



Briefing

Updated draft Cabinet paper – Advancing the housing supply and affordability package			
Date:	07 May 2021	Security level:	Sensitive
Priority:	High	Report number:	BRF20/21050945

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Forward this briefing to the Associate Minister of Housing (Maori Housing) Provide feedback for HUD to develop a final Cabinet paper for review and lodgement	For discussion on 10 May

Contact for discussion				
Name	Position	Telephone	1st contact	
Brad Ward	DCE, Place-based Policy & Programmes	04 831 6035	s 9(2)(a)	
Kararaina Calcott-Cribb	DCE, Te Kāhui Kāinga Ora	04 832 2579		
Hilary Eade	Kaiaki, Place-Based Policy and Programmes	04 831 6032		✓
Saskia Patton	Manager, Urban Development Delivery	04 832 2514		
Xavier Warne	Advisor, Place-Based Outcomes			

Other agencies consulted
Consultation on the draft Cabinet paper has occurred across the Treasury, Kāinga Ora, the Ministry of Transport, the Department of Internal Affairs, and Waka Kotahi New Zealand Transport Agency. The Department of the Prime Minister and Cabinet has been informed. Note the section relating to Infrastructure Fund Component 3: Infrastructure for Māori has not been consulted on due to time constraints. The Treasury and Te Puni Kōkiri have been informed of this section.

Minister's office to complete

[Redacted text block]

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

Comments

Date returned to HUD:



Briefing

Updated draft cabinet paper – advancing the housing supply and affordability package

For: Hon Dr Megan Woods, Minister of Housing

Date: 07 May 2021

Security level: Sensitive

Priority: High

Report number: BRF20/21050945

Purpose

1. This briefing outlines the changes made to the draft Cabinet paper *Advancing the housing supply and affordability package* since an earlier draft was provided to you on 29 April 2021. It reflects your feedback and feedback from other agencies. The briefing also outlines work on the design of the Māori infrastructure component of the Housing Acceleration Fund, following discussion with officials on Monday 3 May.

Recommended actions

2. It is recommended that you:
 1. **Note** following discussion with officials and the Associate Minister of Housing (Māori Housing) on Monday 3 May, the Cabinet paper has been updated to include high-level design features for a Māori Infrastructure Fund. Noted
 2. [Redacted] s 9(2)(j) Noted
 3. [Redacted] s 9(2)(f)(iv) Noted
 4. [Redacted] s 9(2)(f)(iv) Agree/Disagree
 5. [Redacted] s 9(2)(j) Agree/Disagree
 6. [Redacted] s 9(2)(f)(iv) Agree/Disagree

7. **Note** other key changes to the attached draft Cabinet paper *Advancing the housing supply and affordability package* in response to feedback received since 29 April:
- 7.1 Reflecting your agreement that investment decisions for the competitive Infrastructure Fund be made by the Ministers of Housing and Finance on advice of a committee of the Kainga Ora board with representation from key other agencies.
 - 7.2 Including a comment from the Treasury disagreeing with the proposed role of the Kainga Ora Board in decision making for the competitive fund.
 - 7.3 Indicating indicative envelopes for the LSPs **s 9(2)(j)**, competitive component **s 9(2)(j)**, and Māori infrastructure component (\$350m).
 - 7.4 Proposing weightings for the competitive Infrastructure Fund's investment criteria.
 - 7.5 Removing the high-level update on supporting purpose-built rentals to allow more time for work to progress and form the basis of a more substantive report-back due in mid-2021.

Noted

8. **Agree** to provide feedback on the draft Cabinet paper so that an updated draft can be provided to you for Ministerial consultation.

Agree / Disagree



Hilary Eade
Kaiaki, Place-Based Policy and Programmes

7 / 5 / 21
 / /

Hon Dr Megan Woods
Minister of Housing

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Background

3. In March, Cabinet agreed to a suite of demand and supply-side measures to address housing affordability, support first home buyers and better incentivise investment in new homes [CAB-21-SUB-0045, CAB-21-MIN-0070 and CAB-21-MIN-0061 refers].
4. Cabinet sought specific reports back on [CAB-21-MIN-0061 refers]:
 - a. the design parameters for the Infrastructure Fund, including on alignment with existing infrastructure processes (in particular three waters and transport) and ongoing collective ministerial oversight across alignment with the Treasury, Ministry of Transport, Waka Kotahi New Zealand Transport Agency, Department of Internal Affairs and Kāinga Ora; and
 - b. how the government can further support increased delivery of high-quality rentals at both market and subsidised rent, including the impact of the Overseas Investment Act and tax treatment.
5. The primary purpose of the Cabinet paper is to seek agreement to the design parameters for the Infrastructure Fund, including both the Kāinga Ora Large Scale Projects and the competitive component of the Infrastructure Fund. It also provides updates on the progress of the Kāinga Ora Land Programme, the refocused Residential Development Response Fund, and the Land for Housing Programme.
6. We provided you a first draft of this Cabinet paper on 29 April 2021. Since then we have received feedback on the draft from your office and other agencies. The updated cabinet paper reflects this feedback as well as developments since 29 April 2021.

Key changes since the last draft

A new section with high level design settings for a Māori Infrastructure Fund has been added

7. Following discussion with officials and the Associate Minister of Housing (Māori Housing) on Monday 3 May, the Cabinet paper has been updated to include high-level design features for a Māori Infrastructure Fund.
8. The design features reflect those used for the competitive Infrastructure Fund but differ to enable smaller Māori-led investments, including papakāinga developments or rural investment with onsite infrastructure.
9. The most significant difference proposed between these funds is that the costs of onsite infrastructure that developers would typically pay would be eligible for funding through the Māori Infrastructure Fund.
10. This difference reflects that Māori infrastructure proposals will not be strictly commercial in nature. The infrastructure investment will create long term assets that enhance social and economic wellbeing for Māori. The investment will help overcome funding and financing barriers specific to Māori land including smaller rural developments and support the delivery of Whai Kāinga Whai Oranga (Māori Housing Budget 2021 initiative).
11. Where proposals have commercial elements, officials will seek to avoid subsidising the commercial activity. Officials expect that many larger, commercially-oriented projects backed by Māori will use the Infrastructure Fund.
12. The paper proposes the Māori Infrastructure Fund operates a 'two path model' similar to the Infrastructure Fund:
 - a. a 'project path' for small scale developments across Aotearoa using a contestable on demand model open from 1 July 2021. Proposals will be prioritised based on investment criteria with a particular emphasis on readiness balanced by the place and need; and

- b. an 'iwi programme path' for multi-year delivery programmes by Regional/Tribal Development Entities run on a closed negotiation model from 1 July 2022. Under this model the Government first determines maximum investment (envelopes) for each region and then, in partnership with the regional development entity, agree on a multi year delivery programme and the infrastructure needs to support that.
- 13. Establishing Regional/Tribal Development Entities will be a new approach to partnering with Māori for housing delivery. Iwi governance structures for Regional/Tribal Development entities will be essential to ensure funding is prudently managed. I expect our partnership with these new entities will continue to evolve and shift the scale of impact and long-term sustainability of Māori housing delivery.
- 14. Whai Kāinga Whai Oranga funding will support the establishment of these regional entities through capability and funding early pilots. Further detail on this approach is being developed as part of Whai Kāinga Whai Oranga.
- 15. To ensure alignment between Whai Kāinga Whai Oranga and the Māori Infrastructure Fund, the Cabinet paper seeks delegated authority for you, the Minister of Finance and the Associate Minister of Housing (Māori Housing) to determine the following settings:
 - a. Confirming final investment criteria (investment criteria for the Infrastructure Fund are outlined as relevant but need to be aligned to Whai Kāinga Whai Oranga).
 - b. Determining funding envelopes for the Iwi programme pathway, which will require engagement with iwi and Māori and further analysis on need and readiness.
 - c. The monitoring, reporting and evaluation requirements for the Māori Investment Fund.
- 16. The paper proposes HUD administers the Māori Infrastructure Investment Fund. HUD will support a Chief Executive lead MAIHI governance group that will provide advice to you, the Minister of Finance and the Associate Minister of Housing (Māori Housing).
- 17. The MAIHI governance group will enable Whai Kāinga Whai Oranga ministers (Associate Minister of Housing (Māori housing), Minister of Māori Development and Associate Minister of Housing (Homelessness)) to comment on the alignment of infrastructure projects to Whai Kāinga Whai Oranga projects.
- 18. The proposals on the Māori Infrastructure Fund will be of interest to Whai Kāinga Whai Oranga Ministers. Officials recommend engaging with these Ministers to discuss the Māori Infrastructure Fund.

The paper reflects your decisions on the advisory and decision-making roles for the competitive Infrastructure Fund

- 19. The Cabinet paper has been updated to reflect your decisions on the recommendations made in *Competitive Infrastructure Fund – Detailed Design Features [BRF20/21040912]*, which we provided to you on 22 April.
- 20. You agreed that a committee of the Kāinga Ora Board be responsible for advising decision-making Ministers (Ministers of Finance and Housing) on investments for the competitive Infrastructure Fund and asked for advice on including independent representatives from other relevant agencies.
- 21. As previously advised, the strengths of this option is that it maintains accountability within a single organisations and is an expedient and administratively efficient approach.
- 22. The key issues that need to managed within this approach are:
 - a. Ensuring alignment of advice with Government policy priorities
 - b. Managing conflicts of interest for Kainga Ora
- 23. We propose that the use of a committee of the Board as the advisory group to Ministers be subject to the Board establishing a committee:

- a. that includes independent members from HUD and the Treasury nominated by the Chief Executives of those agencies;
- b. has the following skills represented (if these cannot be found within current Kāinga Ora Board members then additional independent members may be appointed to achieve this):
 - i. Housing development;
 - ii. Māori housing;
 - iii. Infrastructure delivery;
 - iv. Local government; and
 - v. Finance and risk management.

24. The committee would be supported by Kāinga Ora and by independent technical experts when needed. It would also be responsible for agreeing which proposals advance past the initial expressions of interest stage (in the two-stage process) and for which proposals are considered for fast-track approval.
25. However, it is generally discouraged to have public servants on Crown Entity Boards, particularly from a monitoring agency, although the relevant guidance is specific to Ministerial appointments to Boards, rather than Board creation of a committee as is the case here. While this is our proposed approach at this stage, we are seeking to engage with the Public Service Commission to seek further advice on this issue. One option we will explore is whether making the HUD and Treasury officials ex-officio (non-voting) members addresses this.
26. To manage conflict of interest, we propose that where the advisory group recommends Ministers consider proposals for infrastructure which may benefit land in which Kāinga Ora has an interest, then Ministers also be provided with independent second-opinion advice from HUD in order to manage any conflict of interest risks.

The paper includes a comment from the Treasury on the proposed role of the Kainga Ora board

27. The Treasury has requested that the following comment be inserted in the Cabinet paper:
- The Treasury does not consider that Kāinga Ora's board, or a committee thereof, should lead the decision-making process for a competitive Crown investment program in which their organisation has an interest. KO will be responsible for administering the Infrastructure Fund, and could also provide technical input to the advisory group, but recommendations for Crown investment should come from an independently-chaired advisory board appointed by Ministers. It is also important for the administrative and advisory functions of the fund to be adequately resourced for their respective roles.*

The paper now proposes indicative funding envelopes for the three components of the Infrastructure Fund

28. The previous draft did not specify how much funding might be allocated across the Kainga Ora Large Scale Projects, the competitive Infrastructure Fund, and Infrastructure for Māori Housing. Since an indicative portion for Māori housing infrastructure has now been agreed, the paper now provides an indicative allocation of:
- a. Kainga Ora Large Scale Projects s 9(2)(j)
 - b. Competitive Infrastructure Fund s 9(2)(j)
 - c. Infrastructure for Maori housing (\$350 million)

The paper includes proposed weightings of investment criteria for the competitive Infrastructure Fund

29. We have included high level weightings for the investment criteria in the paper as follows:

- a. Housing benefits of the proposal, including of complementary actions (40%);
 - b. Impact of funding (additionality) (20%);
 - c. Cost and co-funding (20%);
 - d. Capability and readiness (20%);
30. Although we previously proposed not including weightings, upon further consideration and testing, we determined high level weightings will help to structure Kainga Ora's assessment and advice, and particularly to emphasise the housing outcomes within the overall investment criteria. We do not see a need to provide more detailed weightings to the range of factors within each criterion.

The paper now provides more information on the Large Scale Projects

31. The LSP context has been strengthened in the paper. The Cabinet paper has been amended to address comments from the Department of Prime Minister and Cabinet (DPMC) and the Prime Minister's Office on how LSPs are considered. Below provides further context on, and responses to, the issues raised.

Amount of the Fund earmarked for the LSPs

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

33. Kāinga Ora is the government's urban development authority. In some areas, notably in Auckland and Porirua, Kāinga Ora owns large plots of aggregated land. This provides government with the opportunity to leverage greater pace and scale for housing delivery and also to achieve significant wellbeing outcomes through better urban design, and fit for purpose public housing. These investments are in some of the poorest suburbs.

34. Delivery by Kāinga Ora, as the government developer, provides surety that the LSPs will deliver build ready land in the short term, and that houses will be built in the coming three years. Also, there is greater control within LSPs that the developments meet the governments other priorities for affordable housing and intensification that aligns with the National Policy Statement - Urban Development.

The Large Scale Projects' alignment with the wider Infrastructure Fund

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

[REDACTED]

- a. LSPs are planned as a package, to align infrastructure and ensure faster consent processing. The pace of the programme will slow if the LSPs are not planned as a programme of work and the infrastructure projects are unbundled.
- b. LSPs integrate the land developer role and bulk infrastructure planning and provision (normally a council role), and because of the master planning approach Kāinga Ora can drive a faster pace than the council would if it planned infrastructure separately (ie Auckland Council is unlikely to put forward the same bid to the competitive fund).
- c. [REDACTED] s 9(2)(f)(iv) This is because of the scale of the proposed developments, the interdependencies, and long lead in time for projects.
- d. The construction sector requires pipeline certainty to upskill and scale up operations to deliver the programme over the ten years [REDACTED] s 9(2)(f)(iv)

[Redacted]

38. In summary, if LSPs were aligned with the process and settings of the wider fund to provide better cohesion with other announcements, it would present a significant trade-off that would impact the pace of housing delivery in government lead housing projects.

39. s 9(2)(j) [Redacted]

[Redacted]

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

[Redacted]

[Redacted]

[Redacted]

[Redacted]

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

[Redacted]

s 9(2)(j) [Redacted]



46. At the Officials meeting on 3 May, you asked that HUD engage with Treasury provide further advice on these options. This meeting occurred on 5 May with the following discussion points:

a. Whether the above options fit within the Cabinet delegation [CAB-21-Min-0116.15 refers] regarding 'spending required to keep momentum going'. While officials agreed that Option 1 and Option 2 is funding which is required to maintain momentum to June 2022, s 9(2)(f)(iv)



b. Whether all of these components proposed should be considered in s 9(2)(f)(iv), and the pros and cons of both including and excluding.

47. In discussions around Option 3, which includes Kāinga Ora's costs incurred to June 2021, both HUD and Treasury consider it would be prudent to undertake cost reconciliation and assurance of these prior to release of funding, to ensure costs were spent appropriately. s



48. s 9(2)(f)(iv) The impact of this being retained until December 2021 was considered limited by Kainga Ora, but the risk to the ability to pursue other activities began to increase beyond this. Funding now would provide additional financial certainty for Kāinga Ora.

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



Eastern Porirua

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



This level of investment will resolve fundamental infrastructure issues and

enable housing re-development to proceed over the short term without cutting off options for further investment in the future.

53. Funding certainty is important due to the unique and complex nature of Eastern Porirua. This LSP is designed as a regeneration project to address capacity and environmental issues due to its affordability constraints stemming from its low rating base (around 20,000 ratepayers). Porirua differs from the Auckland LSPs in that there is limited ability to leverage more investment from the council.

54. Additionally, the Eastern Porirua LSP has a unique partnership and governance arrangements in place with Ngāti Toa, Porirua City Council and the Te Pae community advisory panel. [REDACTED] s 9(2)(f)(iv), s 9(2)(j)

55. [REDACTED] s 9(2)(f)(iv), s 9(2)(j)

57. You will receive further advice by the end of May on options for positioning this.

The paper proposes [REDACTED] s 9(2)(f)(iv)

The high-level update on supporting purpose-built rentals has been removed

59. The draft Cabinet paper originally contained a high level update on the report-back on supporting purpose-built rentals requested by Cabinet in March. This has been removed given there will be a substantive report back on this in the middle of the year and that the work to support this report back is still taking place. [REDACTED] s 9(2)(f)(iv)

Consultation

61. We have consulted with and reflected feedback from the Treasury, Kāinga Ora, the Ministry of Transport, the Department of Internal Affairs, and Waka Kotahi New Zealand Transport Agency and the Department of the Prime Minister and Cabinet.

62. Feedback has been largely supportive of the direction of paper with key areas of feedback being:

- a. Some lack of support for a committee of the Kainga Ora Board as the advisory body.
- b. Suggestion that some content outside of the Infrastructure Fund be pared back (we have significantly reduced the detail on the purpose-built rentals).
- c. Greater emphasis on using non-financial levers alongside funding.

63. Notably, the section relating to Infrastructure Fund Component 3: Infrastructure for Māori has not yet been consulted on due to time constraints. The Treasury and Te Puni Kokiri have been informed of this section.

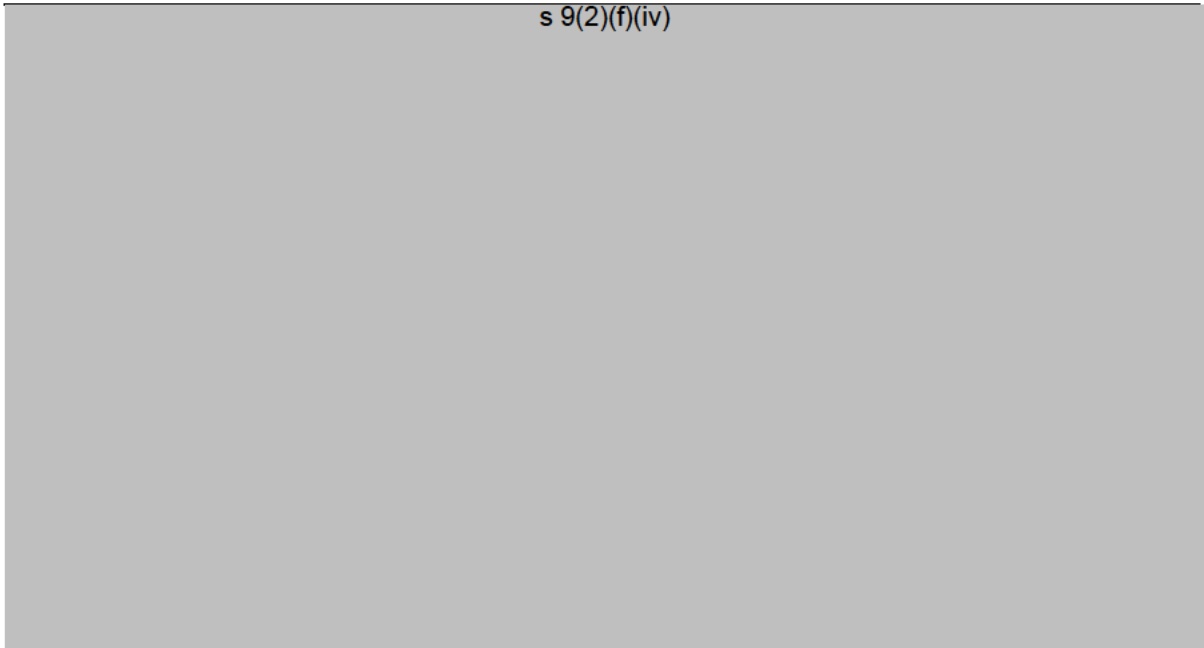
Next steps

64. We remain on track to provide the paper to the Cabinet Development Committee on 19 May as per the following timeline provided to you on 29 April.

Date	Briefing/update
12 May	Updated draft to you reflecting feedback from Ministerial consultation
13 May	Final review by you and lodgement
19 May	Cabinet Development Committee
24 May	Cabinet

65. The following table sets out upcoming briefings and Cabinet papers for the rest of the supply package:

s 9(2)(f)(iv)



Annexes

Annex A: Draft Cabinet paper: Advancing the housing supply and affordability package

Annex A: Draft Cabinet paper: Advancing the housing supply and affordability package
