



BRIEFING

Budget 2025: Tenancy Services Cost Pressures

Date:	6 November 2024	Priority:	Medium
Security classification:	Budget - Sensitive	Tracking number:	0005759

Action sought

	Action sought	Deadline
Hon Chris Bishop Minister of Housing	<p>Note the two cost pressures for Tenancy Services.</p> <p>Agree to MBIE drafting a cabinet paper requesting approval for a Financially Neutral Adjustment of \$1.5mil funded from RTTA interest.</p> <p>Advise if you wish to have a discussion with MBIE officials.</p>	18 November 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Ingrid Bayliss	General Manager, Building & Tenancy	Privacy of natural persons	
Privacy of natural persons	Head of Tenancy		✓
	Manager, Business and Systems Delivery		

The following departments/agencies have been consulted

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Minister's office to complete:

	<input type="checkbox"/> Approved	<input type="checkbox"/> Declined	<input type="checkbox"/>
Noted	<input type="checkbox"/>		<input type="checkbox"/>
Needs change	<input type="checkbox"/>		<input type="checkbox"/>
Seen	<input type="checkbox"/>		<input type="checkbox"/>
Overtaken by Events	<input type="checkbox"/>		<input type="checkbox"/>
See Minister's Notes	<input type="checkbox"/>		<input type="checkbox"/>
Withdrawn			



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Purpose

To provide you with information about two cost pressures in the Residential Tenancy and Unit Title Services (RTS) appropriation and outline an option being explored with the Treasury to offset them, alongside options that would be considered if the Ministry of Business, Innovation and Employment (MBIE) needs to absorb the cost pressures within baseline.

This information will support your preparation for potential discussions between now and Cabinet Expenditure and Regulatory Review Committee (EXP) in February 2025 regarding the MBIE delivered parts of the Housing Portfolio.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** that two cost pressures have been identified in the Residential Tenancy and Unit Title Services (RTS) appropriation, which are being assessed by the Treasury through the Performance Plan process [Briefing 0004988 refers].
Noted
- b **Note** we are working with the Treasury to explore whether the use of interest revenue from the Residential Tenancy Trust Account is a feasible option to offset these cost pressures.
Noted
- c **Note** this information will support your preparation for potential discussions between now and EXP in February 2025.
Noted
- d **Agree** for MBIE to draft a cabinet paper requesting approval for a Fically Neutral Adjustment of \$1.5mil funded from RTTA interest with a focus on frontline services.
Agree / Disagree
- e **Advise** if you wish to discuss this matter further with MBIE Housing officials.
Yes / No



Ingrid Bayliss
General Manager, Building and Tenancy
Te Whakatairanga Service Delivery Group, MBIE
06/11/2024

Hon Chris Bishop
Minister of Housing

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Background

1. Cabinet recently agreed that all departments produce Performance Plans to ensure there are credible plans in place to work within existing baselines and enable decisions for Budget 25.
2. The Draft MBIE Performance Plan was shared with you on 10 October 2024 with a summary of the fiscal pressures faced by MBIE and highlighting the references to the MBIE delivered parts of the Housing Portfolio [Aide Memoire 0004988 refers]. The final draft will be shared with you on 8 November 2024. You requested further information on the two cost pressures referenced.
3. Central agencies will complete their review of the MBIE Performance Plan in December 2024, and it will be submitted to Cabinet Expenditure and Regulatory Review Committee (EXP) in early 2025. This advice will support your potential discussions ahead of that.
4. The Government has identified several priorities within the Housing portfolio related to the rental market. With responsibilities for frontline service delivery, information and education to the sector and public and through its central regulator role, MBIE will play a key role in the successful implementation and operationalisation of these changes.
5. MBIE is continuing to identify, test, and implement new ways of working to ensure that our current resources are being used, and our services delivered, in the most efficient and effective way.

MBIE's Tenancy and Unit Title Services funding

6. MBIE's service delivery and regulatory responsibilities under the Unit Titles Act (UTA) and Residential Tenancies Act (RTA) are funded through a mix of Crown Funding and Third Party revenue (primarily interest from the Residential Tenancies Trust Account (RTTA)) in the RTS Appropriation:

Funding Type	2024/25 (\$) millions	2025/26 (\$) millions	2026/27 (\$) millions	2027/28 (\$) millions	2028/29 (\$) millions
Baseline Crown Funding	40,297	40,398	40,316	40,831	40,831
Other Revenue (primarily Interest from RTTA)	8,432	8,432	8,432	8,432	8,432
Total	48,729	48,830	48,748	49,263	49,263

7. The growth in baseline funding has primarily been driven by:
- the absolute growth in the rental market, the increase in the number of people renting long-term, and the breadth and complexity of legislative changes in the market. Since 2017, MBIE has supported the implementation of six sets of legislative changes ^[1].
 - an increase in funding to modernise the Tenancy Bond ICT system and service delivery model.

For Budget 2024, MBIE had proposed a range of savings to the direct costs to manage Tenancy Services' cost pressures. However, the proposed savings that had a negative impact on the frontline services, including possible regulatory failure, were not accepted by the Minister of Finance. The MBIE-wide savings were applied against the appropriation, which include corporate services, IT, information and education and service centre:

Funding Type	2024/25 (\$) millions	2025/26 (\$) millions	2026/27 (\$) millions	2027/28 (\$) millions	2028/29 (\$) millions
Return of Back Office Transformation Funding	(0.026)	(0.026)	(0.027)	(0.027)	(0.027)
Return of Funding for Engagement and Experience	(0.948)	(0.888)	(0.888)	(0.350)	(0.350)
Return of Funding for Digital Data and Insights	(0.199)	(0.199)	(0.199)	(0.199)	(0.199)
Return of Funding for Enablement Services	(0.956)	(0.918)	(0.999)	(1.022)	(1.022)
Return of Funding for Strategy, Performance and Design	(0.163)	(0.163)	(0.163)	(0.163)	(0.163)
Total	(2.292)	(2.194)	(2.276)	(1.761)	(1.761)

Two Cost Pressures for 2025/26 and Out Years

Cost Pressure #1: Effective implementation of the Unit Titles (Strengthening Body Corporate Governance and Other Matters) Amendment Act 2022

8. The breakdown of this cost pressure over the next five years is:

^[1] Prohibiting letting fees (2018), the introduction of the Healthy Homes Standards (2019, with staggered commencement dates through to 2025 and subsequent revisions relating to the Heating standard and implementation deadlines), COVID tenancy termination restrictions (2020), RTA changes relating to security of tenure, modifications, and enforcement (2020 with staggered commencement dates through to 2021), contamination in rental properties (2021), and UTA changes (2023).

2024/25 (\$) millions	2025/26 (\$) millions	2026/27 (\$) millions	2027/28 (\$) millions	2028/29 (\$) millions	Total Estimated Operating (\$) millions
0.97	0.97	0.97	0.97	0.97	4.83

9. Our analysis indicates six additional FTE are required to adequately meet increased demand in Dispute Resolution, appropriately implement the new Compliance and Investigations regime, provide Information and Education, and meet expectations associated with a wellfunctioning unit titles regulatory system, at a cost of \$0.97m for 2025/26 and out years.
10. The current and future impacts of no additional funding and resourcing are:
 - a. increasing processing timeframes and delays - leading to a backlog of Tribunal applications and further delays for mediation services and Tribunal hearings, resulting in slow progress and resolution for all parties.
 - b. None, or very limited, proactive provision of information and education to ensure that parties are aware of their rights and responsibilities and empowered to exercise these and do the right thing.
 - c. Reduced ability to take compliance and enforcement action in response to complaints, with a very high threshold being applied before action will be taken by the regulator. None, or very limited, ability to proactively regulate compliance with the existing and new Unit Titles compliance and enforcement requirements.

Cost Pressure #2: Dispute Resolution – Tenancy Mediations

11. The breakdown of this cost pressure over the next five years is:

2024/25 (\$) millions	2025/26 (\$) millions	2026/27 (\$) millions	2027/28 (\$) millions	2028/29 (\$) millions	Total Estimated Operating (\$) millions
0.5	0.5	0.5	0.5	0.5	2.5

12. The demand for tenancy mediation services in 2023/24 increased by 15.4% compared with 2022/23 and is projected to continue increasing. Our analysis indicates four additional FTEs are required to manage the additional demand at a cost of \$0.5m for 2025/26 and out years.
13. The impact of the additional demand includes:
 - a. applicants are now waiting 4-6 weeks for a mediation, up 29.6% from 2022/23, and these delays will continue to grow.
 - b. longer overall wait times which can increase the complexity of disputes and increase impacts for landlords and tenants due to slower resolution.
 - c. significant feedback from stakeholders about the impact to landlords and tenants of the growing delays, which will amplify should delays increase further.
 - d. increased pressure on Dispute Resolution staff, leading to high turnover rates, which adds costs and inefficiency.

14. MBIE has adjusted the way it delivers its services to ensure we are extracting efficiency gains. MBIE will continue to seek out and implement further improvements, however, these are very unlikely to outweigh the significant demand increases.

Options to address the cost pressures

Option One: Utilise interest revenue from the Residential Tenancies Trust Account (RTTA)

15. MBIE is working with the Treasury to explore the feasibility of utilising interest revenue from the RTTA to offset the cost pressures. Increased revenue is being generated from improved interest rates on investments and from the absolute growth in the value of the RTTA (now above \$900m). All interest revenue beyond \$8.132m, the currently budgeted amount, is returned to the Crown.
16. At the March Baseline Update (MBU) MBIE plan to update the forecast for the RTTA interest revenue from ~\$32.4m over the next 4 years to ~\$173m over the same period.
17. Tenancy Services has indicated ~\$1.5m of cost pressures, ongoing, due to UTA implementation and ongoing RTA service pressure. Treasury see the proposal to increase the appropriation through a Fiscally Neutral Adjustment (FNA) funded through the RTTA interest by \$1.5mil as a viable option.
18. Treasury have suggested, subject to your approval, to a Cabinet paper to make decisions on using RTTA interest revenue through a FNA in February 2025.

Option two: Absorbing the cost pressures within current baseline funding

17. If option one is not feasible, the cost pressures would continue to be absorbed within current baseline funding. In addition to pursuing opportunities for efficiencies, MBIE will consider all management options including those which would have negative impacts on frontline service delivery and risk MBIE's ability to deliver its services and/or fulfil its regulatory functions, for example:
 - a. direct more applications directly to the Tenancy Tribunal – where there are already long wait times.
 - b. continue to extend out the wait times for the mediation service - currently 4-6 weeks.
 - c. significantly increase fees, which would negatively impact accessibility for landlords and tenants.
 - d. lower levels of public awareness of current and new rights and responsibilities, which would risk increased non-compliance and risk of harm occurring.
 - e. adjust our workforce – which could result in higher turnover (with a long training period for new replacements) and could risk MBIE not meeting its obligations.

Next steps

18. Subject to your approval, MBIE will begin drafting a Cabinet paper seeking approval for a FNA of \$1.5mi in February so that the FNA can be made through MBU.

19. MBIE can provide any further information or advice relating to the MBIE-led frontline services within the Housing portfolio upon request.