

In Confidence

Office of the Minister of Housing and Urban Development

Chair, Cabinet Business Committee

## **Commencing the Implementation of KiwiBuild**

### **Proposal**

- 1 This paper seeks agreement to establish, consistent with the Government's 100-day programme of action:
  - 1.1 An interim KiwiBuild Unit within the Ministry of Business, Innovation and Employment (MBIE), to procure the pipeline of development opportunities to deliver KiwiBuild homes, pending enactment of the legislation required to formally establish the Housing Commission (aka the Affordable Housing Authority/National Urban Development Authority); and
  - 1.2 The initial appropriations and delegations required to enable the activities of the interim KiwiBuild Unit, KiwiBuild Programme and Housing Commission.

### **Executive Summary**

- 2 Our priorities for our first 100 days in office include commencing KiwiBuild and work on the establishment of the Housing Commission. The Housing Commission will be responsible for driving the delivery of KiwiBuild outcomes and undertaking major greenfield and urban redevelopment projects in partnership with Councils, iwi/Māori and private developers.
- 3 The legislation required to formally establish the Housing Commission and confer cut through powers upon it will be complex and far reaching. As a consequence, I anticipate that it will take at least a year to draft, formally consult on and enact the legislation.
- 4 As a transitional measure, I propose establishing an interim KiwiBuild Unit within MBIE. The KiwiBuild Unit's core areas of focus will include:
  - 4.1 Identifying and leveraging opportunities to procure KiwiBuild dwellings via:
    - 4.1.1 Existing Government-led housing initiatives, such as those being undertaken by Housing New Zealand Corporation (HNZC)
    - 4.1.2 Acquiring and on-selling vacant and underutilised Crown-owned land, as well as land purchased from the private sector and others, to developers for the delivery of KiwiBuild dwellings as part of an expanded and redesigned Crown Land Development Programme (the *KiwiBuild Wholesale Land Programme*)

- 4.1.3 Purchasing (or underwriting) new homes off the plans, to de-risk suitable developments that the private sector and others are leading, in exchange for accelerating a greater number of homes at affordable KiwiBuild price points.
  - 4.2 Undertaking investigation and due diligence on around five of the signalled 12 to 15 major greenfield and urban regeneration projects, so that they can be progressed with greater pace by the Housing Commission once established.
  - 4.3 Investigating innovative approaches to addressing current constraints within the development sector, including alternative financing approaches and construction methodologies, through initial market soundings.
- 5 The KiwiBuild Unit will require the establishment of new appropriations. Departmental funding requirements for the KiwiBuild Unit's operations and associated policy advice in 2017/18 and 2018/19 are \$14.245 million in addition to non-departmental capital funding of \$220 million and non-departmental operational funding of \$10 million.
- 6 The non-departmental funding sought here is for the activities of the KiwiBuild Wholesale Land Programme. Any draw down will be subject to Cabinet approval of the accompanying Cabinet paper *KiwiBuild Wholesale Land Programme* and corresponding business case. A separate paper, *Establishing the Housing Commission and legislating to empower complex urban development projects*, seeks initial policy decisions on the role of the Housing Commission.
- 7 I will report back to Cabinet in early 2018 with:
  - 7.1 An overarching Cabinet paper on the Housing and Urban Development Work Programme, which will discuss and seek agreement to high-level sequencing and prioritisation of effort across the wider programme
  - 7.2 Advice on how to procure and deliver KiwiBuild houses in a way that ensures financial sustainability of the scheme and affordability for eligible households, including advice on progressive home-ownership, to inform further funding being sought through the Budget process.
- 8 I consider that the decisions being sought through this, and the accompanying papers, enable us to make initial progress on fulfilling our manifesto commitments in a way that does not pre-empt some of the fundamental policy and spending choices we will need to make in the New Year.

## **Background**

- 9 The Government's manifesto commitments include increasing the supply of affordable housing, with a stated 100-day priority to:
  - 1.3 Establish the KiwiBuild Programme, which will be responsible for delivering 100,000 affordable dwellings for first home-buyers over the next ten years, with over half of these dwellings to be delivered in Auckland; and

- 1.4 Begin work to establish the Housing Commission – a public entity with a fast-tracked planning process and other statutory powers, which will eventually drive the delivery of the KiwiBuild Programme and undertake major urban development (both greenfield and revitalisation) projects in partnership with Councils, private developers and iwi/Māori.
- 10 KiwiBuild is distinct from the Housing Commission/UDA. The former represents a specific product (affordable housing for first home buyers), while the Housing Commission represents one of the delivery mechanisms for KiwiBuild affordable homes. The Commission's proposed large-scale urban development approach will help deliver KiwiBuild dwellings as part of an overall mix of public housing, secure rental and other market housing. It will also deliver the non-residential development that is a necessary part of ensuring it facilitates the creation of complete, thriving urban communities. In addition, the Commission will eventually assume the KiwiBuild Unit's function of procuring KiwiBuild dwellings in the market more broadly.
- 11 This paper is primarily focused on commencing the KiwiBuild programme. Initial policy decisions on establishing the Housing Commission/UDA and legislating to empower complex urban development projects are being sought through a separate accompanying Cabinet paper, although the two papers are complementary and inter-related.
- 12 The housing supply and affordability issues that these initiatives are intended to address are well known. For over a decade the demand for new dwellings has outstripped supply, leading to rapidly escalating house prices, falling homeownership rates, and poor social and economic outcomes for many New Zealanders.<sup>1</sup> In particular, Māori experience disproportionately poor housing outcomes, and have lower rates of home ownership (42 per cent compared to 63 per cent for all of New Zealand).
- 13 The dwellings that the market is currently delivering are mainly targeted at the upper end of the market, with only about five percent of new dwellings in the lowest quartile price, compared to close to 30 percent in the late 1980s. Our main urban centres are becoming more geographically polarised along socio-economic lines, and our most disadvantaged communities often have the poorest access to opportunity.
- 14 Our residential construction sector is a poor productivity performer. It is fragmented and struggles to manage economic cycles and scale up to meet the demand challenges presented by strong population growth and demographic change in our urban areas. Underpinning this is a dysfunctional urban land market, constrained by unnecessary planning regulation and insufficient infrastructure investment, which rewards speculative investment in land and existing homes.
- 15 The only solution for overcoming these constraints is for the Government to intervene more directly in the housing and urban development system:
- 15.1 Through improving and streamlining planning, regulatory and infrastructure investment processes; and
- 15.2 As an active investor and catalyser of high-quality urban growth, utilising both private and publicly-owned land and integrating development with public transport and other necessary new infrastructure.

<sup>1</sup> MBIE estimates that the current accumulated housing shortfall in Auckland is around 45,000 dwellings and growing.

- 16 In addition to directly supporting the provision of new housing supply, including affordable housing, and supporting the creation of thriving, inclusive and resilient communities, KiwiBuild and the Housing Commission represent opportunities to:
- 1.1 Provide a scale and certainty of demand to give the building and construction sector confidence to invest in the plant and innovation, and growing the skills required, for transformative change to lift productivity and deliver quality builds at lower prices; and
  - 1.5 Address regulatory planning constraints and support better, more efficient planning and coordination of both public and private investment in key infrastructure.
- 17 However, it will take time to:
- 1.6 Build the sector's capacity and capability to deliver housing at the scale that will be required to meet our ten-year KiwiBuild target; and
  - 1.7 Pass the legislation required to formally establish the Housing Commission and apply the cut-through powers required to efficiently progress larger, more complex developments.
- 18 I aim to bring a paper to Cabinet in early 2018 that summarises my Housing and Urban Development Work Programme, places it within the context of the Government's long-term policy priorities, and discusses the inter-dependencies and key choices that we face about sequencing and prioritisation of effort and investment across the programme.
- 19 I consider that this KiwiBuild paper (and its accompanying papers) seek some early 'no regrets' decisions that enable us to make initial progress on fulfilling our manifesto commitments in a way that does not pre-empt the fundamental policy and spending choices we will need to make in the New Year.

### **Balancing immediate progress and long-term objectives**

- 20 We have set some necessarily ambitious price targets and fiscal parameters for the KiwiBuild programme. In summary, Our manifesto states that:
- 1.8 The price points for the KiwiBuild dwellings will range between \$300,000 and \$600,000, depending on their location and typology
  - 1.9 Construction will be funded by a \$2 billion capital injection, which will be recycled as land or houses are sold, and returned to the Crown at the end of the KiwiBuild Programme; and
  - 1.10 The Housing Commission will receive \$100 million of establishment funding, in the expectation that it will be self-funded from then on.
- 21 Our objective is to deliver quality, well-located homes that are inherently affordable, by virtue of their modest design, efficient land use and innovative production. That is, the market price for the homes should reflect the cost to build (including land) and an appropriate development margin, but should nonetheless still meet our desired price points. However, at the moment, there is a clear market failure in our housing and urban

development system, and because of this it is very difficult to achieve the desired price points in most circumstances.

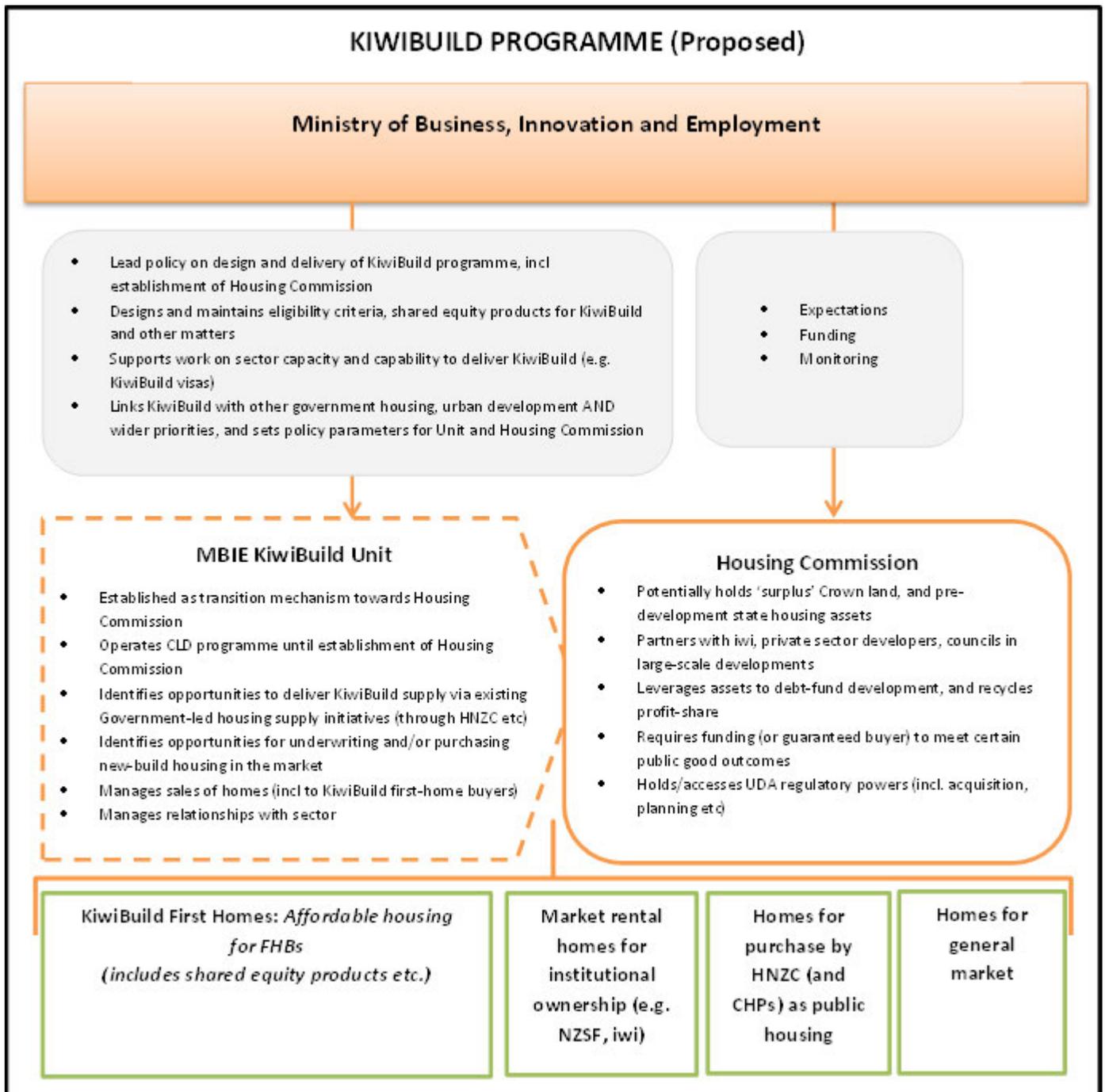
- 22 The broader components of the Housing and Urban Development Work Programme — including the large-scale urban development projects, generating increased sector productivity, managing speculative demand, regulatory and planning improvements, and smarter infrastructure investment — will all be critical to achieving this objective. As such, I anticipate that the cost effective delivery of KiwiBuild affordable homes, and broader housing market performance, will improve over time as we realise the benefits of the Government’s comprehensive approach.
- 23 However, in the short term, while we are working to implement these efficiency measures and are building momentum, some trade-offs will need to be made between the pace and scale of development, and the level and nature of government investment required. For example, we may need to take on a higher proportion of development risk (e.g. underwriting developments or acting as a guaranteed buyer) and/or support initial developments through offering financial incentives to developers (e.g. reduced cost of holding land), in the expectation that we will be able to realise efficiencies at a later date when we are operating at scale and have a full suite of legislative tools at our disposal.
- 24 I view this as Government using its access to capital to purchase the desired social and economic outcomes associated with affordable housing that the market would not otherwise deliver, with the cost of that intervention diminishing over time. In short, it is about acting now in order to realise our long-term goals.

### **Establishing a KiwiBuild Unit within MBIE**

- 25 To support rapid progress, I propose establishing a KiwiBuild Unit within MBIE, and this paper seeks funding for that purpose. This will be an interim measure, pending enactment of the enabling legislation and establishment of the Housing Commission. MBIE will not be the long-term home for such a function. The Unit will have an operational, market-facing focus. Its initial location within MBIE will enable the Unit to inform and, where appropriate, benefit from MBIE’s:
- 25.1 System level perspective and expertise in housing and urban markets (including lead responsibility for negotiating and implementing housing accords with councils and developing urban development legislation)
  - 25.2 Oversight of the Building Code, construction sector and workforce pipeline
  - 25.3 Administrative responsibility for the Crown Land Development Programme
  - 25.4 Immigration function, including with respect to the development of the KiwiBuild Visas
  - 25.5 Existing development panels and relationships with iwi
  - 25.6 Role as the Government’s lead advisor on procurement.
- 26 I have considered whether the interim KiwiBuild Unit should be established elsewhere, for example within HNZC given its significant housing development expertise. However, I consider MBIE is the most appropriate choice. Given our policy commitment that HNZC’s tenancy functions should eventually be brought closer to the centre, placing the

KiwiBuild Unit there in the interim could complicate any such transition, including choices about the relationship between HNZC's development function and that of the new Housing Commission. I also see the procurement role of the interim KiwiBuild Unit as being distinct from HNZC's current development function, and I would not want the establishment of the Unit within HNZC to distract HNZC from its important task of delivering its existing redevelopment projects.

27 The following diagram provides a high level overview of the proposed functions of the Unit, its interaction with other parts of MBIE and the establishment of the Housing Commission.



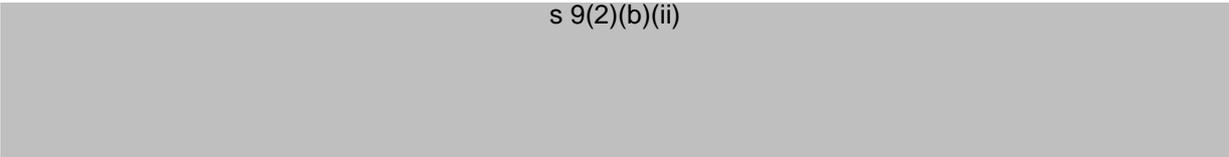
## Core focus and activities

- 28 The KiwiBuild Unit will not be a developer, but rather a procurer of KiwiBuild dwellings and a coordinator of government residential development activity. It will help ensure that the range of government housing procurement and development channels complement rather than compete against each other, so as to maximise the impact that the KiwiBuild programme has on affordable housing outcomes. The Unit's focus will be on partnering with developers and identifying opportunities to leverage government activities and relationships to help ensure the success of KiwiBuild.
- 29 The KiwiBuild Unit's activities will include:
- 1.1 Identifying opportunities to procure KiwiBuild dwellings through:
    - 1.1.1 Existing Government-led development programmes, including those being undertaken by HNZC, Homes.Land.Communities (HLC Ltd), and the Tāmaki Regeneration Company (TRC)
    - 1.1.2 Acquiring and on-selling vacant and underutilised Crown-owned land, as well as land purchased from the private sector and others, to developers for the delivery of KiwiBuild dwellings as part of an expanded and redesigned Crown Land Development Programme (the *KiwiBuild Wholesale Land Programme*)
    - 1.1.3 Purchasing (or underwriting) new homes off the plans, to de-risk suitable developments that the private sector or others are leading, in exchange for accelerating a greater number of homes at affordable KiwiBuild price points.
  - 29.1 Identifying and undertaking initial due diligence on around five of the signalled 12 to 15 major greenfield and urban regeneration projects, so that they can be progressed more quickly by the Housing Commission once established
  - 29.2 Investigating innovative approaches to addressing current constraints within the development sector, including alternative financing approaches and construction methodologies, through initial market soundings.
- 30 These delivery mechanisms are discussed in more detail below.
- 31 In addition, MBIE and the KiwiBuild Unit will:
- 31.1 Be responsible for related policy development and monitoring, including defining what a KiwiBuild home is and developing eligibility criteria
  - 31.2 Develop tools and processes to assess the cost effectiveness and risks associated with development opportunities
  - 31.3 Undertake market sounding to inform product design

- 31.4 Develop a strategy to invest and strengthen capacity and functions into the new Housing Commission
- 31.5 Focus on building sector capability to ensure the long-term success of KiwiBuild
- 31.6 Partner and collaborate effectively with other government delivery agencies, including HNZC, TRC, and the Ministry for Social Development.

*Leveraging opportunities to deliver KiwiBuild dwellings via existing Government-led housing programmes*

- 32 There are a number of Government programmes underway to deliver a mix of new public, 'affordable' and market-priced housing.
- 33 In Auckland, the combined Crown Building Project is expected to deliver 33,500 dwellings over the next 10 years: 13,500 public houses and 20,000 affordable and market priced houses. The net dwelling gain will be around 26,000 dwellings after accounting for the demolition of 8,000 existing state houses. The Crown Building Project is comprised of:
  - 33.1 The Crown Land Development Programme (MBIE)
  - 33.2 Hobsonville Point (HLC Ltd)
  - 33.3 The Auckland Housing Programme (HNZC and HLC Ltd)
  - 33.4 The Tāmaki Regeneration Programme (TRC).
- 34 These projects have been using the previous Government's definition of affordable housing, linked to the prevailing KiwiSaver HomeStart price cap (currently \$650,000 for Auckland, irrespective of typology). By contrast we have signalled that KiwiBuild price points in Auckland will be \$600,000 or below, with terraced housing and apartments priced below \$500,000.
- 35 Initial analysis suggests that around 165 dwellings in Auckland which are contracted are likely to fall within our target KiwiBuild price points. However, agencies report that, due to subsequent increases in land values and development costs, these price points will be difficult to replicate in the next tranches of developments in the absence of a subsidy or significant modifications to the current development approaches (e.g. the Crown taking on a greater proportion of the development costs and risks). Apartments are the typology most likely to be able to be delivered at or near our target price point, although these are not feasible at all locations.

36 s 9(2)(b)(ii)  


- 37 Outside of Auckland, we have indicated that the KiwiBuild price points will range between \$300,000 and \$500,000. These prices are likely to be more readily achievable, depending on the specific location. For example, MBIE's development partner is currently delivering (under the Christchurch Housing Accord) two bedroom standalone houses on former Crown-owned land in Christchurch from as low as \$340,000.

- 38 I propose reporting back to the Committee in the New Year with further analysis of the options and potential funding implications to secure more KiwiBuild dwellings from existing Government-led programmes.

*The KiwiBuild Wholesale Land Programme: expanding and leveraging the Crown Land Development Programme*

- 39 The Crown Land Development Programme was established in December 2015 to acquire vacant or underutilised Crown-owned land and then on-sell it to developers (including iwi) on condition that they deliver a proportion of new dwellings for public housing and a proportion at prices attainable for first home buyers. The Crown can purchase affordable housing outcomes by deferring settlement on land, which reduces the costs to the developer.
- 40 In total, \$252.2 million of capital has been appropriated to fund land acquisitions. Just under \$100 million is already committed, leaving just over \$150 million left. Because this programme was focussed on Auckland and had secured the support of iwi development partners who are relying on this appropriation, the balance will continue to be used for Auckland developments under the terms of the Crown Land Development Programme.
- 41 In addition, a \$10 million operating contingency was established in 2016/17 to offset any reduction in land value as a result of the Crown requiring developers to complete developments in ways that deviate from the lands' highest use. Yet to be drawn down, the contingency enables the Crown to subsidise the sale price of land where appropriate.
- 42 Otherwise, the Crown Land Development Programme is fiscally neutral, with all development risks resting with the developer. The Crown is expected to recover the land value in full and in most cases the Crown is also entitled to receive a share of any profits achieved above an agreed margin.
- 43 In an accompanying Cabinet paper (and supporting business case), I am proposing to expand the mandate of this programme to enable it to operate in other regions, and to purchase private land as well as existing Crown-owned land. It will be redesigned as the *KiwiBuild Wholesale Land Programme*, and it will enable many more opportunities to work with developers to accelerate the pace of development and deliver affordable KiwiBuild homes.
- 44 Alongside operational funding for the establishment of the KiwiBuild Unit, this paper also seeks new funding for the operation and expanded activity of the KiwiBuild Wholesale Land Programme of \$230 million, as an initial draw-down against the \$2 billion earmarked for KiwiBuild. As with the existing Crown Land Development Programme, any draw-down of capital funding for the expanded programme will be subject to the approval of the Minister of Finance and the Minister of Housing and Urban Development (Joint Ministers).

*Exploring opportunities to secure KiwiBuild dwellings in private-sector led developments*

- 45 Access to development finance has become more difficult following the collapse of the mezzanine financing sector (post Global Financial Crisis) and, more recently, the tightening of bank lending criteria. Securing finance for medium-to-high density developments is particularly challenging, with banks requiring significant pre-sales

(upwards of 50 percent). This is due to tightening global economic conditions and concerns that local markets may have reached their price peaks.

- 46 The Government could contribute to achieving its affordable housing goals through using its access to low-cost capital to de-risk these kinds of developments. In turn, this would reduce development costs and delays associated with the risk premiums built into development/lending margins, and banks requiring developers to pre-sell dwellings prior to drawing-down development finance.
- 47 The Government's support could take a range of forms, including:
- 47.1 Entering into a binding pre-sale commitment to purchase the KiwiBuild dwellings from the developer at their market value (less any reasonable bulk or pre-purchase discount)
  - 47.2 Agreeing to a put option, under which the developer may compel the Crown to purchase any unsold dwellings at a pre-agreed price (e.g. cost, plus five percent) provided the developer has made a reasonable attempt to sell the dwellings directly to eligible purchasers
  - 47.3 Underwriting (subject to actuarial advice) bank lending (i.e. principal and interest payments) to developers, on condition that they include an agreed proportion of KiwiBuild dwellings in their developments. This underwrite could take the form of a risk pool, similar to the approach used for Welcome Home Loans.
- 48 In exchange for helping worthwhile developments overcome the finance constraints being experienced in the residential development sector, this initiative would require the resulting product mix being offered by private developers to better meet the Government's affordable housing objectives.
- 49 In the first instance, I propose that the KiwiBuild Unit undertake initial market sounding with developers, iwi/Māori, financiers and other interested parties to test their interest in, and identify the potential efficacy and impact of, this approach and others. It will be important that we are facilitating developments that would not otherwise proceed rather than crowding out private investment.

#### *Developing a comprehensive large scale development pipeline*

- 50 I expect that a significant proportion of KiwiBuild homes will be delivered through large scale greenfield development and brownfield redevelopment projects delivered by the Housing Commission once established. Its proposed statutory powers will be instrumental to overcoming many of the barriers to efficient and effective development such as: poorly coordinated infrastructure and investment, difficulty aggregating land to form commercially viable development opportunities and planning constraints.
- 51 I anticipate that the Housing Commission's activities will comprise a mix of current regeneration projects that would benefit from its statutory tools, new brownfield redevelopment opportunities that may arise, and comprehensive greenfield development at the urban periphery, with a typical development comprising at least 30 per cent KiwiBuild dwellings.
- 52 While the Housing Commission is being established, work will be undertaken by the interim KiwiBuild Unit to identify potential sites and begin initial due diligence into the feasibility of these developments being designated as urban development areas. This will enable the Housing Commission to unlock or accelerate these developments more swiftly upon its establishment.

- 53 This initial activity will focus on new opportunities that may involve complex procurement and relationship management approaches — one early example could be partnering with Panuku Development Auckland, Auckland Council and others involved in the transformation of central Manukau. Beyond the aforementioned procurement activity, the Unit will not focus on the existing large-scale development areas already being progressed well by HNZA, HLC and TRC. However, I will be looking for those agencies to begin considering how the Housing Commission’s proposed role and set of tools could help progress those developments, and I will be expecting agencies to be taking a comprehensive urban development approach to their activities in anticipation of the Housing Commission’s establishment.

*Innovative approaches to addressing current market constraints*

- 54 In the longer term, I want to be able to procure (on an outcomes basis) construction services that are able to deliver houses more effectively and efficiently.
- 55 The scale of KiwiBuild is expected to act as a catalyst for innovation and a step change for how development is undertaken in urban centres. KiwiBuild will provide a vehicle to encourage and support investment in sector innovation.
- 56 Further analysis needs to be undertaken to investigate what innovative approaches to addressing current constraints within the development sector, including alternative financing approaches and construction methodologies, might be appropriate.
- 57 In order to elicit innovative ideas from the market, I propose openly engaging with the market, interested parties and subject matter experts through various forums to identify and develop appropriate procurement methodologies.
- 58 In the first instance, I propose that the KiwiBuild Unit undertake further market sounding on innovative ideas.

**Further work required: affordability, eligibility and avoiding windfall gains**

- 59 Key considerations in selling KiwiBuild homes to purchasers include:
- 59.1 Whether the Crown is able to realise sufficient cost savings (through economies of scale and efficient land use) to build houses at the target price points
  - 59.2 Whether there are sufficient first-home-buyers willing and able to purchase dwellings at the target price points
  - 59.3 How to manage the risk of households receiving windfall gains due to the target price points being less than the market values of the homes; and
  - 59.4 What constitutes an eligible household.
- 60 As discussed previously, ideally we want to be procuring and on-selling, at their market values, houses that are inherently affordable by virtue of their modest design and efficient land use and production. I am confident that we will be successful in progressively achieving this objective, which would negate both the need for any form of government subsidy and any intervention to mitigate the risk of eligible purchasers realising windfall gains through on-selling these properties. The actions outlined in paragraph 31 will provide a better indication of the price points at which developers are

able to deliver modest houses for the KiwiBuild programme over the short to medium term, and whether any form of subsidy will be required.

- 61 However, initial indications suggest that in most instances, on existing settings, the market price for many dwellings will be higher (i.e. closer to the lower quartile house price, which is currently \$629,000 in Auckland) than both our target price points. This is significantly higher than what many first home buyers can afford to pay.
- 62 By way of example, analysis of the Auckland housing market in 2015 suggested that only 25,000 Auckland private rental households in paid employment could afford to purchase a house at the then lower quartile price of around \$500,000.<sup>2</sup> It is not known how many of these households actually wanted to purchase a house or whether a lower-quartile priced house would have been suitable in terms of its size and location. Nevertheless, this clearly indicates there will be a need for some form of progressive ownership or other product to bridge the affordability gap for some households, and this is currently a component of our Māori housing manifesto commitments and confidence and supply agreement with the Green Party. Officials are currently investigating the range of potential options here.
- 63 I will report back on all of this work in early 2018, along with any request for additional funding required through the Budget process. This work will be undertaken in the context of the key trade-offs, sequencing and prioritisation that I will be proposing in my Housing and Urban Development Work Programme Cabinet paper early in 2018. In the meantime, the decisions being sought through this paper do not require these subsequent policy and funding decisions to be resolved in order to start delivering benefits and early wins for our KiwiBuild programme, and neither do they pre-empt any of the substantive prioritisation decisions we may wish to make early next year.

### **Iwi/ Māori considerations**

- 64 In due course, I intend the Housing Commission to be able to lead partnerships with iwi and Māori organisations on urban regeneration projects and the tools for the Commission to do this will be a feature of its design.
- 65 In the interim, the KiwiBuild Unit will be able to begin to meet iwi/Māori aspirations to partner in housing provision, using aspects of the Crown Land Development/Wholesale Land Programme model as appropriate, but also through its engagement with the sector, its approach to procurement and through measures to address capacity and capability as required.
- 66 There is also complementary policy work underway to ensure Māori low-income households are among those able to access new affordable housing, such as through shared equity and progressive ownership models.

### **Consultation**

- 67 The State Services Commission, Treasury, Ministry for Social Development, Te Puni Kōkiri, and Housing New Zealand Corporation were consulted on this paper. The Department of Prime Minister and Cabinet was informed.

<sup>2</sup> BRANZ research report ER5: Can Work, Cannot Afford to Buy - the Intermediate Housing Market (August 2015).

## Financial Implications

- 68 An interim KiwiBuild Unit will be established within MBIE, which will then transition into the Housing Commission. The KiwiBuild Unit and associated departmental policy advice will cost \$14.26 million in 2017/18 and 2018/19. In addition, I am seeking initial non-departmental operating costs of \$10 million and capital expenditure of \$220 million in 2017/18 and 2018/19 for the Unit, in order to fund the activities of the KiwiBuild Wholesale Land Programme for which I am seeking approval in the accompanying Cabinet paper and business case.
- 69 The Housing Commission will require a capital injection of \$1.78 billion, and a one off working capital injection of \$75.755 million for its ongoing operating costs. The entity will be self-funding after this, utilising revenue from land and property sales and rentals. Initial policy decisions on the role of the Housing Commission are being sought through a separate accompanying Cabinet paper (titled *Establishing the Housing Commission and legislating to empower complex urban development projects*).
- 70 In order to implement the decisions in this paper and the accompanying papers, new appropriations will need to be established:
- 70.1 A departmental output to fund the operations of the KiwiBuild Unit
    - 1.11 A non-departmental output to fund the operational expenditure associated with KiwiBuild dwellings
  - 70.2 A non-departmental capital expense to provide the Crown's contribution to the acquisition and development of KiwiBuild dwellings
  - 70.3 A non-departmental capital expense to provide capital injections into the Housing Commission.
- 71 I seek Cabinet agreement to the following new Crown funding for the first two years of the KiwiBuild unit operations, with interim expenditure to be met from Imprest Supply:
- 71.1 \$11.047 million departmental funding for the KiwiBuild Unit operations
  - 71.2 \$3.198 million for KiwiBuild policy advice
  - 71.3 \$220 million of non-departmental capital funding
  - 71.4 \$10 million of non-departmental operational funding.
- 72 I anticipate reporting back to Cabinet seeking further funding for the KiwiBuild Programme and the establishment of relevant appropriations for the Housing Commission once the corresponding policies are further developed
- 73 The recent Treasury half yearly economic and fiscal update (HYEFU) has incorporated the full \$2.1 billion funding required to deliver the KiwiBuild Programme and establish the Housing Commission.

## Human Rights

- 74 This Policy proposal is consistent with the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

## Legislative Implications

- 75 This Policy proposal has no impacts on legislation or regulation. Legislation will be required in due course to establish the Housing Commission and its suite of statutory powers.

## Recommendations

The Minister of Housing and Urban Development recommends that the Committee:

- 1 **Note** that our priorities for our first 100 days in office include commencing:
  - 75.1 The KiwiBuild Programme to deliver 100,000 affordable dwellings for first home buyers over 10 years
  - 75.2 Work to establish the Housing Commission – an urban development authority with cut through planning powers, which will be responsible for driving the delivery of the KiwiBuild Programme and undertaking major greenfield and brownfield regeneration projects in partnership with Councils, private developers and iwi/Māori
- 76 **Note** that the Labour Party manifesto states that:
  - 76.1 Construction of KiwiBuild will be funded by an initial \$2 billion capital injection, which will be recycled as houses are sold, and returned to the Crown at the end of the KiwiBuild programme; and
  - 76.2 The Housing Commission will receive \$100 million of establishment funding, in the expectation that it will be self-funded from then on
- 77 **Note** that it is expected to take at least a year to draft and enact the legislation required to formally establish the Housing Commission and confer upon it the cut through powers of an urban development authority
- 78 **Note** that initial policy decisions on the role of the Housing Commission are being sought through an accompanying Cabinet paper (titled *Establishing the Housing Commission and legislating to empower complex urban development projects*)
- 79 **Agree** to establish a KiwiBuild Unit within MBIE as an interim measure pending the establishment of the Housing Commission
- 80 **Agree** that the KiwiBuild Unit's core focus will include:
  - 80.1 Identifying and leveraging opportunities to procure KiwiBuild dwellings via:
    - 80.1.1 Existing Government-led housing initiatives, such as those being undertaken by Housing New Zealand Corporation

80.1.2 Acquiring and on-selling vacant and underutilised Crown-owned land, as well as land purchased from the private sector and others, to developers for the delivery of KiwiBuild dwellings as part of an expanded and redesigned Crown Land Development Programme (the *KiwiBuild Wholesale Land Programme*)

80.1.3 Purchasing (or underwriting) new homes off the plans, to de-risk suitable developments that the private sector or others are leading, in exchange for accelerating a greater number of homes at affordable KiwiBuild price points

80.2 Undertaking initial due diligence on around five of the signalled 12 to 15 major greenfield and urban regeneration projects that could be progressed by the Housing Commission once established

80.3 Investigating innovative approaches to addressing current constraints within the development sector, including alternative financing approaches and construction methodologies, through initial market soundings

**81 Agree** that MBIE and the KiwiBuild Unit will also:

81.1 Be responsible for related policy development and monitoring, including defining what a KiwiBuild home is and developing eligibility criteria

1.12 Develop tools and processes to assess the cost effectiveness and risks associated with development opportunities

1.13 Undertake market sounding to inform product design

1.14 Develop a strategy to invest and strengthen capacity and functions into the new Housing Commission

1.15 Focus on building sector capability to ensure the long-term success of KiwiBuild

1.16 Partner and collaborate effectively with other government delivery agencies, including HNZA, TRC, and MSD

**82 Agree** to establish the following appropriations:

| Vote                 | Appropriation Minister                    | Title                                 | Type                             | Scope   |
|----------------------|---|---------------------------------------|----------------------------------|---|
| Building and Housing | Minister of Housing and Urban Development | KiwiBuild Unit                        | Departmental Expense             | This appropriation is limited to activities associated with the facilitation and implementation of the KiwiBuild programme. |
| Building and Housing | Minister of Housing and Urban Development | KiwiBuild operations                  | Non-Departmental Other Expense   | This appropriation is limited to the operational expenditure associated with KiwiBuild.                                     |
| Building and Housing | Minister of Housing and Urban Development | KiwiBuild acquisition and development | Non-Departmental Capital Expense | This appropriation is limited to the Crown's contribution to the acquisition and development of KiwiBuild dwellings.        |

- 83 **Note** that an accompanying Cabinet paper seeks agreement to expand the existing Crown Land Development Programme, redesigning it as the KiwiBuild Wholesale Land Programme and enabling it to purchase private land and operate across New Zealand
- 84 **Note** that the non-departmental operating and capital being sought here will be for the purposes of the KiwiBuild Wholesale Land Programme as a way of delivering early opportunities to supply KiwiBuild homes before subsequent policy and funding decisions are made in early 2018
- 85 **Note** that any draw-down of funding from the non-departmental operating and capital appropriations will be subject to approval of the accompanying Cabinet paper, *KiwiBuild Wholesale Land Programme*, and corresponding business case
- 86 **Note** that I anticipate reporting back to Cabinet seeking further funding for the KiwiBuild Programme and the establishment of relevant appropriations for the Housing Commission once the corresponding policies are further developed
- 87 **Approve** the following changes to appropriations to give effect to the policy decisions in recommendations above, with a corresponding impact on the operating balance and debt:

|   | \$m – increase/(decrease) |                |         |         |                   |
|---|---------------------------|----------------|---------|---------|-------------------|
|   | 2017/18                   | 2018/19        | 2019/20 | 2020/21 | 2021/2 & Outyears |
| <b>Vote Building and Housing Minister for Housing and Urban Development</b>                 |                           |                |         |         |                   |
| Departmental Output Expense: KiwiBuild Unit (funded by revenue Crown)                       | 3.350                     | 7.697          | -       | -       | -                 |
| Departmental Output Expense: Policy Advice – Building and Housing (funded by revenue Crown) | 0.800                     | 2.399          | -       | -       | -                 |
| Non-Departmental Output Expense: KiwiBuild operations                                       | 5.000                     | 5.000          | -       | -       | -                 |
| Non-Departmental Capital Expense: KiwiBuild acquisitions and development                    | 100.000                   | 120.000        | -       | -       | -                 |
| <b>Total Operating</b>  | <b>9.150</b>              | <b>15.096</b>  | -       | -       | -                 |
| <b>Total Capital</b>  | <b>100.000</b>            | <b>120.000</b> | -       | -       | -                 |

- 88 **Agree** that the proposed changes to appropriations for 2017/18 above be included in the 2017/18 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply
- 89 **Agree** that the expenses incurred under recommendation 13 above be managed against the operating and capital spending set out in the government's Fiscal Plan

- 90 **Note** that the recent Treasury half yearly economic and fiscal update (HYEFU) has incorporated the full \$2.1 billion funding required to deliver the KiwiBuild Programme and establish the Housing Commission
- 91 **Note** the government's Fiscal Plan, consistent with its Budget Responsibility Rules, will ensure that the Government is delivering a sustainable operating surplus across an economic cycle and reducing the level of net core Crown debt to 20 per cent of GDP within the next five years
- 92 **Note** that I will report back to Cabinet in early 2018 with:
- 92.1 An overarching Cabinet paper on the Housing and Urban Development work programme, which will discuss and seek agreement to high-level sequencing and prioritisation of effort across the wider programme
  - 92.2 Advice on how to procure KiwiBuild houses in a way that ensures financial sustainability of the scheme and affordability for eligible households, including advice on progressive ownership, and that this will inform further funding being sought through the Budget process.
- 93 **Note** that the decisions being sought through this and the accompanying papers enable us to make initial progress on fulfilling our manifesto commitments in way that does not pre-empt the fundamental policy and spending choices we will need to make in the New Year

Authorised for lodgement

Hon Phil Twyford

**Minister of Housing and Urban Development**