

In Confidence

Office of the Minister of Housing

Cabinet Social Wellbeing Committee

Staged operating funding to support public housing delivery

Proposal

- 1 This paper sets out a change to the funding settings to better support Registered Community Housing Providers (CHPs) to deliver new build public housing places. This can be achieved by bringing forward Operating Supplement funding to provide early stage payments in limited circumstances, enabling priority projects that otherwise would not progress.
- 2 I am seeking Cabinet approval to bring forward funding allocated through Budget 2020 from outside the current forecast period as this will have an impact on net core Crown debt in the near term.

Relation to Government priorities

- 3 The proposal supports the Government's housing policy objective that every New Zealander has a safe, warm, dry and affordable home to call their own, whether they rent or own (CAB-21-MIN-0018 refers).

Executive Summary

- 4 The Public Housing Plan 2021-2024 sets out the Government's supply intentions for an additional 6,000 public and 2,000 transitional housing places, with a specific focus on priority areas and cohorts where the need is greatest.
- 5 Kāinga Ora – Homes and Communities (Kāinga Ora) will lead delivery of the Public Housing Plan, complemented by CHP delivery through a progressive partnership approach with the Government. I am focussed on the delivery of new build housing places to add to our overall housing stock and provide much needed homes for individuals and families on the Housing Register.
- 6 I am proposing to support CHPs to deliver new build public housing by offering early stage payments of the Operating Supplement in limited circumstances to deliver the current Public Housing Plan 2021-2024. This will provide Te Tūāpapa Kura Kāinga – The Ministry of Housing and Urban Development (HUD) with some flexibility around when it provides funding to CHPs.
- 7 Operating funding for the 6,000 additional public housing places was funded in Budget 2020 and no additional funding is required. However, the proposal

to make early stage payments of the Operating Supplement affects net core Crown debt in the near-term as it involves earlier payment of expenditure (before or during the development of a new build project) that would normally be spread across the life of a contract. I am therefore seeking Cabinet approval of an increase of \$46.747 million in net core Crown debt in the near-term. It is expected the fiscal impact will be neutral on net core Crown debt over the long-term.

- 8 Subject to Cabinet's agreement to this proposal, I will subsequently seek agreement from the Minister of Finance to exercise his statutory powers under Section 65L of the Public Finance Act 1989 to make early stage payments on behalf of the Crown where it is in the public interest, or to delegate the power to do so.
- 9 Adding flexibility to the funding settings will have a positive impact on CHPs' ability to deliver new build public housing in priority locations or where a bespoke housing solution is needed. It will enable projects to proceed in certain circumstances such as where a CHP has put together a portion of the development capital required for a new build development but needs a top up to get over the line.
- 10 As an example of what this proposal could deliver, initial assessment of current opportunities by HUD officials identified six CHP projects (approximately 200 places) in priority locations that could have increased viability if early stage funding is made available. HUD will be able to provide greater certainty around the number of additional projects that can be delivered once the availability of early stage funding can be discussed with the sector.

Background

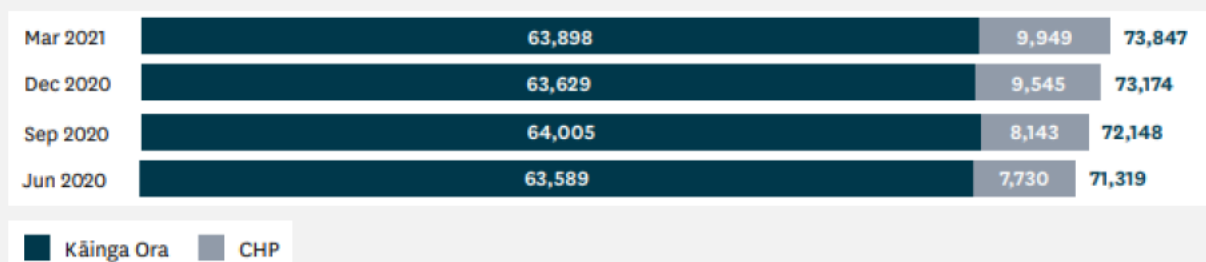
- 11 There is growing demand for public housing across New Zealand, with 23,687 households on the Housing Register in March 2021 (an increase of 45 percent over the last year, or 7,378 households). The increases are not evenly distributed across the country, with some areas having significantly larger increases than others, including Taitokerau, East Coast, Taranaki and Waikato.
- 12 The characteristics of applicants on the Housing Register reflect the poor housing outcomes that are disproportionately felt by specific groups of New Zealanders. As at March 2021:¹
 - 12.1 49 percent of applicants on the Housing Register were Māori (compared to 16 percent of the total population)
 - 12.2 Pacific People made up 13 percent of applicants on the register (compared to 8 percent of the total population)

¹ Source: Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development – Public Housing Quarterly Report March 2021

- 12.3 52 percent of applicants were single adults
 - 12.4 33 percent were sole parents and 9 percent were households of two or more adults with a child or children (over 9,900 families with children).
- 13 Delivering additional public housing is a key part of this Government's response to address the housing crisis that has been decades in the making. Public housing sits alongside other responses including the Housing First Programme for people experiencing chronic homelessness, the Progressive Home Ownership Fund to help families buy their own homes, and implementing the Homelessness Action Plan. In March, this Government announced a \$3.8 billion dollar fund to accelerate housing supply by investing in infrastructure, together with extra support for first home buyers and measures to remove incentives for speculators.

Public housing supply, March 2021

There are currently 73,847 public houses. Of these, 63,898 state houses are provided by Kāinga Ora, and 9,949 community houses are provided by 59 registered Community Housing Providers (CHPs).



Community Housing Providers

CHPs are diverse in size and structure, offering a range of housing options and specialised support services. Providers span from local iwi and charitable trusts to large scale Government-council partnerships, and are located across the country.

Some CHPs are also contracted by HUD to provide support services for programmes such as Housing First and Transitional Housing.

CHPs became eligible to receive the Income-Related Rent Subsidy for public housing in 2014. The Operating Supplement has been available for eligible new supply across New Zealand since 2018. The Government does not provide capital funding to CHPs.

The Public Housing Plan 2021-2024 sets out the Government's public housing supply intentions for the next four years

- 14 The Public Housing Plan, released in January 2021, provides information on the location of the additional 6,000 public and 2,000 transitional housing places that will be delivered by June 2024. The Public Housing Plan also signals some important shifts in delivery and I expect to see:
 - 14.1 greater collaborative partnerships between HUD, Kāinga Ora, iwi and Māori, CHPs, local government and the construction industry

IN CONFIDENCE

- 14.2 more new public housing in regional centres and towns where housing demand is growing fastest² alongside ongoing delivery in main centres
- 14.3 approaches that align with Te Maihi o te Whare Māori – the Māori and Iwi Housing Innovation Framework for Action (MAIHI)³ and targeted responses to different housing needs,
- 14.4 an increase in new build public housing and a progressive decrease in the proportion of private market homes redirected into public housing.

CHPs will complement Kāinga Ora delivery in priority areas and through bespoke housing solutions

- 15 CHPs have strong community connections, knowledge and expertise in delivering housing and support services for vulnerable New Zealanders. I am committed to a progressive partnership approach between the Government and CHPs that will increase the supply of public housing and improve outcomes for people urgently needing housing support.
- 16 CHPs are regulated with the majority being registered charities or non-profit entities. CHPs now manage around 14 percent of the total public housing stock. Funding to CHPs has increased from \$95 million in 2016/17 to \$339 million in 2019/20.
- 17 Sixteen CHPs identify themselves as kaupapa Māori organisations and provide around 1,250 public housing places. Often Māori CHPs are affiliated with iwi or hapū organisations, so are better placed than other providers (including Kāinga Ora) to offer integrated, wrap around support services to whānau Māori. These wrap around services support Māori who often face multiple and complex barriers to achieving positive housing outcomes and sustaining a tenancy. Critical to the success of this approach is a kaupapa Māori focus that leverages by Māori for Māori principles.
- 18 CHPs have built up a strong pipeline of new build public housing. Between July 2020 and June 2022, CHPs are expected to bring on 1,283 new build places,⁴ while a further 138 places have been contracted so far for delivery after July 2022.
- 19 I expect all CHP proposals for new supply to demonstrate “additionality” – that is, to deliver supply over and above what Kāinga Ora could otherwise supply. Additionality can be demonstrated where a CHP:

² The priority areas of the Public Housing Plan are Taitokerau, Tauranga, Hamilton, Rotorua, Tairāwhiti, Napier, Hastings, Whanganui, and Palmerston North. These are areas where the need for public housing has grown the fastest and a step change in delivery is required.

³ Te Maihi o te Whare Māori – the Māori and Iwi Housing Innovation Framework (MAIHI) puts Māori at the heart of the Aotearoa New Zealand housing narrative, acknowledges the history of Māori housing and responds to need through kaupapa Māori approaches.

⁴ As at 1 March 2021.

IN CONFIDENCE

- 19.1 has available land for public housing that could be progressed at pace
 - 19.2 can provide housing for a specific cohort group or bespoke responses for different housing needs (including for example delivering solutions with a kaupapa Māori approach, or properties for people with accessibility needs)
 - 19.3 can provide housing in a location where Kāinga Ora has a limited presence or development pipeline
 - 19.4 has an innovative delivery model.
- 20 Opportunities for up to 1,800 CHP places are being evaluated by HUD. A proposal will need to align with the supply intentions in the Public Housing Plan and meet at least one of the additionality criteria in order to progress through HUD's new supply gateway (with approval for funding subject to successful completion of negotiations and contracting).

For some CHPs, a lack of access to capital can be a barrier to delivering new build public housing

- 21 In recent years, most CHP new build supply has been focussed in the main centres using build-to-lease models of delivery, where ownership of the asset is retained by the developer.
- 22 My preference is for new build-to-own opportunities in locations across New Zealand where additional public housing is needed, and I expect to see a progressive decrease in leasing.⁵ This approach strengthens CHPs' ability to develop more housing in the future by building their asset base. It also means that places funded by the Government are more likely to be retained as public housing in perpetuity.
- 23 However, CHPs have identified access to the capital required for build-to-own developments as a key barrier, particularly where CHPs lack the equity or asset base and development experience required for bank lending.
- 24 Many CHPs seeking to deliver for specific cohort groups, for example Māori and Pacific Peoples, are smaller and/or newer providers who can lack the necessary asset base and delivery track record to meet bank lending requirement and access sufficient capital for build-to-own developments.

⁵ HUD can still consider build-to-lease opportunities where CHPs are unable to otherwise deliver build-to-own models, where additionality criteria can be met, and where early stage Operating Supplement funding is not sufficient to enable a build-to-own proposal.

Changing the funding settings to offer early stage operating funding will better support CHPs to deliver new build public housing

- 25 I propose to allow HUD to offer early stage payments of the Operating Supplement⁶ where this would enable CHPs to progress with build-to-own developments that meet at least one of the additionality criteria (see paragraph 19) and support the delivery of the Public Housing Plan.
- 26 Bringing payments of a portion of the Operating Supplement forward to the development stage adds flexibility to the funding settings and can help to address barriers around access to capital. I expect early stage funding will be particularly helpful for enabling proposals to proceed where a CHP is able to put together a portion of the development capital required but needs a top up to get a project over the line.
- 27 CHPs will still require an Operating Supplement throughout the contract term to be financially sustainable. Therefore, in developing proposals, HUD will work with CHPs to consider the appropriate portion of the Operating Supplement sought in the early development stage, and the cash flow required across the term of the contract.
- 28 The change I am proposing will support the delivery of public housing sought through the current Public Housing Plan by June 2024. I will reconsider the funding arrangements for the delivery of any additional public housing places funded through future budgets.

Changing the timing of Operating Supplement payments has an impact on the Government's financial position by increasing net core Crown debt

- 29 Operating funding for additional public housing places has already been funded through Budget 2020 and no additional funding is required for this proposal.
- 30 However, it does affect net core Crown debt in the near-term as it involves making payments earlier (before or during the development of a new build project) than would otherwise be paid (which would usually be across the life of a contract, often 25 years). The proposal will have an impact on net core Crown debt of \$46.747 million in the near-term, however it is expected the fiscal impact will be neutral on net core Crown debt over the long-term.
- 31 I am seeking Cabinet's approval to bring forward \$46.747 million of operating funding allocated through Budget 2020 from outside the current forecast period so that HUD can make up to \$55.525 million of early stage payments to CHPs over the next three years (to 30 June 2024).

⁶ The Operating Supplement is a funding subsidy paid in addition to the Income-Related Rent Subsidy (IRRS) for eligible new build public housing places. The IRRS enables public housing providers to receive a market rent. The Operating Supplement is required because market rent by itself is not sufficient to enable and incentivise new build supply. It is calculated as a percentage of market rent and paid under current settings once a public housing place is tenanted for the duration of the contract. The Operating Supplement required varies by location, with a higher percentage generally required in locations with lower market rents, up to the percentage cap.

I N C O N F I D E N C E

- 32 Early stage funding is required to be recognised as capital expenditure under section 65P of the Public Finance Act 1989. I am therefore also seeking approval to establish a new Non-departmental Capital Expenditure appropriation: *Community Housing Providers – Prepayment of Staged Operating Funding*, to recognise the financial impact of this decision which occurs at the time payments are made to the CHP.

Early stage Operating Supplement funding constitutes lending under the Public Finance Act 1989

- 33 Where the Crown provides funding at least three months in advance of the recipient providing a service, this constitutes lending under the Public Finance Act 1989. As the provision of early stage funding involves paying out Operating Supplement funding much earlier than it would otherwise have been provided (in some cases up to 25 years earlier) this is considered lending.
- 34 Section 65L of the Public Finance Act 1989 empowers the Minister of Finance to lend money on behalf of the Crown where it is necessary or expedient in the public interest to do so. I consider the provision of these payments to be in the public interest as it will support new build public housing places that would not otherwise be delivered in priority areas and/or for a tenant group with specific housing needs.
- 35 Subject to Cabinet's agreement to my proposal, I will seek agreement from the Minister of Finance to exercise his statutory powers under the Public Finance Act 1989 to lend money on behalf of the Crown, or to delegate the power to do so.

Offering early stage funding will have a positive impact on a range of CHP public housing projects

- 36 Early stage funding will support CHP opportunities to develop build-to-own public housing supply and I expect this to be of interest to the sector, including to Māori and iwi housing providers. Between 2015 and 2018 a similar type of funding arrangement was used to approve 496 new build places.⁷
- 37 As an example of what this proposal could deliver, initial assessment of current opportunities by HUD officials identified six CHP projects (approximately 200 places) in priority locations that could have increased viability if early stage funding is made available. This estimate is based on proposals that have been added to HUD's CHP opportunities register, which includes proposals not yet fully evaluated. HUD will be able to provide greater certainty around the number of additional projects that will be delivered once the availability of early stage funding can be discussed with the sector and further opportunities are presented.

⁷ Twenty eight projects were approved for 496 places with the government contributing \$100.2m. Twenty one of these projects have been delivered, with the remaining seven under construction.

- 38 I am particularly interested in exploring opportunities where Māori CHPs or CHPs which are working alongside iwi and Māori organisations can provide Kaupapa Māori driven solutions for Māori by Māori.
- 39 An example of a current development opportunity that might benefit from early stage funding is for s 9(2)(b)(i) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- 40 [REDACTED] [REDACTED] [REDACTED] to identify how the project could be further funded. Early stage Operating Supplement funding might be able to support this project to deliver public housing for Māori by Māori in an area of high housing need, that is complementary to delivery by Kāinga Ora.

Criteria will be developed for early stage funding and risk will be appropriately managed

- 41 At least one of the additionality criteria must be demonstrated in order for a CHP new build proposal to progress to the formal application and evaluation stage for any public housing funding (see paragraph 19). A further set of criteria will apply where a CHP is seeking early-stage payments to ensure this funding is used to achieve positive housing outcomes that could not be achieved in any other way.
- 42 The criteria for early stage payments will include:
- 42.1 the project must be a build to own development; and
 - 42.2 the project must deliver new build housing that could not otherwise be delivered in the places where they are most needed, through other sources of funding (i.e. HUD will need to be satisfied all other funding options have reasonably been explored by the CHP).
- 43 Meeting the criteria for early stage funding would not guarantee that a proposal progresses. Any risks associated with providing early stage funding will also need to be effectively managed through encumbrances or other contractual measures.
- 44 The criteria will work in tandem with HUD's existing new supply evaluation framework to ensure Crown funding supports projects which are suitable for public housing, have appropriate delivery risk mitigations in place, are financially viable throughout the contract period and where the cost is appropriate for nature of the project.

⁸ He Kūkū ki te Kāinga is funding available through the MAIHI partnerships programme to increase housing supply.

I have approved other changes to funding settings that were vital to support the delivery of the Public Housing Plan

- 45 I have recently made other changes to the funding settings to ensure new build public housing of the right type can be delivered in locations experiencing growing need:
- 45.1 increasing the Operating Supplement to address the challenges of delivering new supply in locations that have lower market rents
 - 45.2 extending the availability of the Operating Supplement to Kāinga Ora in Auckland (where it was previously available only to CHPs)⁹
 - 45.3 removing market rent maxima set in 2016 that constrain the operating funding CHPs receive.
- 46 The cost of these changes can be fully met through funding committed in Budget 2020.

Implementation

- 47 Subject to this proposal being approved, HUD will finalise the criteria for early stage funding and develop guidance for the CHP sector by the end of August. This will enable HUD to work with CHPs to identify and progress projects that might be eligible and benefit from early stage funding.
- 48 In addition to meeting all relevant criteria, HUD's existing new supply evaluation process will still apply. HUD will assess and mitigate risk throughout the process of assessing an application.
- 49 Early stage funding will be provided as a portion of the Operating Supplement under a tailored agreement in one or more lump sum payments when milestones are reached during the planning and construction stage. The portion offered will be calculated on a project by project basis taking into account the cash flow required to make the project financially viable.
- 50 I will have visibility over the number of projects and the level of early stage funding approved through quarterly reports from HUD officials. The reports will contain project based information (such as the amount of early stage funding provided and details on how the development aligns with the criteria) as well as tracking against the total amount of early stage funding that can be provided.

Financial Implications

- 51 As noted in paragraph 29 above, this paper is not seeking additional funding; it is seeking approval to provide funding to CHPs earlier than would have

⁹ To manage financial risk, the Operating Supplement portfolio cap Kāinga Ora committed to in 2018 will still apply. A 50 percent Operating Supplement cap across all of Kāinga Ora net new public housing supply is applied at the end of the financial year.

otherwise occurred. Due to the nature of the proposal, there is an impact on net core Crown debt in the near-term, but no impact on the operating balance.

- 52 I am proposing to bring forward \$46.747 million of Operating Supplement funding allocated through Budget 2020 from outside the current forecast period to make up to \$55.525 million of early stage payments to CHPs over the next three years. Agreeing to this will increase net core Crown debt by \$46.747 million in the near-term, however it is expected the fiscal impact will be neutral on net core Crown debt over the long-term.
- 53 I intend for the \$55.525 million of funding to be a cap on the amount of funding offered in early stage payments rather than a lending pool. It would be contingent on the volume of suitable projects proposed by CHPs, noting the constraints in paragraph 27 that CHPs would need to consider.
- 54 Under accounting standards, early stage payments are considered prepayments and are required to be amortised (recognised as an expense) over the life of the service to be provided (often 25 years). As the appropriations already assume that the Operating Supplement is provided over the life of the contract, there is no impact on the operating balance.

Legislative Implications

- 55 There are no legislative implications of this proposal.

Population Implications

- 56 The Housing Register demonstrates that some groups are disproportionately affected by the housing crisis, including Māori, Pacific peoples and sole parents with children (see paragraph 12).
- 57 This proposal supports the delivery of CHP public housing places, where the CHP can demonstrate additionality and deliver over and above what Kāinga Ora could otherwise deliver. Additionality can be demonstrated where a CHP will provide housing for a specific cohort group, including delivering housing through a kaupapa Māori approach.

Human Rights

- 58 There are no inconsistencies between this proposal and the Human Rights Act 1993.

Consultation

- 59 The Department of Prime Minister and Cabinet, Kāinga Ora, Ministry of Social Development and the Treasury were consulted on this paper.

Communications

- 60 In a recent letter to CHPs, I provided information on demonstrating the additionality criteria and the Government's preference for build-to-own supply

opportunities. I noted that I expected to be able to share information on access to early stage funding in the upcoming months.

- 61 Subject to Cabinet approval, I will let the sector know about the availability of early stage Operating Supplement funding in certain circumstances for new public housing supply. This will enable officials to begin working with CHPs to evaluate and progress suitable proposals. Guidance will be made available to CHPs to support their understanding of the criteria for early stage funding and how it will be applied.
- 62 In August, I am holding a round table meeting with CHP representatives to maintain ongoing dialogue (this follows up on a meeting in January 2021 at the time the Public Housing Plan was released). This second round table meeting is likely to include a more detailed discussion on early stage funding to support additional supply.

Proactive Release

- 63 I intend to proactively release this paper on the HUD website within 30 business days of final decisions being taken by Cabinet.

Recommendations

The Minister of Housing recommends that the Committee:

- 1 **note** the Public Housing Plan 2021-2024 sets out the Government’s public housing supply intentions with a focus on delivering new build supply in priority locations and bespoke responses to different housing needs.
- 2 **note** that making up to \$55.525 million of early stage Operating Supplement funding available to CHPs will support the delivery of the Public Housing Plan 2021-2024.
- 3 **note** that providing early stage Operating Supplement funding to CHPs has an impact on net core Crown debt in the near term as it involves bringing cash payments forward.
- 4 **agree** that \$46.747 million of operating funding allocated through Budget 2020 from outside the current forecast period be brought forward to enable up to \$55.525 million of early stage Operating Supplement payments to be available to CHPs by 30 June 2024.
- 5 **note** that providing early stage Operating Supplement funding to CHPs for payment more than 90 days in advance of service provision constitutes lending under Section 65L of the Public Finance Act 1989 and approval from the Minister of Finance is required.
- 6 **agree** to establish the following new appropriation to facilitate lending in accordance with section 65P of the Public Finance Act 1989:

Vote	Appropriation Minister	Title	Type	Scope

IN CONFIDENCE

Housing and Urban Development	Minister of Housing	Community Housing Providers – Prepayment of Staged Operating Funding	Non-departmental Capital Expenditure	This appropriation is limited to prepayment of staged operating funding to Community Housing Providers for the purpose of providing public housing.
-------------------------------	---------------------	--	--------------------------------------	---

- 7 **approve** an exemption from end of year performance reporting under section 15(D)(b)(ii) of the Public Finance Act 1989 on the basis that it is unlikely to be informative due to the technical nature of the appropriation.
- 8 **agree** to increase spending to provide for costs associated with the decision on recommendation 4 above, with the following impacts on the operating balance and net core Crown debt:

			\$m – increase/(decrease)				
Vote Housing and Urban Development Minister of Housing			2021/22	2022/23	2023/24	2024/25	2025/26
Operating Balance and Net Core Crown Debt Impact			-	-	-	-	-
Operating Balance Impact Only			-	-	-	-	-
Net Core Crown Debt Impact Only			11.171	22.312	18.736	(2.756)	(2.716)
No Impact			-	-	-	-	-
Total			11.171	22.312	18.736	(2.756)	(2.716)
2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(2.676)	(2.637)	(2.599)	(2.561)	(2.524)	(2.487)	(2.451)	(2.416)
-	-	-	-	-	-	-	-
(2.676)	(2.637)	(2.599)	(2.561)	(2.524)	(2.487)	(2.451)	(2.416)
2034/35	2035/36	2036/37	2037/38	2038/39	2039/40	2040/41	2041/42
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(2.381)	(2.346)	(2.312)	(2.279)	(2.245)	(2.213)	(2.181)	(2.149)
-	-	-	-	-	-	-	-
(2.381)	(2.346)	(2.312)	(2.279)	(2.245)	(2.213)	(2.181)	(2.149)
2042/43	2043/44	2044/45	2045/46 only				
-	-	-	-				
-	-	-	-				
(2.118)	(2.087)	(2.057)	(2.028)				
-	-	-	-				
(2.118)	(2.087)	(2.057)	(2.028)				

IN CONFIDENCE

- 9 **approve** the following changes to appropriations to give effect to the decision in recommendation 4 above:

Vote Housing and Urban Development Minister of Housing	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Non-departmental Capital Expenditure: Community Housing Providers – Prepayment of Staged Operating Funding	11.388	23.301	20.836	-	-

- 10 **agree** that the proposed changes to appropriations for 2021/22 under recommendation 9 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.
- 11 **agree** that the capital expenditure incurred under recommendation 9 above be charged against the multi-year capital allowance.

Authorised for lodgement

Hon Dr Megan Woods

Minister of Housing