



Briefing

2018 HYEPU Update: KiwiBuild Fiscal Forecast			
Date:	7 December 2018	Security level:	Budget - Sensitive
Priority:	Urgent	Report number:	BRF18/19120104

Action sought		
	Action sought	Deadline
Hon Phil Twyford Minister of Housing and Urban Development	Note the contents of this briefing	ASAP
Hon Grant Robertson Minister of Finance	Note the contents of this briefing	

Contact for discussion			
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Other agencies consulted
The Treasury

Minister's office to complete

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

Comments

Date returned to MHUD:



Briefing

2018 HYEFU Update: KiwiBuild Fiscal Forecasts

For: Hon Grant Robertson, Minister of Finance
Hon Phil Twyford, Minister of Housing and Urban Development

Date: 7 December 2018

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Purpose

1. This briefing provides Ministers with information to support the communication of KiwiBuild fiscal forecasts included in the Half Year Economic and Fiscal Update (HYEFU).
2. The KiwiBuild programme aims to build 100,000 affordable homes over 10 years for first home buyers and expects to recycle \$2 billion of expenditure to achieve this programme.
3. The HYEFU forecasts now include sales proceeds in the 5 year forecast period, as well as phasing of expenditure over a 10 year period. Therefore \$600 million net expense has been forecast in HYEFU over the five year forecast period (not a ten year period), at Budget 2018 \$2 billion was forecast within the 5 year period. While this appears to be a material movement, MHUD and the Treasury believe the assumptions used to complete these fiscal forecasts are reasonable.
4. KiwiBuild procurement includes methods that utilise private capital, are not expected to require large cash outlays (such as underwrites) and methods that recycle funds within the period.
5. The key drivers for the changes to the fiscal forecasts are:
 - a. More up-to-date information - The Budget 2018 forecast was prepared when the programme was being established, no KiwiBuild dwellings or deals had been completed at that time, and the Treasury forecasts were based on best estimates by MBIE at the time.
 - b. Timing of cash outlays - The Budget 2018 \$2 billion capital profile was front loaded as investment in 2018/19, 2019/20 and 2020/21. With refined information and better modelling, officials now consider that required investment will spread over a longer period, therefore it is still expected that \$2 billion will be incurred, but with amounts falling outside the 5 year fiscal forecast that is included in the HYEFU.
 - c. Capital recycling - is being forecast for the first time meaning a net reduced cash outflow, as sales proceeds offset expenditure. What this means is that the required cash injection over the five-year HYEFU forecast period is reduced to a net number of \$ 600 million.
6. This change in forecasts impacts the fiscal forecasts only. The economic impacts remain similar to Budget 2018.
7. MHUD and the Treasury officials have worked together in development of the HYEFU forecasts and modelling of the KiwiBuild commitments.

Next steps and other matters

8. The Treasury expect residential investment to ramp up as the KiwiBuild programme establishes itself and as capacity constraints in the construction sector are reduced by supporting policies coming into effect.
9. The Treasury and MHUD officials will continue to work together as the programme matures to provide aligned advice to Ministers on the fiscal impacts to the Crown of KiwiBuild.

Recommended actions

10. It is recommended that you:
 1. **Note** the contents of this briefing

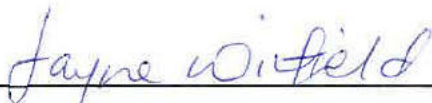


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Head of the Office of the Chief Executive
Ministry of Housing and Urban Development

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Hon Phil Twyford
Minister of Housing and Urban Development

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Minister of Finance

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