

In Confidence

Offices of the Minister of Finance and Minister of Housing
Cabinet 100-Day Plan Committee

Kāinga Ora – Homes and Communities Independent Review

Proposal

- 1 This paper seeks agreement to the proposed scope and approach to a review into Kāinga Ora operations as outlined in the 100 day plan (CAB-23-SUB-0468 refers).

Background

- 2 Kāinga Ora is a large Crown entity with annual expenditure of \$2.5 billion and total assets of \$45 billion which have a significant impact on the Government financial statements in terms of OBEGAL. Net debt is impacted by \$13.2 billion over the forecast period.
- 3 Kāinga Ora faces challenging financial sustainability issues, with an operating deficit forecast to grow from \$520 million in 2022/23 to \$1.1 billion in 2027/28, driven by interest on the debt-financed capital investment programme.
- 4 There has also been a significant increase in staffing levels (over 2,000 additional staff since 2017/18) across various functions which requires an assessment of the value for money proposition.
- 5 Given the scope and scale of Kāinga Ora activities in the housing and urban development system (including its critical role to deliver much needed social housing), it is essential that we have a high degree of confidence that it is operating efficiently and effectively. This includes operating in a constructive and mutually beneficial way with the construction sector and communities.
- 6 Major capital investments include a build programme to increase the number of public housing places through redevelopment of existing houses on Kāinga Ora land or purchasing new build properties in the market, and improving the quality of the existing homes through retrofit programmes.
- 7 The ageing portfolio and the current waitlists will require decisions on the level of investment over the coming years which will directly impact both net debt and OBEGAL as the capital costs are financed through the Government borrowing programme and both interest and depreciation are material.
- 8 Kāinga Ora also has other functions in relation to urban development activities which have been established over the past four years which have time limited funding to

June 2024. This provides an opportunity to assess the level of resource in these areas to align to Government priorities.

- 9 In the past 18 months two specific reviews have been undertaken into Kāinga Ora activity which have highlighted issues with efficiency, value for money and transparency over the cost of core functions:
 - 9.1 A review undertaken by the Treasury and Ministry of Housing and Urban Development gathered analysis which provides a clearer understanding of the various factors included in the total borrowing requirements which can inform the independent review focus areas to reduce costs
 - 9.2 A Department of Prime Minister and Cabinet Implementation Unit review that recommended immediate actions to address risks and strengthen information systems and to develop a more systematic approach to areas where it could intervene or adapt its practice to accelerate delivery.
- 10 Across both reviews some common themes emerged including:
 - 10.1 Obtaining reliable, accurate and regular delivery data has been problematic
 - 10.2 Public Housing delivery pipelines are not transparent and it has been difficult for others in the system to gain assurance on speed of delivery and cost.
 - 10.3 Fiscal costs are not collected in a manner that enables value for money to be easily assessed.
- 11 In addition, Kāinga Ora has commissioned reviews into various areas of delivery which have been highlighted in their Briefing to Incoming Ministers but have yet to be validated which will provide the Independent Review insights into key investment areas to assess the ability to extract savings and reduce the impact on the Government financial statements.

Objective of the Review

- 12 We propose that the review is focused on improving Kāinga Ora performance and value for money in delivering its core functions and to manage the impacts of Kāinga Ora on debt and OBEGAL. Kāinga Ora’s core functions are to be a good tenancy manager, efficiently build and maintain social housing to meet needs, and be a good community citizen.

Approach to Review:

- 13 The proposed approach to deliver on the objectives is to base the scope off the findings of work to date with the use of independent reviewers to advance this at pace.
- 14 We are recommending that as Responsible Ministers (Finance and Housing) under the Kāinga Ora – Homes and Communities Act 2019, we initiate a review under Section 132 of the Crown Entities Act 2004 to ensure the review is independent.
- 15 As part of any review initiated under the Crown Entities Act 2004, Responsible Ministers are required to consult with the Crown Entity (Kāinga Ora) on the purpose and nature of the review which will occur subject to Cabinet endorsement of the proposed scope and structure contained in this paper.
- 16 It is proposed that the consultation is completed within a week of Cabinet endorsement with the aim to announce the terms of reference and lead reviewer prior to Christmas.

Scope of Review:

- 17 In light of the above we are proposing that the scope of the review includes:
- 17.1 The financial viability of Kāinga Ora
 - 17.2 Asset procurement and management
 - 17.3 Tenancy management
 - 17.4 Whether the remit of Kāinga Ora is conducive to good performance on their core functions
 - 17.5 Institutional arrangements that would incentivise better performance.
 - 17.6 Fiscal risks to the Crown
- 18 In addition to the review, the Ministry of Housing and Urban Development is undertaking work on the broader funding and financing settings for social housing to provide advice on approaches that enable Community Housing Providers to access funding and capital to grow the sector to provide warm and dry homes to Kiwis in need.

Structure of Review:

- 19 The proposed structure for the review is that it is led by an independent reviewer with two additional independent experts with experience in:

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- 19.1 Governance of major capital investment programmes
 - 19.2 Understanding of public finances and funding
 - 19.3 Finance and commercial expertise in relation to land and property development
 - 19.4 Practical experience regarding housing and urban development activities.
- 20 We propose to procure the lead reviewer immediately following the consultation with Kāinga Ora, with the two additional independent experts procured as soon as possible.
- 21 Given the knowledge built up over the previous reviews, The Treasury and Ministry of Housing and Urban Development will provide additional resources to the review team including secretarial support.
- 22 Once the final terms of reference is agreed by Responsible Ministers, additional external expertise may be required in subject matter areas to provide support to the review team. It is proposed that the lead reviewer seek agreement with Responsible Ministers for the use of these resources.

Indicative Timelines of Review:

- 23 The intention is that Responsible Ministers will receive the first report back by March 2024 which will be confirmed in January 2024 following commissioning with the lead reviewer.

Financial Implications

- 24 Review costs of up to \$500,000 for 2023/24 can be met from existing baselines. Depending on the final scope and timing of the broader review and link to savings exercises additional funding for 2024/25 may need to be sought as part of Budget 2024.

Legislative Implications

- 25 There are no legislative implications with this paper.

Regulatory Impact Statement

- 26 There are no regulatory impacts with this paper.

Climate Implications of Policy Assessment

- 27 There are no CIPA-relevant implications from the proposals in this paper.

Population Implications

- 28 There are no direct population implications with this paper.

Human Rights

- 29 There are no direct implications for the New Zealand Bill of Rights Act or the Human Rights Act from the decisions in this paper.

Use of external Resources

- 30 The programme of work will use three independent reviewers and depending on the final scope of the review further external subject matter experts may be required which will be agreed between Responsible Ministers and the lead reviewer.

Consultation

- 31 Under Section 132(3) of the Crown Entities Act Responsible Ministers are required to consult on the purpose and nature of the review with Kāinga Ora which will occur subject to Cabinet endorsement of the proposed scope and structure contained in this paper and be concluded within a week of Cabinet decisions.
- 32 The Kāinga Ora Board are aware of the intention to undertake this review.

Communications

- 33 Upon finalisation of the terms of reference and appointment of the lead reviewer Responsible Ministers intend to make a public release communicating the scope and structure of the review.

Proactive Release

- 34 We intend to proactively release the paper, subject to redactions as appropriate and consistent with the Official Information Act 1982.

Recommendations

The Minister for Finance and Minister of Housing recommends that the Committee:

- 1 Note a review of Kāinga Ora operations is included in the 100 day plan (CAB-23-SUB-0468 refers).
- 2 Agree that the Minister of Finance and Minister of Housing (Responsible Ministers) establish an independent review of Kāinga Ora operations under Section 132 of the Crown Entities Act 2004.
- 3 Agree Responsible Ministers consult and consider any submission on the purpose and nature of the review from Kāinga Ora in accordance with Section 132 (3) of the Crown Entities Act 2004 in the week following this decision.
- 4 Agree the proposed scope for consultation with Kāinga Ora includes:
 - 4.1 The financial viability of Kāinga Ora
 - 4.2 Asset procurement and management
 - 4.3 Tenancy management
 - 4.4 Whether the remit of Kāinga Ora is conducive to good performance on their core functions
 - 4.5 Institutional arrangements that would incentivise better performance.
 - 4.6 Fiscal risks to the Crown
- 5 Agree the proposed structure for the review is three independent members appointed by Responsible Ministers covering the key areas of:
 - Governance of major capital investment programmes
 - Understanding of public finances and funding;
 - Finance and commercial expertise in relation to property and land development;
 - Practical experience regarding housing and urban development activities

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- 6 Note that resources to support the external reviewers will be made available from the Treasury and Ministry of Housing and Urban Development including secretariat support.
- 7 Note that additional external expertise as required will be agreed between Responsible Ministers upon recommendation from the lead reviewer.
- 8 Authorise Responsible Ministers to finalise the terms of reference following consultation with Kāinga Ora as outlined in recommendation 3 above on the scope and structure outlined in recommendations 4 and 5 above.
- 9 Agree to publicly release the finalised terms of reference and structure of the review post the appointment of the lead reviewer.
- 10 Note costs of the review up to \$500,000 will be met from baseline funding from Ministry of Housing and Urban Development for the 2023/24 financial year.

Hon Nicola Willis
Minister of Finance

Hon Chris Bishop
Minister of Housing

Annex

Terms of Reference

Independent Review into Kāinga Ora - Homes and Communities

Background and purpose

Kāinga Ora is a large Crown entity with annual expenditure of \$2.5 billion and total assets of \$45 billion which have a significant impact on the Government financial statements in terms of OBEGAL and impact net debt by \$13.2 billion over the forecast period.

The Minister of Finance and Minister of Housing have decided to carry out a review under section 132 of the Crown Entities Act 2004 to provide assurance over the approach and delivery over significant investment programmes by Kāinga Ora.

Ministers have decided to utilise external independent reviewers with the support of the Treasury and Ministry of Housing and Urban Development to undertake this review.

Objective

The review should identify ways to improve Kāinga Ora performance and value for money, and to manage the impacts of Kāinga Ora on debt and OBEGAL.

Scope

The scope of the review will at a minimum include:

Financial viability of Kāinga Ora

- The efficacy of Kāinga Ora's funding arrangements with the Crown
- Property management and overhead costs compared to its revenues
- Cost of renewal of the portfolio over the long term compared to its revenues
- Appropriateness of its portfolio valuation methodology for financial reporting and decision-making purposes.

Asset procurement and management

- Housing procurement strategies and delivery by place, typology and amenity
- Procurement costs (including overheads) and quality
- Value for money of its development programmes including land acquisition and building
- The effectiveness of its relationships with its key suppliers, developers, Councils, Community Housing providers and others

- Engagement with communities and tenants to reflect their housing preferences
- Asset management performance.

Tenancy management

- Consider the performance of Kāinga Ora as a tenancy manager, including consistency with a goal of delivering better outcomes for tenants.

Kāinga Ora remit

- Consider whether the remit of Kāinga Ora, including in legislation, regulation, Government policies, letters of expectation, statements of performance expectations and Ministerial directions, is conducive to good performance of its core functions.

Institutional arrangements to incentivise better performance.

- Consider institutional arrangements for Kāinga Ora functions, including operating scope, organisational form and structure, governance, and subsidy and funding arrangements with the Crown, that will encourage better performance and reduce fiscal impacts on debt and OBEGAL.

Timeline

The independent review will report back to the Minister of Finance and Minister of Housing in March 2024.