



COVERSHEET

Minister	Hon Jenny Salesa	Portfolio	Building and Construction
Title of Cabinet paper	Residential Earthquake Prone Building Financial Assistance Scheme	Date to be published	17 February 2020

List of documents that have been proactively released

Date	Title	Author
28 January 2020	Residential Earthquake Prone Building Financial Assistance Scheme	Office of the Minister of Building and Construction and the Minister of Finance.
28 January 2020	Minute CBC- 20-MIN-0002	Cabinet Office
30 November 2018	Potential funding support for earthquake strengthening.	MartinJenkins

Information redacted

YES

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reason of Confidential advice to Government and Commercial information.



Cabinet Business Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Residential Earthquake-Prone Building Financial Assistance Scheme

Portfolio Finance / Building and Construction

On 28 January 2020, the Cabinet Business Committee:

- 1 **noted** that Budget 2019 appropriated \$23.3 million in funding (\$10.0 million capital, \$13.3 million operating) to set up and deliver the Residential Earthquake-Prone Building Financial Assistance Scheme (the Scheme);
- 2 **noted** that the Minister for Building and Construction was required to provide Cabinet with a detailed proposal for Scheme set up and delivery before expenditure is incurred [CAB-19-MIN-0174.04];

Owner eligibility, including hardship

- 3 **agreed** that there will be eligibility criteria for the Scheme, including for hardship;
- 4 **agreed** that hardship be defined for the Scheme as:
 - 4.1 the inability of a unit owner(s) to obtain finance for EPB seismic retrofit from a Reserve Bank of New Zealand registered bank or non-bank deposit taker; or
 - 4.2 where finance from one of the above entities can be obtained it is conditional upon the unit being sold when the building is no longer earthquake prone; or
 - 4.3 where finance from one of the above entities can be obtained, but would cause the owner significant financial hardship;
- 5 **agreed** that a unit owner must be a New Zealand citizen, or ordinarily resident in New Zealand, or overseas persons allowed under the Overseas Investment Act 2005;
- 6 **agreed** that a unit owner must be an owner-occupier of that household unit for the duration of the loan;
- 7 **agreed** that applicants must have an adequate credit history to reduce Crown risk;
- 8 **agreed** that the Chief Executive of Kāinga Ora, will have discretion to approve loans that would otherwise fall outside of agreed owner eligibility criteria;
- 9 **noted** that the Minister of Finance and the Minister for Building and Construction will receive monthly reports from the Chief Executive of Kāinga Ora on use of the above discretion;

- 10 **directed** the Ministry of Business, Innovation and Employment and Kāinga Ora to work with the Ministry of Social Development to assess what effect the proposed scheme will have for eligibility for Accommodation Supplement, and ensure this information, if required, is communicated to applicants during the loan scheme application process;

Unit and building eligibility

- 11 **agreed** that the Scheme be limited to units purchased before 1 July 2017;
- 12 **agreed** that the unit must be within a building in an area of high seismic risk and which is two or more storeys and contains three or more household units (or is a household unit within a mixed use building);
- 13 **agreed** that the unit must be within a building subject to a territorial authority issued earthquake-prone building notice;

Loan settings

- 14 **agreed** that the loans are only for seismic retrofit to achieve seismic performance up to 100 percent of the new building standard (NBS);
- 15 **agreed** that the maximum loan secured against any one unit would not exceed \$250,000 (but with limited discretion for the Chief Executive of Kāinga Ora to approve amounts above this level on a case-by-case basis);
- 16 **agreed** that loans become repayable on the unit's sale, 12 months after the last owner's death, if the owner is no longer an owner-occupier or if the borrower defaults;
- 17 **agreed** that the loan provides for voluntary loan repayments (with no early repayment fees);
- 18 **agreed** that the Scheme will not pursue negative equity (the Scheme will remit what is owed from the point where negative equity is reached);
- 19 **noted** that the Scheme will comply with the Credit Contracts and Consumer Finances Act 2003;
- 20 **noted** that the obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and the Financial Services Providers (Registration and Dispute Resolution) Act 2008 will be met;
- 21 **agreed** that loans will be secured by a mortgage, charge, or another security against the unit's record of title (or equivalent);
- 22 **agreed** that applications to the Scheme will close on 30 June 2027;
- 23 **agreed** that successful applicants be required to pay half of the actual costs of establishing the loan (establishment fee) to a maximum of \$500;
- 24 **agreed** that the Scheme settings will be reviewed 12 months after becoming operative;

Interest rate settings for the Scheme

- 25 **agreed** that a below market rate of interest be set on the loans;

- 26 **noted** that the below market interest rate for the Scheme would be set at 60 percent of the sum of the Reserve Bank’s monthly average of five year fixed interest rates and a low equity margin of 1.25 percent;
- 27 **agreed** that the interest rates be fixed for five years with rate reviews at loan anniversary and interest rates will be calculated daily and compound annually;

Implementation effectiveness and review

- 28 **noted** that the Minister of Finance and Minister for Building and Construction consider that Scheme effectiveness is best met by Kāinga Ora establishing and delivering the Scheme on behalf of the Crown;
- 29 **noted** that the Kāinga Ora Establishment Board has considered its proposed role and agrees to provide a delivery service under this scheme, if required;
- 30 **agreed** that Kāinga Ora will establish and deliver the Scheme on behalf of the Crown;
- 31 **noted** that, if Cabinet agrees that Kāinga Ora will deliver the Scheme, the existing appropriations will be changed to non-departmental so that the Scheme can be delivered using the appropriated funding in Vote Building and Construction;
- 32 **agreed** that the Scheme settings, including operating costs, be reviewed 12 months after launch, along with analysis of Scheme take-up (loans issued) and strengthening costs, with this to be reported back to the Minister for Building and Construction and the Minister of Finance;

Financial implications

- 33 **agreed** to establish new appropriations in Vote Building and Construction as set out below with effect from 1 February 2020 to 30 June 2024:

Vote	Appropriation Minister	Title	Type	Period	Scope
Building and Construction	Minister for Building and Construction	Residential Earthquake-Prone Building Financial Assistance Scheme Loan Capital MYA 2019 - 2024	Non-Departmental Capital Expenditure	Five year multi-year appropriation 2019/20 to 2023/24	This appropriation is limited to providing loans approved within the Residential Earthquake-Prone Building Financial Assistance Scheme.
Building and Construction	Minister for Building and Construction	Residential Earthquake-Prone Building Financial Assistance Scheme Loan Concession MYA 2019 - 2024	Non-Departmental Other Expenses	Five year multi-year appropriation 2019/20 to 2023/24	This appropriation is limited to the expense incurred in unwinding the discount rate used in the present value calculation of the loans within the Residential Earthquake-Prone Building Financial Assistance Scheme.
Building and Construction	Minister for Building and Construction	Residential Earthquake-Prone Building Financial Assistance Scheme - Set Up and Administration Costs	Departmental Output Expenses	Annual appropriation	This appropriation is limited to the set-up costs and ongoing administration costs of the Residential Earthquake-Prone Building Financial Assistance Scheme.

34 **approved** the following changes to appropriations to give effect to the policy decisions above, with no impact on the operating balance and net core Crown debt over the forecast period:

	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Vote Building and Construction Non-Departmental capital Expenditure Residential Earthquake-Prone Building Financial Assistance Scheme Loan Capital MYA 2019 - 2024			10.000		
Vote Building and Construction Non-Departmental capital Expenditure Residential Earthquake-Prone Building Financial Assistance Scheme MCA Residential Earthquake-Prone Building Financial Assistance Scheme Loan Capital	(5.000)	(5.000)	-	-	-
Vote Building and Construction Non-Departmental other expenses Residential Earthquake-Prone Building Financial Assistance Scheme Loan Concession MYA 2019 - 2024			4.800		
Vote Building and Construction Non-Departmental other expenses Residential Earthquake-Prone Building Financial Assistance Scheme MCA Residential Earthquake-Prone Building Financial Assistance Scheme Loan Concession	(2.400)	(2.400)	-	-	-

Vote Building and Construction Departmental output expenses Residential Earthquake-Prone Building Financial Assistance Scheme - Set Up and Administration Costs (funded by revenue Crown)	3.000	2.500	1.500	1.500	1.500
Vote Building and Construction Departmental output expenses Residential Earthquake-Prone Building Financial Assistance Scheme MCA Residential Earthquake-Prone Building Financial Assistance Scheme - Set Up and Administration Costs (funded by revenue Crown)	(3.000)	(2.500)	(1.500)	(1.500)	(1.500)

- 35 **agreed** that the changes to appropriations for 2019/20 set out above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 36 **noted** that, if Cabinet agrees that Kāinga Ora will deliver and establish the Scheme on behalf of the Crown, then the appropriations for Scheme set up and administration shown in paragraph 32 above will be changed to include the cost savings as shown in the table below, and savings achieved will be returned to the Crown:

	2019/20	2020/21	2021/22	2022/23
Cost reduction (\$m)	0.750	0.750	0.375	0.375
Percentage saving	25%	30%	25%	25%

- 37 **noted** that the indicative funding profile for the new two multi-year appropriations described above is as follows:

Indicative annual spending profile	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Residential Earthquake-Prone Building Financial Assistance Scheme Loan Capital MYA	5.000	5.000	-	-	-

Residential Earthquake-Prone Building Financial Assistance Scheme Loan Concession MYA	2.400	2.400	-	-	-
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- 38 **authorise** the Minister of Finance and Minister for Building and Construction to update the appropriated concessionary component of the Scheme to reflect changes in market rates and the quantum of loan capital issued;
- 39 **authorised** the expenditure of money appropriated in Budget 2019 by Kāinga Ora for the purpose of setting up and delivering the Scheme;
- 40 **authorised** the Minister for Building and Construction to approve changes to the proposed Scheme settings and parameters that are consistent with the proposals in the paper attached under CBC-20-SUB-0002.

Vivien Meek
Committee Secretary

Present:

Rt Hon Jacinda Ardern (Chair)
Rt Hon Winston Peters
Hon Kelvin Davis
Hon Grant Robertson
Hon Phil Twyford
Hon Dr Megan Woods
Hon Chris Hipkins
Hon Andrew Little
Hon Carmel Sepuloni
Hon Dr David Clark (part item)
Hon David Parker
Hon Jenny Salesa
Hon Kris Faafoi
Hon Tracey Martin

Officials present from:

Office of the Prime Minister
Department of the Prime Minister and Cabinet

Hard-copy distribution:

Minister of Finance
Minister for Building and Construction