a)	To protect the privacy of natural persons, including that of deceased natural persons
9(2)(f)(iv)	To maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials
9(2)(g)(i)	To maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty

This information is summarised in the document schedule below.

In terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the decision to withhold information under section 9 of the Act is not outweighed by other considerations that render it desirable to make the information available in the public interest.

You have the right to seek an investigation and review of this response by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found on the Ombudsman's website www.ombudsman.parliament.nz.

As part of our ongoing commitment to openness and transparency, the Ministry proactively releases information and documents that may be of interest to the public. As such, this response, with your personal details removed, may be published on our website.

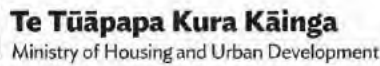
Yours sincerely



Hilary Joy
General Manager
System Policy

Document schedule

DOIA21/22040723 Documents in scope			
	Date	Title	Section of the Act applied
1.	3 December 2021	BRF21/22121192: Emerging headwinds to residential development and construction	9(2)(a) 9(2)(f)(iv)
2.	3 March 2022	BRF21/22021230: Housing supply and affordability: Interim advice on market headwinds	9(2)(a) 9(2)(f)(iv) 9(2)(g)(i)
3.	9 March 2022	M/EB21/22030214: First biannual residential construction sector roundtable	9(2)(a) 9(2)(f)(iv)
4.	14 March 2022	M/EB21/22030215: Meeting with Steel Construction NZ	9(2)(a)
5.	16 March 2022	AMI21/22030790: Key messages from the first biannual construction sector round table	9(2)(f)(iv)
6.	23 March 2022	BRF21/22031273: Construction Market Headwinds - Initial Prioritisation of Options	9(2)(f)(iv)



Briefing

Emerging headwinds to residential development and construction and meeting with the Chair of Kāinga Ora to discuss associated delivery risks

Date:	3 December 2021	Security level:	In Confidence
Priority:	High	Report number:	BRF21/22121192

Action sought

	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Note the contents of this briefing	6 December 2021

Contact for discussion

Name	Position	Telephone	1 st contact
Stephanie Rowe	DCE, System Performance	s 9(2)(a)	✓
Brad Ward	DCE, Place-based Policy and Programmes	s 9(2)(a)	

Other agencies consulted

Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify)	Comments
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Date returned to MHUD:



Briefing

Emerging headwinds to residential development and construction and meeting with the Chair of Kāinga Ora to discuss associated delivery risks

For: Hon Grant Robertson, Minister of Finance
Hon Dr Megan Woods, Minister of Housing

Date: 3 December 2021 **Security level:** In Confidence

Priority: High **Report number:** BRF21/22121192

Purpose

1. This briefing provides an overview of the emerging headwinds facing the residential development and construction sector as a result of Covid-19, and how they may impact house building. In this context, the briefing also:
 - a. Provides initial commentary on Kāinga Ora's plans to manage its delivery risks through to 2024, including suggested talking points for your meeting with the Chair of the Kāinga Ora Board on Monday 6 December 2021 (attached at Annex A).
 - b. Suggests potential focus areas (both policy and operational) that may warrant further investigation to support ongoing housing delivery, both public and private
 - c. Outlines Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development's (HUD's) plans for ongoing sector engagement to monitor the impacts of Covid 19 on the sector, and identify and test whether potential changes to policy and operational settings may be needed.

Recommended actions

2. It is recommended that you:
 1. **Note** emerging headwinds suggest that a higher than usual proportion of consented dwellings may not be built in a timely manner, if at all Noted
 2. **Note** that these emerging headwinds relate to:
 - i. The availability and cost of building materials, labour and development finance
 - ii. The cost and availability of mortgage finance
 - iii. Declining underlying demand and house price reexpectations
 3. **Note** that at your request, Kāinga Ora has provided you with a briefing outlining how it proposes to mitigate the delivery risks and impacts associated with Covid-19 (BN 21 040 refers); Noted

4. s 9(2)(f)(iv) [Redacted]
[Redacted]
[Redacted]
[Redacted]

■ [Redacted]
[Redacted]

■ [Redacted]
[Redacted]

■ [Redacted]
[Redacted]
[Redacted]

6. **Agree** that Kāinga Ora complete its analysis of its Public Housing pipeline and provides this to HUD, and that HUD reports back to Ministers on the implications for the Public Housing Plan

Agree/disagree

7. **Agree** that Kāinga Ora report back to you on other outstanding matters as set out in this briefing

Agree/disagree

8. **Note** that suggested talking points for your meeting with the Chair of Kāinga Ora on Monday 6 December 2021 are attached to this briefing at Annex A

Noted

9. **Agree** that HUD provide you with a draft letter setting out your expectations, including the reports back referred to above, by 10 December to send to the Chair of the Kāinga Ora Board following your meeting with him on 6 December

Agree/disagree

10. s 9(2)(f)(iv) [Redacted]
[Redacted]

■ [Redacted]
[Redacted]

■ [Redacted]
[Redacted]

■ [Redacted]
[Redacted]
[Redacted]

■ [Redacted]
[Redacted]

■ [Redacted]
[Redacted]

[Redacted]

11. **Note** that HUD intends to ramp up its engagement with the sector, including through establishing biannual meetings (tentatively commencing in February 22) with a group of key sector participants to discuss:

- i. how the sector is managing the impacts of Covid-19;
- ii. the effectiveness of our partnerships; and
- iii. any potential changes to operational and policy settings that may be required.

Noted



Stephanie Rowe

DCE System Performance

..... / /

Hon Dr Megan Woods
Minister of Housing

..... / /

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Executive summary

3. Emerging market headwinds relating to Covid-19 and the unwinding of monetary stimulus suggest that a higher than usual proportion of consented dwellings may not be built in a timely manner, if at all. This includes headwinds relating to the availability and cost of building materials, labour and development finance; the cost and availability of mortgage finance; and declining underlying demand and house price expectations. While the supply side constraints have been building for some time, the changing demand side picture means it may no longer be feasible for some developers to offset rising input costs and risks through charging higher house prices.
4. Some of these headwinds are the result of global factors, and commercial and household decisions over which the government has limited control. In other cases, they relate to or could be mitigated by policy and operational decisions made by government across a range of portfolios. We are already doing a lot, as illustrated in Annex C.
5. You asked Kāinga Ora to provide you with a report back and a plan to catch-up on its delivery commitments, which have been adversely impacted by some of the factors outlined in this briefing. As part of this you specifically asked Kāinga Ora to consider facilitating and enabling delivery by others.

s 9(2)(f)(iv)

7. Comments related to Kāinga Ora are provided at paragraphs 27 to 49 of this briefing, and in the suggested talking points for your meeting with the Chair of Kāinga Ora on Monday 6 December 2021.

s 9(2)(f)(iv)

9. In terms of the wider impact of Covid-19 on residential construction, it is important that we stay close to the sector during this time of change. HUD is already engaging one on one with select individuals on a regular basis to gather real time information about what they are experiencing on the ground. We intend to ramp up this existing activity, and also commence biannual meetings with a group of key sector participants to discuss how the sector is managing the impact of Covid-19, the effectiveness of our partnerships, and any potential changes to policy and operational settings that may be required.

Overview of emerging headwinds to residential development and construction

Residential development and construction is critical to wellbeing, but prone to volatility

10. The construction sector is critical to New Zealand's social and economic wellbeing. It currently employs around 195,000 people, and accounts for approximately 7% of New Zealand's GDP. The adequacy and suitability of new housing and urban development also has a significant bearing on a range of health and educational outcomes, access to employment, and New Zealand's carbon footprint.

11. Residential development and construction decisions are influenced by a range of supply and demand side factors, as illustrated in Annex B. Developers are incentivised to deliver new supply when the price that prospective purchasers (or tenants) are willing and able to pay exceeds the anticipated costs of provision (including a profit margin and contingencies commensurate with the associated risks).
12. The sector is particularly vulnerable to economic shocks. It is quick to shed businesses and people during economic downturns, and slow to recover when demand returns.¹ These boom-bust cycles are accentuated by the sector's fragmented nature and heavy reliance on outsourcing and risk transfer. When lead contractors pull back or fail, suppliers and subcontractors often follow in a domino effect.

Covid-19 has changed the cost and risk profile of residential development, with unexpected and potentially unsustainable results

13. Covid-19 has changed the cost and risk profile of residential development. Despite initial predictions of a major downturn in construction activity, consent volumes have remained strong both locally and internationally. New Zealand issued 47,715 new build consents in the year to October 2021 (including a record 4,490 consents in August), a 26 per cent increase from the previous year. This relative strength can be attributed to a range of factors including pre-existing housing shortages, record net immigration (90 000 people in the year to March 2020) immediately prior to the first lockdown, and unprecedented fiscal and monetary stimulus which saw mortgage rates fall to record lows and pushed up asset prices.
14. However, emerging headwinds suggest that the current volume of building consents may be unsustainable and that a higher than usual proportion of consented dwellings may not be completed in a timely manner, if at all.
15. On the supply side, the key headwinds relate to the availability and cost of:
 - a. **Building materials.** Covid-19 has interrupted domestic and international production and supply chains, leading to delays and increased costs. Shortages of key materials (e.g. structural timber and cladding) are affecting the scheduling of sub-trades, reducing productivity and delaying completions.² Substitutions are increasingly common, but typically with lower quality materials that sometimes require costly and time consuming consent variations. Timber and steel prices have reportedly increased by around 20 and 30 percent respectively. Across the board, material costs have increased by around 3 to 5 percent on average, with further price increases signalled.³
 - b. **Labour supply and productivity.** Pre-existing labour shortages have been exacerbated by increased demand, site-shutdowns and social distancing requirements, and closed borders. Wages increased three percent in the year to September 2021. While the barriers to importing skilled labour are expected to ease as international borders reopen, this will depend on the outcome of the immigration reset. There are concerns that border re-openings could also facilitate an exodus of existing workers to other countries offering higher wages and cheaper living costs, as happened following the Global Financial Crisis.

¹ The sector is estimated to have lost approximately 25 to 30 percent of its workforce between 2008 and 2011 due to GFC, and took seven years to rebuild the workforce to pre GFC levels.

² For example, local manufacturers are reporting a 9 month lead time for framing that would previously have taken 6 to 8 weeks.

³ Carters has signalled that prices for a range of building products will increase by between 3 and 16 percent in February 2022.

- c. **Development finance.** Reported bank lending for residential development has fallen by over 20 percent since mid-2019. Anecdotally, the void appears to have been largely filled by non-bank financiers but at a higher cost and with uncertain scalability. Rising costs and increased barriers to securing pre-sale commitments (discussed further below) may further restrict access to development finance moving forward.
16. According to the Cordell Construction Cost Index the total costs of building a standard house⁴ in New Zealand increased by 5.5 percent in the year to September 2021. At 1.6 percent, the quarterly cost increase was double the long-term quarterly average. In addition to the factors outlined above, many councils across the country are struggling to process building consents within the 20-working day statutory timeframe – creating further uncertainty, delays and costs.
17. On the demand side, the key headwinds include:
- a. **Lending criteria.** While new build mortgages are exempt from Loan to Value Restrictions (LVRs), recent changes to the Credit Contracts and Consumer Finance Act require banks to undertake more detailed due diligence before approving mortgages to ensure that they are affordable and sustainable. Mortgage advisors report that banks are becoming increasingly wary of lending on new builds due to concerns about construction cost overruns. Some banks are reportedly pulling mortgage pre-approvals, including for purchasers who have already committed to purchasing properties off the plans.
 - b. **Interest rates.** With inflationary pressures building, the Reserve Bank has already increased the Official Cash Rate (OCR) by 50 basis points from a record low 0.25 percent to 0.75 percent. It is forecasting an OCR of around 2.5 percent by late 2023. The financial markets have priced in an OCR of around 3 percent by mid-2023. This could see three-year fixed mortgage rates increase from recent lows of around 3 percent to around 6 percent.
 - c. **Declining underlying demand and house price expectations.** New Zealand's net population increased by just 0.6 percent in the year to June 2021 (compared to 2.2 percent the previous year). Auckland's population actually fell 0.1 percent, the first decline on record.⁵ Kiwibank has estimated that the underlying housing shortage reduced by around 13,000 dwellings in the year to March 2021, and could be eliminated by 2024. Further, the Reserve Bank, BNZ and Westpac are now all forecasting house price corrections in the 2022/23 financial year.
18. Collectively, these factors suggest that some segments of the new build market may be about to stall. On the one hand, the sector is facing increased costs and risks that are reducing its appetite to commit to fixed price contracts. On the other hand, the sector's ability to ultimately pass these increased costs and risks onto consumers in the form of increased house prices is diminishing.
19. These factors may disproportionately impact supply in locations and of price points and typologies that were already marginal from a development economics perspective. They could be particularly problematic for undercapitalised developers of multi-unit developments, who typically need to secure significant presales in order to access development finance. Some may find that they are unable to enforce existing presale commitments. Others who have sought to recoup increased costs by triggering sunset clauses in pre-purchase contracts, with the aim of negotiating a higher purchase offer, may find that that option is no longer viable. In contrast, there is potential for better capitalised and more efficient developers to realise some opportunities arising from reduced competition from other developers pausing or folding.

⁴ Based on a 200m² house with a concrete slab, brick veneer and concrete tile roof.

⁵ [Auckland's population falls for the first time | Stats NZ](#)

Government can cushion the impact of some of these constraints

20. Some of the headwinds are the result of global factors, commercial decisions and individual household decisions over which the Government has limited control. In other cases, they relate to or could be mitigated by policy and operational decisions made across a range of government portfolios (e.g. immigration).
21. The Government is already doing a lot to remove barriers to residential development and construction, as summarised in Annex C. This includes a mix of regulatory reforms, measures to facilitate improved access to land and infrastructure, development funding and financing, and a range of tools to support demand for new housing from both investors and first home buyers. It is important that we consider whether these existing settings and interventions are still appropriate given the changing context, whether there is anything more that the Government could do, or change, to support continued housing supply and what the areas of focus might be, and what the trigger to take action might be.
22. It's important that any further measures taken by government, whether to support Kāinga Ora or the private sector:
 - a. Support the government's strategic direction and priorities for housing and urban development as set out in the Government Policy Statement
 - b. Facilitate delivery in the places and of the price points and tenures most needed
 - c. Lay the foundations for a more sustainable and productive sector moving forward
 - d. Avoid the risk of moral hazard by maintaining appropriate incentives for the private sector to manage its own costs and risks.
23. In particular, there is an opportunity to accelerate the shift away from inefficient production of large, bespoke stand-alone houses, and towards the mass production of smaller, denser housing that can make more efficient use of land, infrastructure, materials and labour. There may also be an opportunity to focus effort to increase supply in priority places, including regional centres. However, it is important to note that higher density development won't always be practical outside of the main centres.
24. The next two sections discuss some potential responses that can be taken to support housing delivery by both Kāinga Ora and the private sector. The final section sets out a proposed approach to market engagement that will assist in informing when and how government should act.

Addressing the implications for Kāinga Ora

25. On 14 October Kāinga Ora provided you with a high-level briefing outlining how Covid-19 alert level changes have impacted its interactions with customers and broader work programme. It advised you that it is unlikely to meet over half the performance targets set out in its Statement of Performance Expectations (SPE), s 9(2)(f)(iv)
[REDACTED]
26. In response, you wrote to the Chair of the Kāinga Ora Board acknowledging the immediate impacts of the Covid-19 public health measures on its ability to meet its SPE targets in 2021/22. You advised Kāinga Ora that you do not take decisions to change SPE targets lightly, and asked it to report back to you with plans to manage and address the delivery issues that it has identified. Kāinga Ora submitted its report back to you on 2 December 2021 [BN 21 040 refers].

28. We have primarily focused this advice on three key recommendations that Kāinga Ora has sought your agreement to in their advice. We have proposed that Kāinga Ora report back to you on these key matters by early February and that HUD provides you with advice on the PHP pipeline following advice from Kāinga Ora. This is in addition to the information Kāinga Ora has said it will provide in early 2022 on its financial projections. We will provide supporting advice to you once we have had an opportunity to engage Kāinga Ora and they have undertaken further analysis.

Pipeline of public housing

29. [REDACTED] s 9(2)(f)(iv)
32. HUD has previously confirmed to Kāinga Ora that we would welcome any over delivery in the Public Housing Plan Focus Areas. However, while Kāinga Ora have stated they will meet commitments to delivery of housing, the briefing is not explicit that this extends to delivery at a regional level and whether Kāinga Ora expects to deliver sufficient housing to meet the government's intentions for all regions described in the PHP.
33. Given this we would recommend that Kāinga Ora work with HUD over the coming months to confirm their ability to meet these regional intentions, both for public and transitional housing. This will also enable us to identify areas of under delivery, consider what capacity CHPs may have to meet any regional shortfall, s 9(2)(f)(iv)
34. This work should also cover Kāinga Ora's ability to meet their existing commitment of 1400 transitional housing places and any capacity to contribute to your recently agreed 500 extra transitional housing places.

s 9(2)(f)(iv)

⁷ The Public Housing Plan 2022-24 focus areas are the Far North, Hamilton, Rotorua, Tauranga, Gisborne, Napier, Hastings, Whanganui and Palmerston North.

35. s 9(2)(f)(iv)

Retrofit

36. Due to constraints in labour and materials, Kāinga Ora has sought agreement to prioritise new supply. Kāinga Ora has indicated that this may mean a reduction or delays in its retrofit programme and some planned maintenance being deferred.
37. In the key modelling assumptions in Appendix One, Kāinga Ora has also signalled that home delivery, renewals, and healthy homes can no longer be funded through debt alone, with mitigations including seeking a capital injection from the Crown.
38. There is not enough information to assess how much new supply would be generated through reducing or delaying its renewal programmes, or what the impacts, costs, and risks of agreeing to it might mean, including on its tenants.
39. Kāinga Ora has also flagged that the Medium Density Residential Standards (MDRS) may open up redevelopment opportunities in some locations allowing for densification of existing public housing sites where this would not have been readily possible previously (thereby housing more tenants).
40. s 9(2)(f)(iv)

Off Site Manufacturing (OSM)

41. In July 2021, Cabinet noted [CAB-21-MIN-0277 refers] that the proposed Kāinga Ora OSM Programme would be used for transitional housing and only in exceptional circumstances for public housing. Cabinet also noted that the units would be primarily manufactured offshore (estimated 70 per cent).
42. Kāinga Ora are now seeking feedback on OSM being used for public housing instead of transitional housing. It has also advised that 60 per cent would be sourced from onshore. The reason for the proposed change from transitional to public housing, is twofold: that there have been delays in delivery times due to Covid-19 and so it is no longer feasible to use OSM for transitional housing; and secondly, they will not be able to meet public housing targets using New Zealand labour, due to shortages resulting from Covid-19.
43. HUD recommends that Kāinga Ora complete an analysis of the impact of OSM being used for public housing instead of transitional housing, including how the transitional housing will be delivered to meet targets.

Medium Density Residential Standard

s 9(2)(f)(iv)

45. While the MDRS could help speed up delivery of public housing delivery where there are planning barriers, it is only one of several tools available to address issues in the planning system.
46. s 9(2)(f)(iv)

Financial sustainability

47. Your letter requested that the report back should include financial effects of Covid-19, cost assumptions and flow on effects on the financial sustainability of Kāinga Ora. Kāinga Ora has advised that it will provide you with further information on its long-term financial projections, (including the impact of cost pressures and inflation, and the implications of this on funding settings and projected debt) in early 2022.
48. [REDACTED] s 9(2)(f)(iv)
49. Until the further information is otherwise provided on the long-term financial implications, we are unable to provide advice to you on this aspect and we work with Kāinga Ora to understand the impact on future borrowing limit increases.

Exploring other potential policy and operational changes to support housing supply and affordability

50. In addition to the options outlined above and in Annex C, HUD considers there is a range of other avenues that could be explored to help maintain both public and private sector delivery of affordable homes where they are most needed s 9(2)(f)(iv)
- [REDACTED]

Ongoing sector engagement

51. The residential development and construction markets are dynamic and fast-moving. This means there can be significant shifts in what the sector is experiencing on the ground well in advance of these trends become evident from trailing indicators. In contrast, the system will need to adjust to the challenges and opportunities arising from the emerging market headwinds in real time.
52. It is important that we stay close to the sector during this period of change. HUD is already undertaking regular engagements with selected individuals, who can tap into their personal and professional experience and networks to provide real time updates on what the sector is experiencing on the ground to inform the monthly Housing Market Update and advice on housing supply and affordability. We intend to ramp up this existing activity, and also commence biannual meetings with a group of key sector participants.⁸ These biannual meetings will be chaired by HUD (with support from Kāinga Ora), bringing together a range of sector experts, innovators and partners in one place to:
- a. Identify what the sector is already doing to manage the impacts of Covid-19
 - b. Understand and test the effectiveness of the Government's current policies, tools and approach to partnering with the sector, both generally (e.g. with Treaty partners and peak bodies), and in relation to specific projects and programmes

⁸ This composition of this stakeholder group will differ from that of the Construction Sector Accord, in that it will focus solely on residential development and construction.

- c. discuss potential changes to policy and operational settings that might be needed to maintain momentum and support innovation in areas that align with Government priorities.

53. Across the two approaches we propose engaging with a mix of peak bodies, iwi partners, build-to-sell developers and housebuilders (both large- and small-scale), purpose built rental providers, offsite manufacturers, and community housing providers. We propose commencing the one-on-one engagements immediately, and are aiming to hold the first biannual meeting in February 2022.

Next steps

54. You are meeting with the Chair of Kāinga Ora on Monday 6 December to discuss their response to your letter. Talking points are attached at Annex A. These reflect the recommendations in this paper and include reports back on key issues.
55. Following Monday's meeting we recommend that you send a letter to the Chair covering the points you made in the meeting and setting out any other expectations you identify following the meeting. Subject to your agreement, we will provide you with a draft letter on Friday 10 December.

Annexes

- Annex A: Suggested talking points for your meeting with the Chair of Kāinga Ora
- Annex B: Overview of factors that influence development decisions
- Annex C: Current interventions to support housing supply and affordability
- Annex D: Potential areas for further exploration

s 9(2)(f)(iv)

s 9(2)(f)(iv)

- [illegible]

3. Your letter requested responses to a number of questions. There are a number of responses not included, particularly the financial assumptions and costs, which Kāinga Ora has noted it will provide further information on in early 2022. HUD is otherwise considering the alignment of this information provided with the Kāinga Ora budget bid but requires more time and further information to provide this clear view for you.

s 9(2)(f)(iv)

5. As a potential future intervention to assist the sector maintain momentum and innovate (by testing the effectiveness of Government policies, tools and sector partnering, and considering policy and operational setting changes) HUD has proposed a way forward that includes a sector engagement approach to ensure HUD stays close during the Covid time of change. This will ensure key stakeholder are engaged - a mix of peak bodies, iwi partners; build-to-sell developers and housebuilders (both the big end and small end of town); purpose built rental providers; offsite manufacturers, and community housing providers. HUD will chair meetings on:
 - Regular one-on-one engagements with selected individuals
 - Biannual meetings with a group of key sector participants
6. The briefing note does not have enough detail to understand where and what Kāinga Ora will deliver, and the associated, required financial information to support this – for example debt funding and costs are to be provided early in 2022.
7. Kāinga Ora needs to be clearer about remaining uncertainties and risks, and needs to provide more information. This can be generated from working more closely with HUD than the development of the briefing note to date.

s 9(2)(f)(iv)

¹⁰ The Public Housing Plan 2022-24 focus areas are Far North, Hamilton, Rotorua, Tauranga, Gisborne, Napier, Hastings, Whanganui and Palmerston North.

Talking points for discussion with the Chair

- a) I acknowledge the challenging environment that Kāinga Ora is operating under and the impact this is having on its delivery across the country.
- b) However, as I noted in my letter to you, I do not take decisions to change SPE targets lightly and at this stage I don't consider Kāinga Ora has provided me with sufficient information to be confident that the approach proposed will address the delivery issues identified, or to understand the impacts of the mitigations proposed.
- c) I intend to outline in a letter to you by the end of this year the key areas where I need further information and greater confidence around Kāinga Ora's approach. I would like a response by early February.

Partnering with and supporting others

- d) You have set out your delivery toolbox but I note that this seems to be very Kāinga Ora centric in that it is focused on Kāinga Ora purchasing, owning or leasing land and buildings.
- e) The statutory functions of Kāinga Ora include supporting innovation, capability and scale across the wider housing and urban development sectors.
- f) What are you doing to support delivery by non-government housing providers (e.g. iwi, the not-for-profit sector and build to rent providers)?
- g) What are your plans to support private sector led developments on non-government land, given the increased uncertainty that the rest of the sector is facing?

s 9(2)(f)(iv)

Off-Shore Manufacturing

- k) Kāinga Ora has proposed shifting the focus of off-shore sourced OSM from transitional housing to public housing. I had informed Cabinet that OSM would be for transitional housing.
- l) I would like to see comprehensive analysis of how more use of OSM can accelerate delivery of public housing, and how the transitional housing will be delivered to meet targets, and where.

Financial sustainability

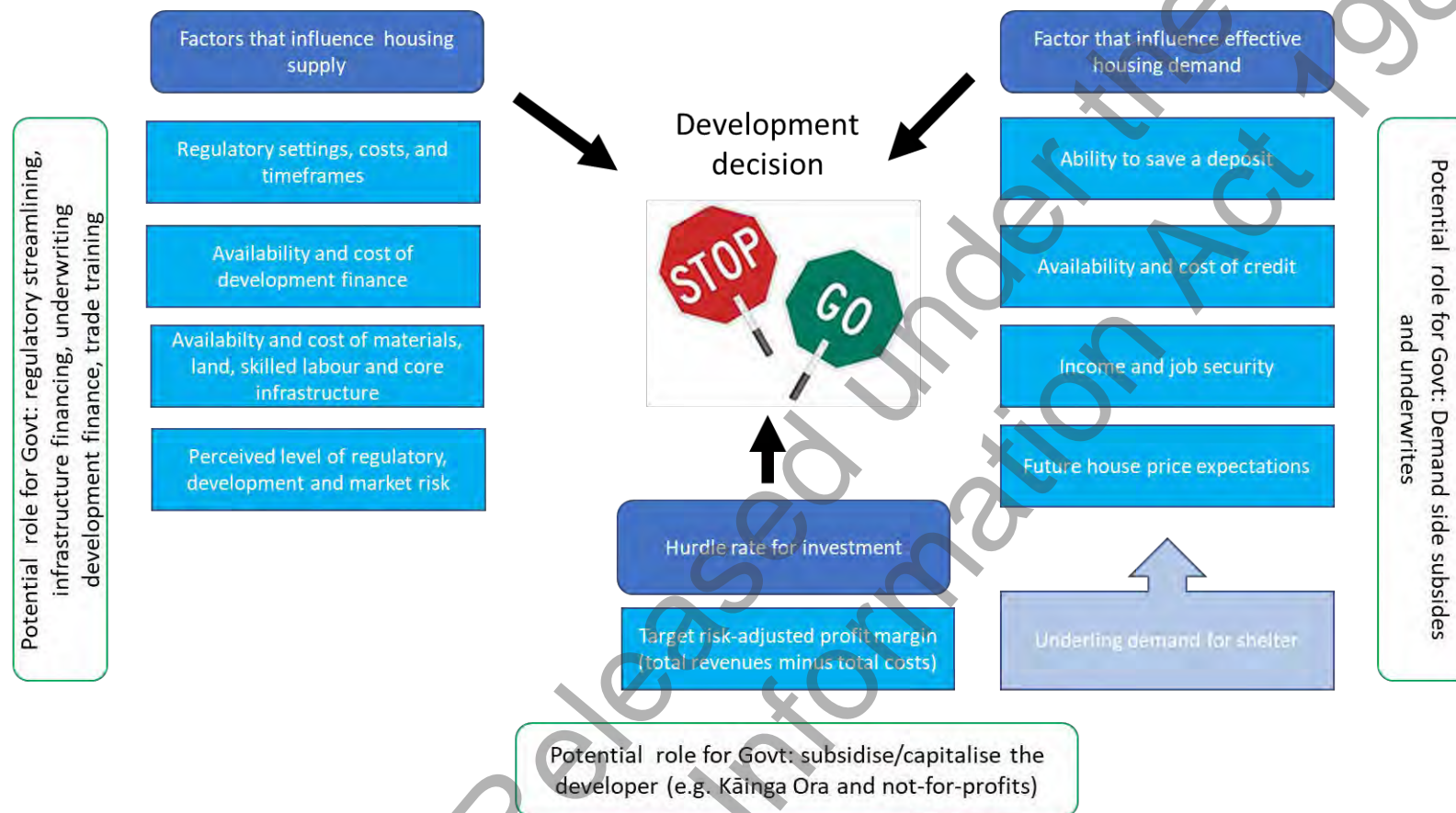
- m) Debt issuance is scheduled to increase from about \$2 billion to \$4 billion. Can the market absorb increased debt issuances and what will the impact be of increased interest being paid on this on Kāinga Ora operations?
- n) Would it not better to access debt via the Debt Management Office?
- o) If the retrofits do not go-ahead what level of funding headroom would that create?
- p) With Kāinga Ora spending more slowly than forecast due to Covid, cash balances are building up, so is all that new debt actually required?

Medium Density Residential Standard

- q) The medium density residential standards that Tier 1 Councils will be required to apply may not be suitable for some Tier 2 and 3 Councils. Other more targeted solutions may be more appropriate depending on the needs and constraints of the location.
- r) The Minister for the Environment will be making decisions about whether to extend the MDRS to Tier 2 Councils, in consultation with me as the Minister for Housing. Please work with HUD and MFE to inform their advice on whether, and if so where, the MDRS should be applied.
- s) Note the Bill has not yet been passed, and the Select Committee recommend that Tier 3 Territorial Authorities are only included at their request.

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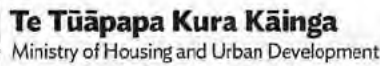
Annex B: Overview of factors that influence development decisions



Annex C: Current interventions to support housing supply and affordability

Constraint	Current interventions
Building materials	<ul style="list-style-type: none"> Ministry of Transport led interagency working group to address shipping/transport impediments (e.g. via measures to increase coordination, operational flexibility and productivity) MBIE led work with industry and councils to make product substitution more straightforward (e.g. through updating guidance) Commerce Commission market study into whether competition for residential building supplies in New Zealand is working well and, if not, what can be done to improve it
Skilled labour	<ul style="list-style-type: none"> A record 20,000 building construction industry apprentices as at July 2021, with support from the \$380 million Apprenticeship Boost 11,000 Construction and Infrastructure Shortage List visas to be granted, enabling the sector to retain skilled workers already in New Zealand 60 dedicated MIQ places per month set aside for critical construction workers
Land supply	<ul style="list-style-type: none"> Land for Housing Programme Kāinga Ora Land programme
Infrastructure	<ul style="list-style-type: none"> Infrastructure Acceleration Fund Māori infrastructure Fund Infrastructure Funding and Financing Act
Development funding and financing	<ul style="list-style-type: none"> Affordable Housing Fund (formerly the Residential Development Fund) Selling land on a deferred settlement basis to reduce development partners' holding costs (Land for Housing) Operating funding to secure non-commercial outcomes through the Land for Housing and Kāinga Ora Land Programmes Whai Kāinga Whai Oranga
Regulatory costs	<ul style="list-style-type: none"> RMA Amendment Bill Medium Density Residential Standards (MDRS)
Housing demand	<p>A range of regulatory, tax and financial incentives to encourage investment in new homes over existing homes:</p> <ul style="list-style-type: none"> 20 years' deductibility of interest costs for new build investors New build LVR exemptions Higher First Home Grants for new builds PHO schemes targeting new builds Underwriting demand for affordable housing through the Buying off the Plans initiative

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Official Information Act 1982



Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Indicate in Annex A which options you would like HUD to undertake further work on	9 March 2022

Other agencies consulted
Kāinga Ora; MBIE; MoT; and Treasury. DPMC was informed.

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Declined
- ☐ Referred to (specify)

Comments

Briefing

Housing supply and affordability: Interim advice on market headwinds

For: Hon Dr Megan Woods, Minister of Housing

Date: 2 March 2022

Security level: Budget - Sensitive

Priority: Medium

Report number: BRF21/22021230

Purpose

1. This briefing provides a progress update on the growing market headwinds facing the residential development and construction sector, the evolution of our thinking on the key issues facing the sector and the range of options that could be explored for addressing them, and preparation for the first biannual meeting with the sector on 14 March 2022.
2. This briefing also seeks your feedback on any options that you would like to specifically add or rule out for further investigation at this stage, to ensure that our ongoing engagement and follow-up advice is appropriately focussed. We anticipate that further issues and options will be identified as we ramp up our engagement with the sector, including through the first biannual meeting.

Executive summary

3. COVID-19 and the unwinding of monetary stimulus have contributed to a range of residential development and construction market headwinds, which have accelerated since we last briefed you on this topic in December 2021 [BRF21/22121192 refers]. This includes headwinds relating to:
 - a. The availability and cost of building materials, labour and development finance;
 - b. The availability and cost of mortgage finance; and
 - c. Uncertain population growth and declining house price expectations.
4. Collectively, these factors suggest that some segments of the new build market are in danger of stalling. The market segments likely to be more heavily affected are the very areas where we need to see continued housebuilding to respond to the existing shortage of affordable homes for households on low- to moderate- incomes. Our key concern in main metro areas, and in particular Auckland, is ensuring continued delivery of medium and high-density housing, including increasing the supply of affordable homes for both rental and ownership. In regional locations, such as Rotorua, Napier, Gisborne and Hastings, the key concern is that the continued growth in construction needed to address historic underbuilding and high per capita housing stress (e.g. as measured by homelessness and rent stress metrics) won't be sustained at the required level.

5. There is already a range of interventions underway across government that will help to address these headwinds over time, s 9(2)(f)(iv)
6. To inform the need for intervention, HUD is currently modelling several scenarios of how the market headwinds might affect housing supply and affordability. We are monitoring key indicators to identify whether any scenarios that we would be particularly concerned about are likely to play out. This includes talking to suppliers and tracking leading indicators of key inputs such as labour, materials and finance; monitoring the timing and composition of what the market is delivering (e.g. housing types, locations and price points); and measuring the outcomes for people (e.g. rent and mortgage stress).
7. It is important that any measures the government takes to cushion the impact of these headwinds supports the Government's strategic direction and priorities, as set out in the Government Policy Statement on Housing and Urban Development. These priorities include facilitating housing delivery in the places, price points, tenures and typologies that are most needed, and laying the foundations for a more productive and sustainable sector moving forward.
8. Many of the key system level levers rest with other agencies, including ongoing work on the building consenting system and immigration settings. HUD will continue to actively engage with this work, given its importance to the attainment of GPS priorities and the implementation of the Government Build Programme. s 9(2)(f)(iv)
9. s 9(2)(f)(iv)
10. s 9(2)(f)(iv)
11. s 9(2)(f)(iv)

Recommended actions

12. It is recommended that you:

1. **Note** that the headwinds to residential development and construction have accelerated since our last briefing in December 2021 [HUD briefing BRF21/22121192]

Noted

2. [Redacted] s 9(2)(f)(iv)

Noted

3. [Redacted] s 9(2)(f)(iv)

Yes/No

4. **Note** that we will provide you with a separate event briefing to support your attendance at the first biannual meeting with sector representatives on 14 March 2022. Your feedback on the options outlined in this briefing will help to shape the parameters of that conversation

Noted

5. [Redacted] s 9(2)(f)(iv)

Agree/Disagree

6. [Redacted] s 9(2)(f)(iv)

Noted



Hilary Eade
General Manager, System Policy

3 / 3 / 22

Hon Dr Megan Woods
Minister of Housing

..... / /

Background

13. Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) briefed you in December 2021 on the key emerging headwinds in residential development and construction [BRF21/22121192 refers], including:
 - a. The availability and cost of building materials, labour and development finance;
 - b. The availability and cost of mortgage finance;
 - c. Uncertain population growth and declining house price expectations.
14. It is critical that Government works closely with the building and construction sector to inform its response to these headwinds. Since the December briefing, HUD has undertaken initial consultation with stakeholders from across government. We are also consulting some sector participants before the upcoming biannual meeting, to gain more targeted and frank feedback. The initial input from stakeholders has shaped this advice on the key priorities and options for further exploration.
15. The first biannual meeting with key sector participants is on 14 March. Participants will be asked to provide input on what they see as the key issues facing the sector, how they are responding to the impacts of COVID-19, and the effectiveness of our current partnership models.

s 9(2)(f)(iv)

Key market headwinds have accelerated since December

16. While dwelling consents remain at record levels, output has continued to be impacted by the shortage of supplies and labour. For example, Fletcher Building, New Zealand's main supplier of plasterboard, now has a four-month backlog for GIB board and has announced that it has stopped taking forward orders. In turn, this is having an adverse impact on project scheduling and productivity, exacerbating the impact of the current labour shortages and extending dwelling completion timeframes (with reports of builds that would ordinarily take 6 months to complete doubling to 12 months).
17. Demand from prospective purchasers at current asking prices has deteriorated faster than most economists were expecting. Housing market data suggests that the period of rapid house price inflation experienced since early 2020 has peaked. Prices fell 1 per cent in December and a further 1.5 per cent in January. Despite an increase in listings, sales volumes for January 2022 were down 28.6 per cent on last year, and 48.2 per cent lower than sales in December 2021. It is still too early to assess the impacts on individual cohorts (e.g. first home buyers and lower-income households), particularly given the current review of recent changes to the Credit Contracts and Consumer Finance Act (CCCFA), which is not due to be finalised until April.
18. At its February meeting, the Reserve Bank raised the Official Cash Rate by 25 basis points, to 1 per cent. It now forecasting an OCR of around 3.4 per cent by late 2024 to curb inflation, compared to a previous forecast of 2.6 per cent. It expects house prices to fall by 5 per cent this quarter, and 9 per cent in total.
19. The mounting demand side headwinds have the potential to increase developers' sales risks, at a time when they are already facing significant risks and cost escalations on the supply side that are impacting project viability. Anecdotally, some developers are reporting record low pre-sales, which increases the risk of developments being deferred or discontinued. At the same time, we are still grappling with an underlying shortage of

affordable homes for people on low-to-moderate incomes who cannot afford to purchase a home at either the current or forecast house prices.

Interventions should support the objectives of the Government Policy Statement

20. Some of the market headwinds are the result of global factors, and commercial and individual household decisions, over which the Government has little control. In other cases, there is potential to reduce their impact through changes to government policy and operational settings
21. It is important that whatever we do supports the strategic direction and priorities set out in the Government Policy Statement on Housing and Urban Development (GPS-HUD). This includes facilitating housing delivery in the places, price points, tenures and typologies that are most needed. We also need to lay the foundations for a more productive and sustainable sector that is more resilient to future shocks, and guard against the risk of moral hazard. s 9(2)(f)(iv)
22. In particular, there is an opportunity to continue to support a shift away from inefficient production of large, bespoke, standalone houses and towards the production of smaller, denser housing that can make more efficient use of land, infrastructure, materials and labour, making them more affordable for people on more modest incomes.
23. These denser typologies are critical to taking up the redevelopment opportunities enabled by the National Policy Statement on Urban Development (NPS-US) and Medium Density Residential Standards (MDRS). However, they are particularly vulnerable to the building market headwinds. This is because they are heavily reliant on securing presale commitments, and harder to stage to manage the associated construction and development risks.

Current and potential system level interventions

There are already several system level initiatives underway that could assist with access to materials and labour

24. Initial feedback from the sector suggests that the most critical issues to address are materials and labour shortages. If these issues aren't addressed, a significant proportion of consented dwellings won't be completed in a timely manner, if at all. s 9(2)(g)(i)

25. At a system level, many of the key levers rest in other portfolios. These include:

- a. s 9(2)(f)(iv)

b. s 9(2)(f)(iv)

c. **The Commerce Commission's market study into the price of building products.** This study commenced in December 2021 and is considering:

- the industry structure for key building supplies
- the nature of competition for these key building supplies, including any industry pricing practices or acquisition requirements that impact on competition
- barriers to the entry or expansion of new or innovative building supplies, such as green buildings supplies or novel prefabricated products.

The Commission's final report is due in December 2022.

26. s 9(2)(f)(iv)

27. HUD will continue to actively engage with this work, given its importance to the attainment of GPS priorities and the implementation of the Government Build Programme.

s 9(2)(f)(iv)

28. s 9(2)(f)(iv)

29. s 9(2)(f)(iv)

More active approaches to supporting housing supply and demand

30. s 9(2)(f)(iv)

31. s 9(2)(f)(iv)

s 9(2)(f)(iv)

32. s 9(2)(f)(iv)

33. s 9(2)(f)(iv)

Maintaining the momentum of the Government Build Programme

The Government Build Programme can help to smooth the boom-bust cycle and ensure ongoing delivery of affordable homes, but faces challenges...

34. The Government Build Programme¹ is critical to supporting ongoing housing provision that meets a diverse range of housing needs and means. It can also play an important role in providing the pipeline certainty needed to support investment in plant, machinery

¹ For the purpose of this briefing, the Government Build Programme includes programmes under which:

- Kāinga Ora or the Crown sells land to development partners on condition that they use their own money to develop the land in accordance with Government priorities (e.g., The Kāinga Ora Land Programme, the Land for Housing Programme, and Large-Scale Projects)
- HUD funds others to build new housing on land that they already own, lease or occupy under a licence (e.g., the Public Housing Plan and Affordable Housing Fund)
- Houses built under construction contracts for ongoing retention by Kāinga Ora
- Houses facilitated by KiwiBuild underwrites.

and people, lift productivity, and stem the loss of construction sector skills and experience during market downturns.

35. [REDACTED] s 9(2)(f)(iv)

36. [REDACTED] s 9(2)(f)(iv)

37. [REDACTED] s 9(2)(f)(iv)

38. [REDACTED] s 9(2)(f)(iv)

[REDACTED] s 9(2)(f)(iv)

39. [REDACTED] s 9(2)(f)(iv)

40. [REDACTED] s 9(2)(f)(iv)

2 [REDACTED] s 9(2)(f)(iv)

3 [REDACTED] s 9(2)(f)(iv)

[IN-CONFIDENCE]

41.

s 9(2)(f)(iv)

Managing uncertain costs and risks

42.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

[REDACTED]

43. s 9(2)(f)(iv)

[REDACTED]

[REDACTED]

s 9(2)(f)(iv)

[REDACTED]

44. To manage their sale risks, developers require access to the broadest possible pool of prospective purchasers. This is one of the reasons why we have already implemented a range of mechanisms to incentivise investment in new homes, rather than existing ones (such as allowing 20 years' interest deductibility for investors buying new homes)

45. First home buyers' share of dwelling sales peaked at 26 per cent in the third and fourth quarters of last year, but has subsequently fallen back to 24 per cent. Our expectation is that they are and will be disproportionately impacted by tightening credit criteria and rising interest rates, due to their more modest incomes and financial means.

46. s 9(2)(f)(iv)

[REDACTED]

s 9(2)(f)(iv)

[REDACTED]

47. s 9(2)(f)(iv)

[REDACTED]

48. s 9(2)(f)(iv)

49. s 9(2)(f)(iv)

s 9(2)(f)(iv)

50. We anticipate that there will be an increase in stalled or 'at risk' developments, which will affect different developers and house builders in different ways. s 9(2)(f)(iv)

There are a range of potential scenarios, including:

- a. Some developers will place their land on the market (there is already evidence that consented land is now on the market)
- b. Some well-capitalised developers may simply land bank and ride out the market cycle. This could be particularly problematic in those markets where land is titled and held by a limited number of owners
- c. Other well-capitalised developers and house builders with well-established supply chains and labour pools may see this as an opportunity to progress developments with less competition from smaller developers
- d. Smaller developers and housebuilders with less capital will be at greater risk of financial stress or failure as they are less able to weather market volatility. In particular, feedback suggests that material suppliers are likely to prioritise larger clients, and that smaller players have reduced ability to minimise downtime by switching staff between multiple concurrent projects.

51. s 9(2)(f)(iv)

52. s 9(2)(f)(iv)

s 9(2)(f)(iv)

s 9(2)(f)(iv)

53.

s 9(2)(f)(iv)

54.

s 9(2)(f)(iv)

55.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

s 9(2)(f)(iv)

s 9(2)(f)(iv)

s 9(2)(f)(iv)

HUD will lead targeted consultation in its mid-March biannual meeting with the construction sector

60. The upcoming biannual meeting with the construction sector, which is scheduled for mid-March, will focus on building relationships between government and the sector as well as gathering intelligence on governments' role in addressing headwinds.
61. Invitees to the first meeting have been drawn from across the sector. We have deliberately sought representation from large and small firms, industry bodies, iwi/Māori developers and community housing providers, who work both with the Crown and independently, providing a range of public and market housing.
62. Noting the participants may be reticent to disclose sensitive commercial information in such a forum, HUD is also seeking separate, one-on-one meetings with industry 'thought leaders' to canvas key issues. The forum remains an important means of active engagement with key industry stakeholders, creating an environment in which they can share and test ideas and options with each other and the Government.
63. The initial session will aim to:
 - a. Validate and/or expand our current thinking around the headwinds facing the construction sector
 - b. Understand how the sector and government could adapt and shift to manage the impact of these headwinds.
64. You have indicated you plan to attend this meeting, and an event briefing will be provided to your office prior to the session. Feedback from this meeting will also inform HUD's follow-up advice to you in late March.

Financial implications

65. s 9(2)(f)(iv)

66. s 9(2)(f)(iv)

67. s 9(2)(f)(iv)

Consultation

68. Kāinga Ora, MBIE, Ministry of Transport and Treasury were consulted on this briefing. DPMC was informed.
69. HUD also undertook some initial high-level discussions with select industry stakeholders/informants.

Next steps

70. Your response to the recommendations outlined in this briefing will help to shape further discussions with government agencies and, where appropriate, select representatives from the sector. We will provide you with further advice on the outcome of these discussions at the end of March.

Annexes

- **Annex A** – Market headwinds: Market Overview and Summary of Current and Potential Interventions

Annex A: Market overview and summary of current & potential interventions

Headwinds

The construction sector is currently facing a range of accelerating headwinds on both the supply and demand side that are impacting on its ability to continue to deliver housing at pace and scale:

- Supply and cost of building materials
- Supply and productivity of labour
- Availability and cost of development finance
- Availability and cost of mortgage finance

Normally, price increases could be passed on to buyers. However, there are indications that the market has reached the limits on the prices at which people are willing and able to purchase. Some of the supply barriers also cannot be resolved by raising prices.

Current state: how are the headwinds manifesting?

- Costs and risks of projects are rising, but house prices are remaining flat. This threatens the viability of projects by squeezing profit margins.
- Less use of fixed price contracts and attempts to get out of existing contracts to manage price escalation e.g. activation of sunset clauses
- Housing demand has become more uncertain: sales volumes have reduced recently and prices have dropped slightly. HUD is continuing to monitor closely to determine trends.

Potential impacts without intervention

- A growing proportion of building consents are not converted into finished dwellings
- Large-scale failure of construction firms, and broader negative economic impacts
- Worsening housing affordability, potentially exacerbated when border reopens and population rises
- A large number of failed or stalled developments
- Housing is still delivered, but not in the places or the typologies it is most needed

s 9(2)(f)(iv)

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Aide-memoire

First biannual residential construction sector roundtable			
Date:	9 March 2022	Security level:	In Confidence
Priority:	Medium	Report number:	M/EB21/22030214

Information for Minister(s)	
Hon Dr Megan Woods Minister of Housing	Note this event briefing provides you with information and talking points ahead of your attendance at the first biannual residential construction sector roundtable.

Contact for discussion			
Name	Position	Telephone	1 st contact
Jane Keane	Acting Manager Housing Supply and Affordability Team	04 832 2564	✓
Laura Hemingway	Graduate Policy Advisor Housing Supply and Affordability Team	04 832 2417	

Other agencies consulted

Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> See Minister's notes <input type="checkbox"/> Needs change <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify) _____	Comments
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------

Date returned to HUD:

Aide-memoire

First biannual residential construction sector roundtable

For: Hon Dr Megan Woods, Minister of Housing

Date: 9 March 2022

Security level: In Confidence

Priority: Medium

Report number: M/EB21/22030214

Purpose of meeting

1. The upcoming biannual residential construction sector roundtable will focus on strengthening relationships between government and the sector, confirming the nature and impact of expected market headwinds and discussing how the sector and government can work together during this time.
2. This session will aim to:
 - a. Validate and/or expand our current thinking around the headwinds facing the residential construction sector
 - b. Understand how the sector and government could adapt and shift to manage the impact of these headwinds using existing tools and programmes.

Meeting details

3. You will be attending the first biannual residential construction sector roundtable on **Monday 14 March** from **10.30am-10.45am** via zoom.
4. The agenda for this meeting and the zoom meeting link is attached as Annex A.
5. Andrew Crisp, Chief Executive for the Ministry of Housing and Urban Development, will be chairing.
6. You have been invited to give a short speech to attendees. Suggested talking points are attached as Annex B.
7. The key contact from HUD for this meeting is **Bronwyn Lauten**, s 9(2)(a).
8. Following the conclusion of speeches at 10.45am you will leave the meeting for your next engagement and the roundtable will shift to breakout sessions to discuss:
 - What the attendees see as the key challenges for the sector in the next twelve months.
 - How they, and the broader sector, are responding to the headwinds.
 - What they would like to see Government doing to help respond to the immediate impact of the headwinds using existing funds and programmes.
9. Chatham house rules will apply to the meeting. Meeting participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

Expected attendees

10. Fourteen invitees are attending from across the residential construction sector. We have deliberately sought representation from large and small firms, industry bodies, iwi/Māori developers and community housing providers, who work both with the Crown and independently, providing a range of public, affordable and market housing.
11. A list of attendees is attached as Annex C.
12. We will update the office if any further invitees accept the invitation to attend the meeting.

Media

13. Media will not be attending.

Key issues

14. COVID-19 and the unwinding of monetary stimulus have contributed to a range of accelerating residential development and construction market headwinds [BRF21/22121192 refers]. This includes headwinds relating to:
 - a. The availability and cost of building materials, labour and development finance;
 - b. The availability and cost of mortgage finance; and
 - c. Uncertain population growth and declining house price expectations.
15. Collectively, these factors suggest that some segments of the new build market are in danger of stalling. The market segments likely to be more heavily affected are the very areas where we need to see continued housebuilding to respond to the existing shortage of affordable homes for households on low- to moderate- incomes.

We expect the headwinds to affect builders and developers in a range of ways

16. We anticipate that there will be an increase in stalled or 'at risk' developments, which will affect different developers and house builders in different ways. s 9(2)(f)(iv)
There are a range of potential scenarios, including:
 - a. Some developers will place their land on the market (there is already evidence that consented land is now on the market)
 - b. Some well-capitalised developers may simply land bank and ride out the market cycle. This could be particularly problematic in those markets where land is titled and held by a limited number of owners
 - c. Other well-capitalised developers and house builders with well-established supply chains and labour pools may see this as an opportunity to progress developments with less competition from smaller developers
 - d. Smaller developers and housebuilders with less capital will be at greater risk of financial stress or failure as they are less able to weather market volatility. In particular, feedback suggests that material suppliers are likely to prioritise larger clients, and that smaller players have reduced ability to minimise downtime by switching staff between multiple concurrent projects.

HUD's key concern is ensuring the continued supply of the right types of housing in the right places

17. Our key concern in main metro areas, especially Auckland, is ensuring continued delivery of medium and high-density housing, in particular, increasing the supply of affordable homes for both rental and ownership.
18. Our key concern in regional centres such as Rotorua, Napier, Hastings and Gisborne is that construction growth will stall or won't be sustained at the level required to address historic underbuilding and high per capita housing stress.

19.

s 9(2)(f)(iv)

20.

s 9(2)(f)(iv)

Risks and sensitivities

21. To avoid creating expectations of government support or intervention, HUD representatives will reinforce that any options discussed are in confidence and potential options only, not government policy.

Next steps

22. Information gathered from the first biannual residential construction sector roundtable will inform HUD's follow-up advice on options to mitigate the headwinds. We will seek your input and decisions at key points as this advice is being developed.
23. We aim to have some quick wins ready to implement in late May/June.

Annex A: Agenda for the first biannual residential construction sector roundtable

Zoom meeting link:

<https://zoom.us/j/92860789599?pwd=a3pudEZ0eEdVWk1udXdMeHoyZncyZz09>

Meeting ID: 928 6078 9599

Passcode: 091833

Time	Item	Led by
10.30am 5 min	Opening karakia, welcome and housekeeping <i>Kia mau ki ngā uarā</i> <i>Kia Wānangatia</i> <i>Kia Arohatia</i> <i>Kia Kōkiritia</i> <i>Haumi e, hui e</i> <i>Tāiki e!</i>	Andrew Crisp
10.35am 5 min	Introduction from the Minister of Housing	Megan Woods
10.40am 5 min	Speech from Andrew Crisp <i>Minister departs</i>	Andrew Crisp
First breakout session		
10.45am 30 min	<ul style="list-style-type: none"> What are the key headwinds/barriers that the sector is currently facing? We've identified supply chain issues, labour shortages, access to finance, and uncertainty around housing demand and prices – are there any we've missed? What do you see as the number one challenge for the sector in the next twelve months? How are you, and the broader sector, responding to the headwinds? <ul style="list-style-type: none"> Supply chain issues Labour shortages Access to finance Uncertainty around house prices & demand 	
11.15am 10 min	Report back on first breakout session	

[IN-CONFIDENCE]

Second breakout session		
11.25am 30 min	s 9(2)(f)(iv)	
11.55am 10 min	Report back on second breakout session	
Combined session		
12.05pm 20 min	Wrapping up and any further ideas about what we might want to do in the longer-term, in addition to the work that is being led out of the Construction Sector Accord	
12.25am 5 min	Next steps & closing karakia <i>Whakāiria ake ngā korero</i> <i>Kia wātea i te ara takatū</i> <i>Kia mau ki ngā uara</i> <i>Kia Wānangatia</i> <i>Kia Arohatia</i> <i>Kia Kōkiritia</i> <i>Haumi e, hui e</i> <i>Tāiki e!</i>	Andrew Crisp

1 s 9(2)(f)(iv)

[IN-CONFIDENCE]

Annex B: Suggested talking points for your speech

Introductory remarks

- Thank you Andrew for the introduction.
- Welcome everyone to the first biannual residential sector construction roundtable. I appreciate you taking time out of your busy schedules to attend this meeting.

Outlining government priorities

- The residential development and construction sector is critically important to New Zealand, in terms of the economy, employment outcomes and building homes for New Zealand families.
- The Government's priorities in the housing and urban development system also rely on residential development and construction.
- These priorities include facilitating housing delivery in the places, price points, tenures and typologies that are most needed, mitigating and adapting to the effects of climate change, and laying the foundations for a more productive and sustainable sector moving forward.

What we are doing to support the sector and deliver on government priorities

- We have a range of tools and programmes in place to deliver on these priorities, which will support more whānau into homeownership, increase the supply of affordable rentals and deliver new public homes for whānau in need
- The government is cutting red tape to make it easier for developers and builders to deliver new housing supply. New building intensification rules will mean up to three homes of up to three storeys can be built on most sites without the need for a resource consent.
- And the government is investing billions of dollars in infrastructure through the Housing Acceleration Fund to enable greater supply of build ready land for residential development.

Accelerating headwinds facing the residential construction sector

- But we all know the residential construction sector is currently facing accelerating headwinds that may impact on its ability to continue to build houses at the pace and scale that is required to support not only the Government's build programme, but also the demand from the private market.
- We have been engaging with the sector on this issue through forums such as the Construction Sector Accord, which has played a vital role in maintaining a viable construction sector over the past year.
- I'm hearing that the key challenges include:
 - interrupted domestic and international production and supply chains, leading to shortages and cost increases of key building materials, which, as well as escalating the cost of construction, are impacting on project scheduling and delaying completions
 - labour shortages, which existed before Covid-19 but have been exacerbated by the border closures and workers needing to take time off for illness and isolation requirements

- the availability of mortgage and development finance as rising interest rates affect household borrowing capacity and the sector faces increased barriers to securing pre-sale commitments
- the recent drop in house prices and sales numbers, which could limit the sector's ability to offset rising costs.
- Some of these headwinds are the result of global factors, and commercial and individual household decisions, over which the government may have limited control.
- There is no silver bullet solution to the challenges being faced by the residential construction sector.
- [REDACTED] s 9(2)(f)(iv)
- [REDACTED] s 9(2)(f)(iv)

We want to hear from you

- My officials are currently considering what role government might play in responding to these issues alongside the sector taking leadership and I'd welcome your views on:
 - how the sector is being affected by the growing market headwinds,
 - the steps that the sector is already taking to mitigate these impacts, and,
 - [REDACTED] s 9(2)(f)(iv)

Closing remarks

- The information gathered from this session today and our ongoing conversations with industry leaders will inform the advice I expect to receive from officials on potential next steps.
- I will also be talking to my Ministerial colleagues about what levers they may have in their portfolios to respond.
- Thank you again for taking the time to meet with me and my officials to discuss this important kaupapa.

Annex C: List of attendees

Name	Role & Organisation
Steve Evans	Chief Executive Residential and Development, Fletcher Building
Greg Orchard	Chief Executive, Accessible Properties
Greg Foster	Social Housing Director, Salvation Army
Shane Brealey	Director, NZ Living
Mark Todd	CEO, Ockham Residential
Peter Cooney	Director, Classic Group
Victoria Carroll	Deputy Chair, Ngā Pōtiki
Paul Majurey	Director, AHM Law
James Brown	Chair, Ngāi Tai Ki Tāmaki
Helmut Modlik	Chief Executive, Ngāti Toa
Brett Ellison	General Manager Business Development, Ngāi Tahu Property
Scott Fisher	CEO, Offsite NZ
Leonie Freeman	CEO, Property Council NZ
Dave Kelly	Chief Executive, Master Builders
From government	
Andrew Crisp	Chief Executive, Ministry of Housing and Urban Development (MHUD)
Stephanie Rowe	Deputy Chief Executive, MHUD
Hilary Eade	General Manager System Policy, MHUD
Jane Keane	Acting Manager Housing Supply & Affordability, MHUD
Rob Murray	Principal Advisor Housing Supply & Affordability, MHUD
Georgina Horsburgh	Senior Advisor Housing Supply & Affordability, MHUD
Mandy Stratford	Senior Advisor Housing Supply & Affordability, MHUD
Andrew McKenzie	Chief Executive, Kāinga Ora
Mark Fraser	General Manager Urban Development & Delivery, Kāinga Ora
Judy Zhang	Director, Accord Transformation Unit, MBIE
Dana Danilova	Senior Advisor Strategy, Accord Transformation Unit, MBIE



Other agencies consulted
N/A

Minister's office to complete

	Comments
<input type="checkbox"/> Noted	
<input type="checkbox"/> Seen	
<input type="checkbox"/> See Minister's notes	
<input type="checkbox"/> Needs change	
<input type="checkbox"/> Overtaken by events	
<input type="checkbox"/> Declined	
<input type="checkbox"/> Referred to (specify)	
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Date returned to HUD:



Aide-memoire

Meeting with Steel Construction NZ

For: Hon Dr Megan Woods, Minister of Housing

Date: 14 March 2022

Security level: In Confidence

Priority: Medium

Report number: M/EB21/22030215

Purpose of meeting

1. This meeting with Steel Construction NZ (SCNZ) will provide them with the opportunity to provide an overview of New Zealand's structural steel industry, and discuss their insights into the infrastructure, construction and housing industries.
2. SCNZ have provided material on three areas, which you may wish to discuss with them:
 - a. Engagement with Government and local government
 - b. Skills in the steel industry
 - c. Sustainability
3. You have indicated that you would like to use this meeting primarily as an opportunity to discuss the market headwinds with them.
4. Profiles of the representatives from Steel Construction NZ attending the meeting are included in **Annex A**.
5. Talking points to support this meeting are in **Annex B**.
6. A profile of the steel construction industry, provided by SCNZ, is in **Annex C**.

Meeting details

7. The meeting will take place from 4:15pm to 4:45pm, on Wednesday, 16 March 2022.

Expected attendees

8. Minister attending:
 - a. Hon Dr Megan Woods (Minister of Housing)
9. From Steel Construction NZ:
 - a. Darren O Riley (General Manager, SCNZ)
 - b. Frank van Schaijik (Co-Managing Director, John Jones Steel and Chairman of SCNZ)
 - c. David Moore (General Manager, Grayson Engineering and Chairman Elect of SCNZ)
 - d. Wayne Carson (Managing Director, D&H Engineering)
 - e. Jo Wills (Government Relations Specialist, Anthem)
10. Officials from Te Tūāpapa Kura Kāinga - Ministry of Housing and Urban Development (HUD):
 - a. Craig Fredrickson (Senior Policy Advisor, System Strategy)

[IN-CONFIDENCE]

Background on Steel Construction NZ

11. SCNZ is an incorporated body that currently has over 300 members nationwide, with their membership having representatives from the whole of the steel supply chain, from manufacturers of structural steel and steel products, to distributors, fabricators, designers, detailers, galvanisers, and paint and building supply companies.
12. SCNZ was formed to promote the benefits of steel solutions in building and infrastructure projects; and play a pivotal role in supporting the industry as it strives to grow through innovation, investment in technology and market development.
13. The organisation provides standards development for the industry, design resources and technical expertise, developing careers in steel, as well as member events.
14. In addition SCNZ, along with the Heavy Engineering Research Association (HERA) provides the Steel Fabricator Certification (SFC) scheme, which ensures certified New Zealand fabricators manufacture structural steelwork according to international best practice.

Market headwinds

15. You have indicated to us that you wish to use this meeting as an opportunity to discuss market headwinds with the industry.
16. COVID-19 and the unwinding of monetary stimulus have contributed to a range of accelerating residential development and construction market headwinds [BRF21/22121192 refers]. This includes headwinds relating to:
 - a. The availability and cost of building materials, labour and development finance;
 - b. The availability and cost of mortgage finance; and
 - c. Uncertain population growth and declining house price expectations.
17. Collectively, these factors suggest that some segments of the new build market are in danger of stalling. The market segments likely to be more heavily affected are the very areas where we need to see continued housebuilding to respond to the existing shortage of affordable homes for households on low to moderate- incomes.
18. In main metro areas, we want to ensure the continued delivery of medium and high-density housing; in particular increasing the supply of affordable homes for both rental and ownership. Steel plays a more important role in the construction of higher-density projects such as low and high rise apartment buildings, as well as integral infrastructure to support urban development.
19. In regional centres, our key concern is that construction growth will stall or won't be sustained at the level required to address historic underbuilding and high per capita housing stress.

Material provided by SCNZ

20. A large amount of material has been provided to your office by SCNZ to support this meeting. Three areas highlighted by SCNZ are:
 - a. Engagement with Government and local government
 - b. Skills in the steel industry
 - c. Sustainability
21. A summary of SCNZ's position on these matters are included below. You may wish to discuss some of these points with SCNZ at your meeting.
22. SCNZ also provided a comprehensive profile of the New Zealand steel industry which might provide further content; this is included in **Annex C**.

Engagement with Government and local government

23. Government Procurement Rules

- a. SCNZ has worked with MBIE regarding the Government Procurement Rules to ensure that the value of subcontractors' contribution to the broader outcomes is properly considered by main contractors.

24. Vertical construction

- a. SCNZ has been advocating for equal consideration of vertical infrastructure (including higher-rise buildings) alongside horizontal infrastructure (roads, rail, bridges and underground services). Vertical shovel-ready projects have higher employment levels than horizontal infrastructure – for every three jobs in our structural steel industry, eight further jobs are supported through our supply chain.

25. Local government engagement

- a. SCNZ has been working collaboratively with Auckland Council, and has delivered compliance presentations to metro councils nationwide.

Skills in the steel industry

26. Futureproofing

- a. New Zealand's structural steel industry is committed to supporting the broader outcomes and creating a strong future for the sector and its people. Industry investment in state-of-the-art technology and equipment has increased local fabrication capacity from 20,000 to 20,000 tonnes over the past 20 years.
- b. Currently 9.1% of the total workforce employed by structural steel fabrication companies are in an apprenticeship or training programme, while 69% of structural steel fabrication companies employing an average of four apprentices.

27. Skills pinch

- a. Despite the Government's vocational education reform, and the steel industry's longstanding investment in developing future talent, it will be at least 10 years before the pipeline delivers the skills the industry needs now.
- b. SCNZ note that they need skilled people working alongside their apprentices, training and mentoring them to ensure they produce employees of the highest calibre. But because of limited immigration options, structural steel contractor companies are competing for the same ever-decreasing pool of local resource, which is driving up wage inflation.

28. Immigration settings and pay scale

- a. SCNZ urge the Government to consider reviewing its immigration settings to allow our local businesses to align their growth with local demand.
- b. To support this, they propose a two-stage process:
 - i. allow people with desirable skills into the country on work visas, and
 - ii. review the current inflated work-to-residency wage rate.
- c. They advocate the need for practicable pathway for skilled migrant workers to be able to remain in New Zealand.

Sustainability

29. SCNZ have provided a number of innovations and changes that the industry has put in place to improve sustainability, these include:

- a. Carbon calculator: The Heavy Engineering Research Association (HERA) has announced the development of an independently developed zero carbon steel offset programme.

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- b. Steel Recycling Report: This shows that 72% of steel scrap in New Zealand is recycled.
- c. Steel and the circular economy: HERA is developing the first material passport in Australasia.
- d. Economic contribution: A BERL report has found that for every three full-time equivalents (FTEs) employed in New Zealand's steel industry, a further eight FTEs are employed throughout the rest of the New Zealand economy.
- e. Six reasons to choose steel: Extremely resilient/durable; surprisingly low-carbon over its lives; adaptable, enabling a wide range of sustainable choices; cost competitive; a low-risk building solution; enduringly beautiful.
- f. Local and global initiatives: Local steel supply needs to be low carbon but it requires a blend of local and global action. SCNZ producer member Bluescope Steel is involved in a range of exciting initiatives to help take the industry in that direction.

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Annex A: Profiles of attendees representing Steel Construction NZ



Darren O'Riley
General Manager, SCNZ

- Mr O'Riley worked for Fletcher Aluminium for 17 years, his last role being as New Zealand Franchise Manager, and has worked in other roles in the industry.



Frank van Schaijik
Co-Managing Director, John Jones Steel and Chairman of SCNZ

- John Jones Steel was established 50 years ago, and fabricates advanced structural steel and has plants in Christchurch and Timaru. It also provides other steel related services, such as transport and on-site erection.



David Moore
General Manager, Grayson Engineering and Chairman Elect of SCNZ

- Mr Moore has worked in the steel industry for a number of years, as both a manager and a director.
- Grayson Engineering is a steel fabricator and has contributed to the construction of large projects such as: University of Auckland Business School and Forsyth Barr Stadium



Wayne Carson
Managing Director, D&H Steel Engineering

- Mr Carson has a mechanical and structural engineering background and wide experience in the steel and construction industries and project management.
- He was previously General Manager of D&H Steel Construction from 2008 to 2020 and is now the company as Managing Director.
- D&H is a steel construction company, and has contributed to the construction of a number of well known projects, including: Deloitte Tower, Sistema Plastics factory, Lichfield St parking building, and the Kopu River Bridge

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Jo Wills

Government Relations Specialist, Anthem

- Ms Wills is a government relations expert and business strategy advisor and facilitator.

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In confidence – M/EB21/22030215

Annex B: Talking points for meeting with Steel Construction NZ

Introduction

- I understand that you would like to discuss a range of topics today including the role of the Steel Construction NZ in our infrastructure and construction industries.
- The Government is conscious of the wide range of issues currently facing these sectors. We want to ensure the construction sector is enabled to continue to provide infrastructure to support housing and urban development at the pace and scale that is required to support not only the Government's build programme, but also the demand from the private market.
- I would like to acknowledge and thank you for the effort you put into producing the comprehensive material you provided to my Office to support this meeting. This has provided both myself and officials with valuable information about the good work that you are doing.
- I understand that you wish to provide me with some insights into the current state of the infrastructure, construction and housing industries.
- I would also like to use this opportunity to discuss the increasing market headwinds that the industry is facing.

Market headwinds

- We all know that the construction sector is currently facing accelerating headwinds that may impact on its ability to continue to build houses and infrastructure at the pace and scale that is required to support not only the Government's build programme, but also the demand from the private market.
- We have been engaging with the sector on this issue through forums such as the Construction Sector Accord, which has played a vital role in maintaining a viable construction sector over the past year.
- I'm hearing that the key challenges include:
 - interrupted domestic and international production and supply chains, leading to shortages and cost increases of key building materials, which, as well as escalating the cost of construction, are impacting on project scheduling and delaying completions
 - labour shortages, which existed before Covid-19 but have been exacerbated by the border closures and workers needing to take time off for illness and isolation requirements

- the availability of mortgage and development finance as rising interest rates affect household borrowing capacity and the sector faces increased barriers to securing pre-sale commitments
- the recent drop in house prices and sales numbers, which could limit the sector's ability to offset rising costs.
- Some of these headwinds are the result of global factors, and commercial and individual household decisions, over which the government may have limited control.
- There is no silver bullet solution to the challenges being faced by the residential construction sector.
- But I am keen to explore what more the government can do to either remove unnecessary barriers or, through our government build programme and the way we partner with the sector, cushion the impact.
- Unexpected events such as Covid-19 can give government a license to take actions that might not otherwise be possible. I am open to new ideas and ways of working.

Questions

- What do you see as the key challenges for the sector in the next twelve months?
- How do you think the steel construction sector are responding to the headwinds?
- Is there anything you would like to see Government doing to help respond to the immediate impact of the headwinds using existing funds and programmes?

Annex C: SCNZ's overview of the New Zealand steel industry

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BRIEFING PAPER FOR GOVERNMENT

Date: March 2022
Subject: New Zealand's structural steel industry
From: Steel Construction New Zealand (SCNZ)

1.0 Executive summary

- **Sustainability:** SCNZ has partnered with the Sustainable Steel Council to ensure that the structural steel sector is part of the national conversation about embodied carbon and the broader outcomes. We're committed to building skills, capacity and processes to maximise steel's contribution to a sustainable, low-emissions, climate-resilient and economically strong society, as demonstrated by the number of initiatives underway.
- **Carbon:** A zero carbon steel offset programme is being developed; 72 percent of steel scrap in New Zealand is recycled; research is underway into carbon alternative reductants for the steelmaking process, specifically, using hydrogen instead of coal.
- **Training:** The local structural steel industry is committed to growing its people capability: 9.1 percent of the total workforce employed by New Zealand structural steel fabrication companies are either in an apprenticeship or other training programme, and 69 percent of structural steel fabrication companies employ an average of four apprentices.
- **Employment:** Our local industry is a crucial provider to the vertical infrastructure market, which has higher employment levels than horizontal infrastructure. It employs approximately 5,000 workers – for every two jobs in our structural steel industry, eight further jobs are supported through our supply chain.
- **Supply chain:** Construction businesses most frequently identified structural wood (36 percent) and non-structural wood products (21 percent) as the products in short supply – only 10 percent identified steel.
- **Collaboration:** Our highly collaborative network of 127 fabricators has proven capacity to meet demand, regularly partnering with each other nationwide – and with the head contractor and lead consultants as part of the Early Contractor Involvement (ECI) procurement model – to ensure a project is delivered to a high standard, on time and on budget.
- **Capacity:** Industry investment in state-of-the-art technology and equipment has increased local fabrication capacity from 20,000 to 120,000 tonnes over the past 20 years. Spare industry capacity for the year ending December 2022 is estimated at 31 percent.
- **Compliance:** Our proven track record of industry-led international best-practice quality assurance programmes reduces risk and is vital at a time when we cannot rely on the quality and compliance of imported prefabricated structural steel sections from low-cost economies.
- **Competitiveness:** Overall construction programmes for multi-level commercial projects using structural steel are generally 10-15 percent shorter compared to other materials.
- **Government:** SCNZ has a strong track record of engaging proactively and constructively with local and central government.

2.0 About Steel Construction New Zealand

Industry organisation Steel Construction New Zealand (SCNZ) is the 'voice' of New Zealand's diverse structural steel sector and works to promote the benefits of steel solutions in building and

infrastructure projects. Members include manufacturers of structural steel and steel products, distributors, fabricators, designers, detailers, galvanisers, and paint and building supply companies. SCNZ provides its members with technical advice on the latest in steel design trends and standards, networking opportunities and a representative voice with key industry and government decision-makers.

3.0 The six 'Cs'

The strengths and unique qualities of our local structural steel industry are based on the 6Cs' – carbon, capacity, competitiveness, capability, compliance and collaboration. As a result demand for structural steel solutions has grown substantially in the past two decades. **Today, structural steel's share of the multi-level construction market is more than 50 percent nationwide. In Christchurch, due to structural steel's strong seismic performance, its market share is more than 80 percent – up from virtually nil before the Canterbury earthquakes.**

3.1 Carbon

It's a pivotal time for New Zealand's structural steel industry as it seeks to reduce its emissions and progress towards a circular economy with the support of the Sustainable Steel Council (SSC) and the Heavy Engineering Research Association (HERA) from which SCNZ evolved. Our combined vision is for steel to be a critical enabler in New Zealand's journey to a low-emissions economy.

3.1.1 Carbon calculator

SCNZ applauds the Government's revised goal to halve Aotearoa's emissions by 2030 and, rightly, the sustainability credentials of building materials are under increasing scrutiny.

HERA has announced the development of a zero carbon steel offset programme, independently developed by thinkstep-anz and Ekos. This carbon calculator is in beta testing and will be rolled out shortly. It covers roofing, cladding, light-gauge steel framing, structural steel, rebar and stainless steel.

We are also working with partners like Beca to better understand carbon measurement and to ensure that proper comparisons are being made with other materials, including concrete and timber. The aim of all this activity is to support our industry's experts, engineers and architects, to make well-informed decisions when they come to selecting fit-for-purpose construction materials for a project.

3.1.2 Steel Recycling Report

The Report, which was undertaken by thinkstep-anz and commissioned by HERA, describes steel's important role in the circular economy. It shows an impressive **72 percent of steel scrap in New Zealand is recycled**, and that recycling steel scrap produced in Aotearoa New Zealand provides significant environmental benefits – despite the need for transport to offshore recycling facilities. At 72 percent recovery, the savings in global warming potential per tonne of steel scrap generated in New Zealand is 1,054kg CO₂ equivalent. It is likely that steel scrap from construction is recycled at a level closer to 85 percent.

3.1.3 Steel and the circular economy

HERA is also in the process of developing the first material passport in Australasia. Material passports create and maintain the data required to turn buildings or infrastructure into banks whereby the material components can be available for future withdrawal and reuse and repurposing.

3.1.4 Steel is an enabler for a low-carbon future

The material itself supports a wide range of sustainable choices, and allows wider use of other materials, a wider range of designs and greater design innovation. **Steel is also an enabler for a low-carbon future – all renewable energy infrastructure including hydropower, solar, wind, wave, hydrogen and geothermal require steel.** And because you know precisely what you are getting you don't have to over-engineer structures, so less material is used.

3.1.5 Local and global carbon initiatives

We need our local steel supply to be low carbon but it requires a blend of local and global action. SCNZ producer member Bluescope Steel is involved in a range of initiatives to help take the industry in that direction.

- In February 2021, **BlueScope** appointed Gretta Stephens as Chief Executive Climate Change. Since then, it released its first Climate Action Report in September, and **announced its 2050 net zero greenhouse gas (GHG) emissions goal and its \$150m five-year climate investment programme.**
- Bluescope is **supporting research into carbon alternative reductants for the steelmaking process, specifically, using hydrogen instead of coal.** The Robinson Research Institute's hydrogen-ironmaking research, which reacts New Zealand ironsand with hydrogen gas at temperatures up to 1000°C to produce high-purity iron, is a collaboration between Victoria University of Wellington, the University of Wollongong and Callaghan Innovation. The team recently received \$6.5m over five years from the MBIE Endeavour fund, which will support continued research into the scale-up of hydrogen-steelmaking in New Zealand.
- Bluescope has **volunteered its Australian Port Kembla plant to take part in the global ResponsibleSteel certification programme.** The programme is being developed to cover the entire steel supply chain from mine site and commercial scrap collection to the steel end user. It is consulting on additional requirements for the responsible sourcing of input materials and for GHG emissions, which will serve to identify and reward companies that are committed to creating a responsible steel value chain, and that are minimising their CO₂ emissions.
- Mining giant Rio Tinto and steelmaker Bluescope announced a **joint venture to use renewable energy to make green steel in Port Kembla.** The new collaboration will focus on utilising green hydrogen for direct reduction of Rio Tinto's iron ores, which will then be melted in an electrical furnace, powered with renewable electricity, to produce iron suitable for the steelmaking process.
- **The global Science Based Targets initiative is planning a collaborative project with the steel industry** to develop specific steel sector guidance to enable more steelmakers, such as Bluescope, to set science-based targets.

3.2 Capability

The New Zealand structural steel industry has proven its capability in handling a range of construction projects, demonstrated through its commitment to both innovation and to upskilling local fabricators to ensure the best talent can be sourced right here in New Zealand. Importantly, this means the industry has been less impacted by COVID-related skills shortages and supply chain issues compared with other construction materials.

Thanks to its investment in innovation, local structural steel fabrication capacity has increased from 20,000 to 120,000 tonnes over the past 20 years. It has also resulted in world-class R&D

programmes in partnership with Auckland and Canterbury universities, which have led to world-first advances in seismic load-resisting systems and performance-based fire design methodology.

3.2.1 Skilled workforce

We applaud the Government's sweeping reforms of the vocational education system. As an industry we are committed to growing our people capability. In fact, **9.1 percent of the total workforce employed by New Zealand structural steel fabrication companies are either in an apprenticeship or other training programme**, and **69 percent of structural steel fabrication companies employ an average of four apprentices**.

Despite all this, it will be at least 10 years before the pipeline delivers the skills our industry needs now. We need skilled people working alongside our apprentices, training and mentoring them to ensure we produce employees of the highest calibre. But because of limited immigration options, our structural steel contractor companies are all competing for the same ever-decreasing pool of local resource, which is driving up wage inflation.

We urge the Government to consider reviewing its immigration settings to allow our local businesses to align their growth with local demand. To support this, we propose a two-stage process: first, **allow people with desirable skills into the country on work visas** and, second, **review the current inflated work-to-residency wage rate**. Our New Zealand economy stands to benefit substantially from this approach. A pipeline of talent and access to a skilled and experienced workforce is vital to support the delivery of buildings and infrastructure, and to aid New Zealand's economic recovery.

3.2.2 Supply chain

According to a recent survey into supply chain issues commissioned by the Construction Sector Accord, **construction businesses most frequently identified structural wood (36 percent) and non-structural wood products (21 percent) as the products in short supply – only 10 percent identified steel.**

What would make the biggest difference in overcoming the supply and delivery issues facing the construction industry is for more manufacturing and/or processing to happen in New Zealand, and for Government to consider the broader outcomes of any procurement decision and support local providers where possible.

3.3 Capacity

New Zealand's structural steel industry is well equipped to cope with a spike in construction demand brought on by the Government's aim to fire up the industry in response to COVID-19. In 2020 the construction industry experienced an unprecedented peak of activity. MBIE's *National Construction Pipeline Report 2020* states that New Zealand's total construction value increased by 7.5 percent in 2019 to \$43.2b. Despite this demand, our structural steel industry has proven that we have the capacity to deliver on all projects – **there is simply no need to go offshore to satisfy demand.**

SCNZ's latest quarterly **fabricator forward-workload survey indicates there is significant spare industry capacity for the year ending December 2022 – estimated at 31 percent**, based on a current estimated total capacity of 120,000 tonnes per annum. **In the past 12 months the New Zealand structural steel sector turned approximately 100,000 tonnes of structural steel (plate, hot-rolled**

and hollow sections) into buildings and bridges through its network of steel distributors, fabricators and erectors.

3.4 Compliance

Quality and compliance are crucial to the health of New Zealand's local construction industry and are at the core of SCNZ activities. This focus and assurance is vital at a time when we cannot rely on the quality and compliance of imported product from low-cost economies.

3.4.1 Steel Fabrication Certification

SCNZ's industry-led quality scheme, Steel Fabrication Certification (SFC), remains a cornerstone of the industry's quality and compliance activities. Launched in 2014, the scheme ensures that participating structural steel fabrication companies have appropriate personnel and quality management systems in place. **Ninety percent of the sector's annual output is now delivered by SFC-qualified fabricators who manufacture structural steelwork to international best practice.** As with other construction materials, the current compliance regime for structural steelwork relies, for the most part, on self-inspection and self-certification. SFC raises the bar by providing independent, expert certification of New Zealand fabrication companies. Importantly, SFC creates a point of difference for locally fabricated steel compared with imported product, and it provides procurers and specifiers – such as engineers, architects and contractors – with certainty of product quality and significantly reduced compliance risk. This is particularly important at a time when independent on-the-ground quality assurance of prefabricated structural steel sections are sourced from low-cost offshore sources is not possible.

3.4.2 Structural Steel Distributor Charter

The Structural Steel Distributor Charter is the latest quality assurance initiative led by the structural steel industry, complementing Steel Fabrication Certification. **All SCNZ Distributor members have been independently audited to satisfy the requirements of the Structural Steel Distributor Charter. It ensures that structural steels supplied to the local steel construction sector are sourced using best-practice procurement** and represents a mark of excellence for structural steel distributors in New Zealand. The Charter covers the sourcing of steels for structural and general engineering applications. The initiative requires that chartered structural steel distributors operate a Quality Management System (QMS) and satisfies an audit checklist, which includes undertaking due diligence to ensure new suppliers are reliable and capable of producing product to the required standard; monitoring supplier performance, including periodic review of inspection documentation and to assess supplier quality risk; maintain traceability of product to inspection documentation, as required by the new Fabrication and Erection standard AS/NZS 5131; manage timely supply of inspection documentation with orders; and engage competent personnel, including a qualified metallurgist or materials engineer to assist the company develop and implement their quality system.

3.5 Collaboration

Our highly collaborative network of 127 structural steel fabrication companies has proven capacity to meet demand, regularly partnering with each other nationwide – and with the head contractor and lead consultants as part of the Early Contractor Involvement (ECI) procurement model – to ensure a project is delivered to a high standard, on time and on budget. From the get-go, the ECI approach allows New Zealand fabricators to add real value by collaborating on the design with the structural engineer, architect and quantity surveyor. As a team, they explore buildability, timeframes and risk to achieve the best outcome for the project. It sits in stark contrast to the traditional tender process, which simply doesn't capture the deep knowledge of the specialist subcontractors and, too often,

discussions on risk allocation are reserved until final pre-let negotiations. ECI delivers projects that carry much less risk, enjoy fewer variations and are typically much better planned.

3.6 Competitiveness

Over the years **the New Zealand structural steel industry has invested significantly in workshops, and cutting-edge fabrication and 3D-modelling technology.** This, coupled with the modern approach of simple bolted connections, has improved productivity in our industry. This future-focused commitment has improved quality and driven costs down to make structural steel a cost-competitive building solution.

Overall construction programmes for multi-level commercial projects using structural steel are generally 10-15 percent shorter compared with other materials, thanks to the efficiency of off-site manufacturing and fabrication. And because steel is light weight, foundations can be less substantial and cheaper. It's also similar in cost to concrete and lower than timber.

4.0 Sustainability

Our industry is committed to building skills, capacity and processes to maximise steel's contribution to a sustainable, low-emissions, climate-resilient and economically strong society.

Our vision for steel to be a critical enabler in New Zealand's journey to a low-emission economy requires the industry to take the lead in delivering to the living standards framework, measured across human, social, natural and financial/infrastructure capitals.

At a sector level, SSC is taking a lead on sustainability by ensuring that the steel sector is part of the national conversation; providing constructive input into policy and legislation through submissions and select hearing processes; being an active member of the Construction Industry Council Sustainability subcommittee; and partnering with likeminded organisations like the NZ Green Building Council; and ensuring the conversation is not just about embodied carbon.

4.1 Intergenerational wellbeing

SCNZ is also a signatory to the Aotearoa Steel Transformation Agenda and Plan, which uses the Living Standards Framework to identify specific commitments to ensure the industry continues to contribute to intergenerational wellbeing.

Importantly, **the local steel industry contributes to intergenerational wellbeing in multiple ways.** Indeed, it is an integral part of communities nationwide. It also complies with an evidence-based standards system, has made significant investment in value-added, vertically integrated products and technologies, and its products comprise a core part of New Zealand's physical infrastructure.

4.2 Economic contribution

Our focus on sustainability also embraces financial and human capital. Aotearoa New Zealand's steel industry makes a significant contribution to our local economy in multiple ways, including job creation. In a report recently completed by economic analyst BERL, it found that **for every three full-time equivalents (FTEs) employed in New Zealand's steel industry, a further eight FTEs are employed throughout the rest of the New Zealand economy.** In 2019, New Zealand's steel industry employed 10,670 FTEs, across eight industries. Crucially, further employment is generated through upstream, downstream and

other industries – a further 28,290 FTEs can be linked to the local steel sector, beyond those directly employed in the industry.

4.3 Six reasons to choose steel

When it comes to sustainability and the broader outcomes, there are six reasons to choose steel.

Steel is proven to be:

- Extremely resilient/durable
- Surprisingly low-carbon over its lives
- Adaptable, enabling a wide range of sustainable choices
- Cost competitive
- A low-risk building solution
- Enduringly beautiful.

5.0 Government engagement

SCNZ proactively and constructively works with government, both local and central, to find solutions to industry issues.

5.1 Government Procurement Rules

SCNZ has worked with MBIE regarding the Government Procurement Rules to ensure that the value of subcontractors' contribution to the broader outcomes is considered by main contractors and there is recognition of broader outcomes when considering procurement, such as training and contribution to the economy as a whole, and that typically 70-90 percent of the project value is delivered by subcontractors. Most recently, SCNZ contributed a submission for Extending the Government Procurement Rules to government entities in the New Zealand public sector.

5.2 Vertical construction employs more than horizontal

SCNZ has been advocating for equal consideration of vertical infrastructure alongside horizontal. To support New Zealand's economic recovery in the wake of COVID-19, the Government has committed to supporting infrastructure and construction with additional funds, regulatory and policy change, and prioritisation. While we applaud this focus, when considering the prioritisation and funding of projects, and the objective of shoring up employment, the Government should take account of the fact that **vertical shovel-ready projects have higher employment levels than horizontal infrastructure. Crucially, for every three jobs in our structural steel industry, eight further jobs are supported through our supply chain.**

Examples of future focused vertical construction projects that will add long-term value to New Zealand include public projects like schools, hospitals and stadia. Dunedin Hospital is a good example, which we understand is to start in the next couple of years. This project, valued at approximately \$1b, is vital to the healthcare sector and, if the start date was brought forward, would create substantial employment opportunities for the region.

However, 80 percent of the vertical sector is privately funded. While the Government can assist by prioritising schools and hospitals, unless it finds ways of stimulating private investment in the vertical construction sector, we will see a collapse of the sector and the loss of thousands of skilled jobs, as

happened post the 1987 stock market crash. For example, the proposed but now terminated Auckland International Airport works equated to approximately 350,000 manhours for our steel industry alone.

Vertical construction projects like these create much greater employment opportunity than similar value horizontal infrastructure works and warrant equal attention

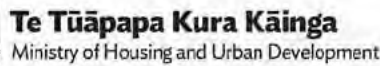
5.3 Local government engagement

SCNZ proactively engages with local authorities on the compliance of structural steel and more specifically, Auckland Council and SCNZ have jointly developed a matrix to achieve this. **Working collaboratively with Auckland Council, SCNZ has delivered compliance presentations to metro councils nationwide.** As a result, most of the councils want to adopt the compliance matrix for their own processes. SCNZ is rolling the presentation out to smaller councils where appropriate.

6.0 Appendix

6.1 Steel construction industry 'who's who'

- **Manufacturers** (steel mills) produce structural steel products including hot-rolled elements (I beams and columns, channels, plate and angles) and hollow sections (circular, rectangular and square).
- **Merchants/distributors** import steel for use in the construction industry. Such companies have extensive warehousing facilities to carry a large inventory required to service market needs and provide limited pre-processing of structural material prior to fabrication.
- **Structural steel fabricators** physically prepare the structural steel for a building or bridge through a process of developing detailed drawings (the work of a detailer) based on the construction drawings provided by a structural engineer. They are responsible for material management, cutting, drilling, shop fitting (bolting or welding), painting and galvanising (when required), and shipping.
- **Erectors** assemble the structural steel members into a structural frame on the project site by bolting and field welding structural steel components together according to the construction documents. In New Zealand the fabricator will typically manage the erection process of its steelwork either through the use of its own rigging crews or subcontracted resource.



Key messages from the first biannual construction sector round table			
Date:	16/03/2022	Security level:	In Confidence
Priority:	Medium	Report number:	AMI21/22030790

Security level:	In Confidence
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Report number:	AMI21/22030790
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Information for Minister(s)	
Hon Dr Megan Woods Minister for Housing	Note the summary of key messages and proposed interventions from participants in the first biannual construction sector round table on Monday 14 th March.

Note the summary of key messages and proposed interventions from participants in the first biannual construction sector round table on Monday 14th March.

Contact for discussion			
Name	Position	Telephone	1 st contact
Jane Keane	Acting Manager, Housing Supply and Affordability	04 832 2564	✓
Mandy Stratford	Senior Policy Advisor, Housing Supply and Affordability	04 831 6049	

1st contact

04 831 6049

Other agencies consulted
N/A

Minister's office to complete

- ## Comments



Aide-memoire

Key messages from the first biannual construction sector round table

For: Hon Dr Megan Woods, Minister of Housing

Date: 16/03/2022

Security level: In Confidence

Priority: Medium

Report number: AMI21/22030790

Purpose

1. This aide memoire outlines the key messages and potential interventions heard from participants in the first biannual construction sector round table, held on Monday 14th March 2022.

Background

2. On Monday 14th March you spoke at the first biannual construction sector round table (event briefing M/EB21/22030214 refers). Participants discussed the impacts that the headwinds are already having on the sector, and how they would like to see Government work with the sector to manage the impacts moving forward.
3. Annex A lists the key themes raised by participants in this session, as well as a range of options that were suggested for addressing the headwinds.

Next steps

4. These key themes and potential options will inform further advice from Te Tūāpapa Kura Kāinga on construction market headwinds.
5. We will send a table of potential options to your office next week. This will include an assessment of the options against the criteria of speed of implementation, impacts and costs to the Crown.
6. Final advice on options will be provided to your office by the 13th of April. This advice will outline what can be achieved through the Government Build Programme (s 9(2)(f)(iv)), and potential interventions in other portfolios, which you may wish to speak to your colleagues about. You will be able to forward this briefing to your colleagues to support any discussions you may have with them.
7. We will continue to test options via officials' meetings.

Annexes

8. Annex A: Key themes and potential interventions from first biannual construction roundtable

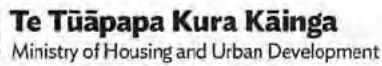
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Briefing

Construction Market Headwinds - Initial Prioritisation of Options			
Date:	23 March 2022	Security level:	
Priority:	Medium	Report number:	BRF21/22031273

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	<p>Note the proposed options to addressing the construction market headwinds</p> <p>Provide any feedback on the initial prioritisation of options.</p>	28 March 2022

Contact for discussion			
Name	Position	Telephone	1 st contact
Jane Keane	Acting Manager, Housing Supply and Affordability	04 832 2564	✓
Mandy Stratford	Senior Policy Advisor, Housing Supply and Affordability	04 831 6049	

Other agencies consulted

Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify) 	Comments
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Date returned to HUD:



Briefing

Construction Market Headwinds - Initial Prioritisation of Options

For: Hon Dr Megan Woods, Minister of Housing

Date: 23 March 2022

Security level: Budget - Sensitive

Priority: Medium

Report number: BRF21/22031273

Purpose

1. This briefing presents you with:
 - a. the initial range of options for addressing the growing construction market headwinds that we provided to you on 3 March (briefing BRF21/22021230 refers), assessed and prioritised against a range of criteria relating to speed, impact and cost;
 - b. an annotated version of the key messages from the first biannual construction sector roundtable, which we provided you on 16 March 2022, including our initial response, noting those areas where work is already happening, or where we are proposing interventions.

Recommended actions

2. It is recommended that you:
 1. **Note** the attached range of options and their initial prioritisation by Te Tūāpapa Kura Kāinga. Noted
 2. **Provide** Te Tūāpapa Kura Kāinga with your feedback, if any, on the indicative priorities for further exploration. Yes/No

Jane Keane

Jane Keane
Acting Manager, Housing Supply and
Affordability

..24... / ..03... / ..22...

Hon Dr Megan Woods
Minister of Housing

..... / /

Background

3. Te Tūāpapa Kura Kāinga has been working on options to respond to the current market headwinds in the construction sector, which may jeopardise the continued delivery of the Government Build Programme and affordable housing.

4. We provided initial advice on market headwinds to your office on 3 March, including a longlist of potential interventions (briefing BRF21/22021230 refers).

5. [REDACTED] s 9(2)(f)(iv)

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

6. [REDACTED] s 9(2)(f)(iv)

7. [REDACTED] s 9(2)(f)(iv)

We have conducted an analysis and prioritisation of the longlist of options

8. [REDACTED] s 9(2)(f)(iv)

9. [REDACTED] s 9(2)(f)(iv)

[REDACTED] s 9(2)(f)(iv)

[REDACTED] s 9(2)(f)(iv)
[REDACTED]
[REDACTED]

11.

s 9(2)(f)(iv)

12.

s 9(2)(f)(iv)

13.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

s 9(2)(f)(iv)

We have also done further analysis of the key issues raised at the first biannual construction sector meeting

14. You have already received the key messages from the first biannual construction sector roundtable – briefing AMI21/22030790 refers. Annex B is an annotated version of the key messages with our initial response, noting those areas where work is already happening, or where we are proposing intervention.
15. The issues raised by the session participants fall into three broad categories:

- a. System-level issues outside of the housing portfolio, many of which are pre-existing, that you may wish to discuss with your colleagues
 - b. Matters that you have already addressed in your 2022 Letter of Expectations to Kāinga Ora s 9(2)(f)(iv)
 - c. Issues that relate to government programmes, and related funding and tools, that fall within your portfolio responsibilities.
16. Note that much of the feedback was similar to how Te Tūāpapa Kura Kāinga was already considering the issues, and has helped to confirm our views. s 9(2)(f)(iv)
17. The overall feedback from session participants will help inform the final headwinds advice. We are also following up with specific issues as needed, including further conversations with individual participants.

Next steps

18. Subject to any feedback you may have on these options, final advice on options will be provided to your office by the 13th of April. This will cover advice on:

s 9(2)(f)(iv)

19. A separate briefing will discuss potential interventions in other portfolios, which you may wish to speak to your colleagues about. You will be able to forward this briefing to your colleagues to support any discussions you may have with them.
20. We will continue to test options and advice via officials' meetings.

Annexes

Annex A: Analysis and prioritisation of options

Annex B: Key messages from the first biannual construction sector roundtable

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