Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

TE TAI ŌHANGA
THE TREASURY

Joint Report: Kāinga Ora Spending, Funding and Financing Review

Date:	13 July 2023	**Report No:**	T2023/1385 HUD2023-002680
		File Number:	SH-18-1-1-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson) **Minister of Housing** (Hon Dr Megan Woods)	**Note** the Project Team is currently working to understand the costs (i.e. current levels of spending) associated with the provision of public housing. **Agree** the outcomes of the post implementation review of the customer programme and tenancy support functions be provided to joint Ministers	31 August 2023

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Emily Pearse	Project Lead, Kāinga Ora Spending, Funding and Financing Review	N/A	s 9(2)(a) (mob)	✓
Geraldine Treacher	Acting Director, Financing, Infrastructure and Urban Development	s 9(2)(a) (wk)	s 9(2)(a) (mob)	
Glenn Phillips	Head of Crown Entity Performance and Monitoring	s 9(2)(a) (wk)	s 9(2)(a) (mob)	

Minister's Office actions

Return the signed report to Treasury.

Enclosure: No

Joint Report: Kāinga Ora Spending, Funding and Financing Review

Executive Summary

In November 2022, Cabinet [DEV-22-MIN-0240] requested that the Treasury and the Ministry of Housing and Urban Development (HUD) undertake a comprehensive review of the spending, funding and financing of Kāinga Ora - Homes and Communities (Kāinga Ora).

As part of Budget 2023, borrowing and operating funding was provided to deliver Government commitments including:

- $3.1 billion borrowing for the Kāinga Ora portion of the 3,000 additional public housing places by June 2025 including an allowance for renewal activity to offset demolitions to reach the net target
- Approximately $4 billion borrowing up to June 2024 to meet the previous public housing commitment including an allowance for renewal activity to reach the net target
- The broad financial assumptions were up to $750k per new build (both additional and renewal) and approximately $60k to service these places on an ongoing basis.

The joint Project Team has been working through the various components of both the borrowing and operating requirements and this briefing provides an update on progress to date and next steps.

Costs associated with the provision of public housing

The Project Team is currently working to understand the costs (i.e. current levels of spending) associated with the provision of public housing, which can be broken down into three broad categories outlined below.

Category	Key Points	Total Spend FY22	Cost	Split of costs	
				Direct	Overhead
Maintenance and Asset Management	• Maintenance costs are largely a function of the ageing legacy portfolio that Kāinga Ora inherited. As such, direct asset maintenance costs are relatively fixed based on the current age and condition of the portfolio (average age of portfolio is 44 years). • There are choices about how quickly existing stock is retrofitted and renewed over coming years (which has implications for broader spending, funding and financing settings) and the Project Team will look to undertake scenario analysis over coming months.	$1.1 B	$15,300 per property	96%	4%
Customer Programme and Tenancy Support	• In response to the objectives set out in the Kāinga Ora – Homes and Communities Act 2019 and government direction, Kāinga Ora has redesigned its property management and tenancy support functions to shift its focus towards customer wellbeing and being a world class landlord, given the range of tenants Kāinga Ora house who often have complex needs. • This has resulted in a significant growth in Kāinga Ora personnel. The primary driver of the overall FTE increase is driven by the need to ensure appropriate staffing ratios for high and medium-need tenancies, allowing Kāinga Ora to spend more time with the tenants who need it. • The implementation of the new operating model is expected to be completed in late 2023. Once complete, Kāinga Ora intend to undertake a post implementation review which will look to refine and develop an approach to validating resourcing against output measures. • Given the level of investment (i.e. approximately $ 300 million per annum) the outcomes of the post	$0.23 B	$3,800 per tenancy	42%	58%

Category	Key Points	Total Spend FY22	Cost	Split of costs	
				Direct	Overhead
	implementation review should be provided to both the Minister of Finance and the Minister of Housings and clearly link: i. The drivers for change within the customer programme ii. Resourcing decisions made to respond to these changes iii. Expected benefits associated with the change over time, and iv. How value-for-money is being achieved/expected to be achieved.				
Growth and Cost to Build	• There has been good progress in understanding what it currently costs Kāinga Ora to deliver the government housing programme and Kāinga Ora has provided a range of information to support the Review. • While Kāinga Ora project invoicing systems provides good information at the project level, this does not translate to good cost information at the individual home level, limiting the ability to understand how actual costs compare to what is funded through Budget processes, by typology and bedroom number. • The Project Team is working with Kāinga Ora to understand what information can be extracted and validated from its systems; however this requires specialist skills and additional time to complete. We expect to be able to provide an update on this work in late August 2023.	TBC	TBC	TBC	TBC

This information will be used to develop a comparison between actual Kāinga Ora costs and what has been provided through the Budget process; to provide an overview of any expected differences and the implications for the Government's overall fiscal position.

Overhead costs

There are material overheads allocated across the different activities that Kāinga Ora undertakes. These may be driven by the requirements of operating in the public sector (similar to Departments), the need to be regionally located and ensuring community engagement is robust. The Project Team is looking to understand this further, and overhead costs will be further considered as a separate workstream (expected to commence in late July), and feed into the funding and financing workstream in the second half of 2023.

Fiscal Sustainability

Given the significant impact of the public housing programme on net debt, the government borrowing programme, and overall government fiscal measures, there should be reasonable certainty that Kāinga Ora can deliver what is required on time and within the funding allocated.

Over the next few months, the Project Team will undertake a range of scenario analysis to understand the value of different purchasing options, and implications for broader funding and financing settings and overall fiscal measures. This is likely to include options around:

1. Volume, pace, and quality of new build programme
2. Appropriate age of the portfolio (which has implications for customer wellbeing, maintenance costs and retrofit/renewal decisions)
3. Delivery methods (e.g. Kāinga Ora redevelopment or developer led, CHPs etc).

The outcome of this analysis is expected to be provided in late 2023 to support Budget 2024 processes.

Recommended Action

We recommend that you:

a **note** the Project Team is currently working to understand the costs (i.e. current levels of spending) associated with the provision of public housing, which can be broken down into three broad categories outlined below:

Category	Number of Assets	Total Spend	Cost	Split of Costs	
				Direct	Overhead
1. Maintenance and Asset Management	70,000 homes	$1.1 billion	$15,300 per property	96%	4%
2. Customer Programme and Tenancy Support	70,000 tenancies / 200,000 customers	$0.23 billion	$3,800 per tenancy	42%	58%
3. Growth and Cost to Build Public Housing	TBC	TBC	TBC	TBC	TBC

Maintenance and Asset Management

b **note** maintenance costs are largely a function of the ageing legacy portfolio that Kāinga Ora inherited. As such, direct asset maintenance costs are relatively fixed based on the current age (average age of 44 years) and condition of the portfolio

Customer Programme and Tenancy Support

c **note** that in response to objectives set out in the Kāinga Ora – Homes and Communities Act 2019 and government direction, Kāinga Ora has redesigned its property management and tenancy support functions to shift its focus towards customer wellbeing and being a world class landlord

d **note** that the implementation of the new operating model is expected to be completed in late 2023, with a post implementation review to be conducted by Kāinga Ora following this

e **agree** that the outcomes of the post implementation review of the customer programme and tenancy support functions be provided to both the Minister of Finance and the Minister of Housings and clearly link:

i. The drivers for change within the customer programme

ii. Resourcing decisions made to respond to these changes

iii. Expected benefits associated with the change over time, and

iv. How value-for-money is being/expected to be achieved.

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister of Housing

Growth and Cost to Build

f **note** there has been good progress to understand the cost to build and Kāinga Ora has provided a range of information to support the Review

g **note** that while Kāinga Ora project invoicing systems provides good information at the project level, this does not translate to good cost information at the individual home level, limiting the ability to understand how actual costs compare to what is funded through Budget processes, by typology and bedroom number

Next Steps

h **note** that the Project Team is working with Kāinga Ora to understand what information can be extracted and validated from its systems, with an update on actual build costs expected to be provided in late August 2023

i **note** that the Project Team will undertake a range of scenario analysis to understand the value of different purchasing options, and implications for broader funding and financing settings and overall fiscal measures. This is likely to include options around:

i. Volume, pace, and quality of new build programme

ii. Appropriate age of the portfolio (which has implications for maintenance costs and retrofit/renewal decisions)

iii. Delivery methods (e.g. Kāinga Ora redevelopment or developer led, CHPs etc)

j **note** that this analysis is expected to be provided in late 2023 to support Budget 2024 processes.

Geraldine Treacher
Acting Director, Financing, Infrastructure and Urban Development
The Treasury

Glenn Phillips
Head of Crown Entity Monitoring and Performance
Ministry of Housing and Urban Development

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Minister of Housing

_____/_____/_______

Joint Report: Kāinga Ora Spending, Funding and Financing Review

Purpose of Report

1. This report provides an update on progress in relation to the joint Kāinga Ora Spending, Funding and Financing Review (the Review), how the Review fits within the Government's broader fiscal sustainability work programme, as well as next steps.

Background

2. In November 2022, Cabinet [DEV-22-MIN-0240]:

    a. Agreed to provide Kāinga Ora with a Crown lending facility to meet its cashflow requirement to 30 June 2023, and that all its future borrowing needs would be centralised and met by New Zealand Debt Management, rather than private markets.

    b. Requested that the Treasury and the Ministry of Housing and Urban Development (HUD) undertake a comprehensive review of the spending, funding, and financing of Kāinga Ora.

Fiscal Sustainability

The government has set ambitious targets to increase public housing supply, which has significant implications on overall fiscal measures

3. In Budget 2023, Vote Housing and Urban Development received an additional:

    a. $7.882 billion for public housing functions, including $6.713 billion in capital funding and $1.169 billion in operating funding to FY 26/27, and

    b. $71.921 million in operating expenditure for Urban Development functions to 2024

4. The public housing funding outlined above includes:

    a. $3.1 billion in funding for 3,000 new public housing places for delivery by 30 June 2025, and

    b. $3.6 billion in capital funding for cost pressures in the current public housing programme, including an allowance for renewal activity to reach the net public housing target.[1]

5. The two initiatives outlined above represent nearly two thirds of the government's new capital spend in Budget 2023.

6. Of the $10.7 billion in new capital funding committed over the next 10 years in Budget 2023, funding for the net new 3000 houses represents just under 30 per cent of total capital spend. Funding for cost pressures in the public housing programme represents approximately a third of capital expenditure.

[1] This is inclusive of an additional $870 million in funding for the Tāmaki Regeneration Company.

7. At an individual unit level, the broad financial assumptions included:

   a. Up to $750k per new build (both additional and renewal), and

   b. Approximately $60k to service these places on an ongoing basis.

The Review – progress to date

8. The Review is intended to:

   a. Provide a greater understanding of current levels of expenditure, how this compares to what has been Budgeted for and any variations, and value different purchasing options in order to better manage the fiscal outlook; and

   b. Ensure that that the funding and financing model is efficient, fit for purpose, provides value-for-money, is sustainable and supports the delivery of the Government's housing objectives and commitments.

9. To achieve this, the Review covers four main workstreams outlined in Table 1 below.

Table 1: Review Workstreams and Timeframes

Workstream	Description	Timing
1 Public Housing Provision	• Assessing the spending of core Kāinga Ora operations related to public housing, including: i. Maintenance and asset management ii. Customer programme and tenancy support, and iii. Growth and cost to build public housing.	• The focus of this report.
2 Overhead Costs	• Understand overhead across the different parts of the Kāinga Ora business. This work will feed into the funding and financing workstream (3).	• The focus of ongoing work and a future report, expected in late 2023.
3 Funding and Financing Models	• Analysis of viable long-term funding and financing arrangements to achieve ongoing sustainability.	• The focus of ongoing work and a future report, expected in late 2023.
4 Urban Development	• Reviewing the current large-scale redevelopment programmes on the public housing estate including infrastructure based on updated development plans considering actual.	• To be confirmed.

Costs associated with the provision of public housing

10. The Project Team is currently working to understand the costs (i.e. current levels of spending) associated with the provision of public housing (Workstream 1), which can be broken down into three broad categories outlined in Table 2 below.

Table 2: Summary of Public housing costs – FY22

Category	Number of Assets	Total Spend FY22	Cost	Split of Costs[2]	
				Direct	Overhead
1. Maintenance and Asset management [3]	70,000 homes	$1.1 billion	$15,300 per property[4]	96%	4%
2. Customer Programme and Tenancy Support [5]	70,000 tenancies / 200,000 customers	$0.23 billion	$3,700 per tenancy	42%	58%
3. Growth and Cost to Build Public Housing	TBC	TBC	TBC	TBC	TBC

Maintenance and Asset Management

11. There is a high correlation between increasing maintenance costs and the age of the portfolio:

    a. The average age of existing stock is 44 years. This has been reduced to 34 years in Auckland due to recent redevelopment programmes. Average maintenance costs in the Auckland region are lower than in other regions.

    b. Outside of Auckland, the average age of properties is increasing and varies significantly by region.

    c. Average cost of maintaining properties across the portfolio increases until homes reach 40 – 50 years and remain high until the end of their economic lives.

12. As such, direct asset maintenance costs are largely a function of the ageing legacy portfolio that Kāinga Ora inherited from Housing New Zealand and are therefore relatively fixed (based on the current age of the portfolio).[6]

There are future choices around how quickly existing stock is retrofitted and renewed, which will impact overall cost

13. Currently, the Kāinga Ora Long-Term Investment Plan assumes that around 4,000 assets are renewed/retrofitted each year for the next 10 years (which has the effect of reducing the average age of the portfolio).

14. There are choices about how quickly existing stock is retrofitted and renewed over the coming years, and how this is balanced with government's intention to continue growing the portfolio. Given the relationship between maintenance costs and the age of the portfolio identified above, these would likely have broader implications for Kāinga Ora spending, funding and financing (including total spending on asset maintenance). For example:

    a. Retrofits and renewals could be undertaken at a slower pace and/or over a longer timeframe, likely reducing upfront capital requirements and possibly increase direct maintenance costs over time.

2 Direct costs include front facing customer and delivery group. Indirect costs include functional areas supporting specific direct groups, leaderships teams, and overheads.

3 Direct asset management costs include total cost to operate a home including maintenance costs, rates, and people enabling these services. Overhead costs include functional areas supporting specific direct groups, leaderships teams, and overheads.

4 Delivery of Health Homes increased expenses in 2022 above core maintenance of $7,700 per property.

5 Direct costs include front facing customer and delivery group. Overhead costs include functional areas supporting specific direct groups, leaderships teams, and overheads.

6 Other direct asset costs including local council rates are also relatively fixed, though have been growing at rates faster than general inflation.

b. Retrofits and renewals could be undertaken at a faster pace and/or over a shorter timeframe, likely increasing upfront capital requirements and possibly decreasing direct maintenance costs over time.

15. The Project Team will look to undertake scenario analysis, including any choices around how quickly existing stock is retrofitted/renewed, as part of the broader funding and financing workstream scheduled to commence over the coming months.

Customer Programme and Tenancy Support

16. The introduction of the Kāinga Ora – Homes and Communities Act 2019 signalled a shift away from the commercial approach to tenancy management taken by Housing New Zealand to a greater focus on customer wellbeing. Specifically, Kāinga Ora is required to:

    a. Support good access to jobs, amenities, and services, and

    b. Provide help and advice on matters or services related to housing.

17. In response to the objectives set in the 2019 Kāinga Ora Act, Kāinga Ora has redesigned its property management and tenancy support functions to shift its focus towards customer wellbeing and being a world class landlord (taking a less transactional approach), given the range of tenants Kāinga Ora house who often have complex needs above and beyond private tenants.

18. Specifically, Kāinga Ora has indicated the new model has been designed to:

    a. Respond to far greater complexity in the Kāinga Ora customer base

    b. Sustain tenancies to help create stability and security for people who often have a range of other challenges (an evidence-based approach)

    c. Support customers to be well connected to their communities, lead lives with dignity, have the greatest degree of independence possible, and to sustain tenancies

    d. Work with community providers to support customers and ensure that most in need are supported and housed, and

    e. Be a fair and reasonable landlord, treating customers and their neighbours with respect, integrity and honesty.

19. Better supporting its tenants has resulted in significant growth in Kāinga Ora personnel, increasing from 666 in 2018 to 1,330 in 2022, with a corresponding increase in the cost of delivering tenancy support services.[7]

20. Documentation provided by Kāinga Ora shows that the primary driver of the overall FTE increase is to provide appropriate ratios for coverage of high and medium-need tenancies (Table 3 refers), allowing Kāinga Ora to spend more time with the tenants who need it. As an example, high and medium-need customers are managed by the 'Senior Housing Support Manager' role, with a preferred target ratio of 100 customers per portfolio. 'Housing Support Manager' roles manage medium and low needs customers with a preferred target ratio of 220 customers per portfolio.

[7] FTE includes direct customer facing roles, supporting functions and corporate based overhead FTE allocation)

Table 3: Needs profile of Kāinga Ora tenancies

Category	Description	Proportion of tenancies
Low need	• Broadly comparable to individuals in private tenancies.	20.3%
Medium need	• Interact more frequently with customer support services and may need additional support accessing services.	33.7%
High need	• Very frequent interaction with customer support services. • Generally require additional support.	46.0%

21. The Treasury is not well placed to comment on the details of the operating model or staffing ratios.

22. The implementation of the new operating model is expected to be completed in late 2023. Once complete, Kāinga Ora intend to undertake a post implemented review which will look to refine and develop an approach to validating resourcing against output measures.

23. Given the level of investment (i.e. approximately $300 million per annum) outcomes of the post implementation review should be provided to both the Minister of Finance and the Minister of Housings clearly linking:

    a. The drivers for change within the customer programme,

    b. Resourcing decisions made to respond to these changes,

    c. Expected benefits associated with the change over time, and

    d. How value-for-money is being/expected to be achieved.

<u>Growth and Cost to Build Public Housing</u>

24. There has been good progress in understanding what it currently costs Kāinga Ora to deliver the government housing programme and Kāinga Ora has provided a range of information to support the Review, including:

    a. Actual cost to build information at the aggregate level.

    b. Long-Term Investment Planning model that supports 2024 Budget bid.

    c. External Quantity Survey (QS) analysis (for both Kāinga Ora and KiwiBuild data).

25. While Kāinga Ora project invoicing systems provide good information at the project level, this does not translate to good cost information at the individual home level, limiting the ability to understand how actual costs compare to what is funded through Budget processes, by typology and bedroom number. This information is important to understand construction cost drivers and build a construction cost stack.

26. It is noted that Kāinga Ora's ability to provide this level of information may be limited by the contracts they have entered into and the level of information Kāinga Ora receives from its suppliers.

27. The Project Team is working with Kāinga Ora to understand what information can be extracted and validated from its systems; however this requires specialist skills and additional time to complete. For this reason, a comparison of actual build costs (including a breakdown of the actual cost by different typologies in FY22) and Long-Term Investment Plan (LTIP) benchmarks (the costings behind the Budget 2023 bid) to form a view around any differences is expected to be provided in late August 2023.

Overhead costs[8]

28. There are significant overheads allocated across the different activities that Kāinga Ora undertakes. These may be driven by the requirements of operating in the public sector (similar to Departments), the need to be regionally located and ensuring community engagement is robust.

29. The Project Team is looking to understand this further, and overhead costs will be further considered as a separate workstream (expected to commence in late July), and feed into the funding and financing workstream in the second half of 2023.

Next Steps

30. The Project Team is working with Kāinga Ora to understand what information can be extracted and validated from its systems to provide a comparison of actual build costs compared with the Budget 2023 bid, to form a view around any differences in cost. This is expected to be provided in late August.

31. Over the next few months, the Project Team will undertake a range of scenario analysis to understand the value of different purchasing options, and implications for broader funding and financing settings and overall fiscal measures. This is likely to include options around:

    a. Volume, pace, and quality of new build programme.

    b. Appropriate age of the portfolio (which has implications for customer wellbeing, maintenance costs and retrofit/renewal decisions).

    c. Delivery methods (e.g. Kāinga Ora redevelopment or developer led, CHPS etc).

32. This analysis is expected to be provided in late 2023 to support Budget 2024 processes, alongside work on overhead costs, funding and financing models and urban development functions.

[8] Overheads for this review are considered as the functions within Kāinga Ora enabling customer facing and delivery groups to deliver the required outputs.

Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

TE TAI ŌHANGA
THE TREASURY

Joint Report: Kāinga Ora Spending, Funding, and Financing Review – Cost to Build

Date:	01 September 2023	**Report No:**	T2023/1416 HUD2023-002977
		File Number:	SH-18-1-1-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson) **Minister of Housing** (Hon Dr Megan Woods)	**Note** that the Project Team now has a reasonable understanding of total capitalised costs over recent years and how these compare to the cost assumptions underpinning the Kāinga Ora Long Term Investment Plan (LTIP) and Budget processes. **Agree** that Kāinga Ora develop and submit a plan in late 2023 to improve its information systems and data capability.	4 September 2023

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Emily Pearse	Project Lead - Kainga Ora Spending, Funding and Financing Review	N/A (wk)	s 9(2)(a) (mob)	✓
Geraldine Treacher	Manager Housing and Urban Growth	s 9(2)(a) (wk)	s 9(2)(a) (mob)	
Glenn Phillips	Head of Crown Entity Monitoring and Performance	s 9(2)(a) (wk)	s 9(2)(a) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Enclosure: No

Joint Report: Kāinga Ora Spending, Funding, and Financing Review – Cost to Build

Executive Summary

As part of Budget 2023, borrowing and operating funding was provided to deliver Government commitments, including:

a. $3.1 billion of borrowing for the Kāinga Ora portion of the 3,000 additional public housing places by June 2025 including an allowance for renewal activity to offset demolitions to reach the net target.

b. Approximately $4 billion of borrowing up to June 2024 to meet the previous public housing commitment including an allowance for renewal activity to reach the net target.

The broad financial assumptions that informed the Budget 2023 decisions were derived from the Kāinga Ora Long-Term Investment Plan (LTIP) model and included:

a. Up to $760,000 capital expenditure per new build (both additional and renewal), and

b. Approximately $60,000 per new build per annum to operate[1] each unit on an ongoing basis.

The Kāinga Ora Spending, Funding and Financing (SFF Review) is validating the key assumptions in the LTIP model and the level of borrowing that was set aside in Budget 2023 with actual Kāinga Ora cost information.

Average total capitalised costs per unit: FY2022/23

The Project Team now has a reasonable understanding of total capitalised costs (i.e. the total of build and non-build costs) over recent years (Table 1 refers), and how these compare to the cost assumptions underpinning the LTIP and Budget decisions.

At a high-level, analysis shows that in FY2022/23:

a. Total capitalised costs for Kāinga Ora redevelopments (which do not include the cost of acquiring land) generally cost less than budgeted for based on recent actuals.

b. Developer-led projects cost less than budgeted for and less than redevelopments when land costs are excluded (in order to provide a more direct comparison with redevelopments).

Table 1: Validated actual costs of public housing – FY2022/23

Category	FY21/22	FY22/23	Number of Assets	Total Capitalised Spend	Cost
Maintenance and Asset Management	✓		70,000 homes	$1.1 billion	$15,300 per property per annum
Customer Programme and Tenancy Support	✓		70,000 tenancies	$0.23 billion	$3,800 per tenancy per annum
Total capitalised costs - Redevelopments (excluding land costs)		✓	1,381 units	$0.84 billion	$609,190 per unit

[1] This includes maintenance and asset management, property management and tenancy services, retrofit and complex remediations, and interest expenses.

Category	FY21/22	FY22/23	Number of Assets	Total Capitalised Spend	Cost
Total capitalised costs - Developer-led projects (including land costs)		✓	1,080 units	$0.84 billion	$774,598 per unit
Total capitalised costs - Developer-led projects (excluding land costs)	*This figure is based on a smaller subset of 54 per cent of total units for developer-led projects in FY2022/23*				*$574,060 per unit*

External validation of build costs - independent quantity surveyor analysis

To provide external validation of the costs associated with new public homes, Kāinga Ora engaged an external quantity surveyor to:

a. Estimate the build cost of new public homes (by size and typology), and

b. Compare that cost to a modest market home (i.e., KiwiBuild).

This exercise concluded that Kāinga Ora build costs are marginally higher than a *modest market home* due to build features associated with Kāinga Ora requirements and 'public good' policy decisions in providing higher quality public housing. Given this external validation of build costs, the Project Team is now wanting to better understand non-build costs.

How these numbers compare to Budget 2023 funding and next steps

To complete the process of validating the level of borrowing set aside for Budget 2023 the Project Team is now working to understand:

a. The split of build costs to non-build costs (the LTIP model assumes a split of 51 per cent build costs to 49 per cent non-build costs), including capitalised costs that are incurred prior to construction.

b. Kāinga Ora operating costs (including overheads).

c. Valuation methodologies for Developer-led projects, and the value-for-money that these deliver.

The Project Team will undertake a bottom-up validation approach utilising the FY2022/23 analysis and enhancing this with information that can be provided from contracts that have been entered into for delivery in FY2023/24 and FY2024/25.

Once completed, this analysis will also allow the Project Team to provide an estimate of total interest costs incurred (i.e. the largest component of the Budget 2023 operating assumption of $60,000 per new build per annum).

Data and System Limitations

Kāinga Ora have supported the SFF Review with the information that they have, but several gaps have been identified that could be filled to give more transparency and assurance and support better decision making. This finding follows the Department of Prime Minister and Cabinet's recommendation that Kāinga Ora take immediate actions to strengthen its information systems.

It is recommended that Kāinga Ora develop a plan for consideration in late 2023 by the Minister of Finance and the Minister of Housing that addresses current data and system limitations, in order to be able to provide a better understanding of costs.

Final Report

A Final Report is expected to be provided to Ministers in late 2023 to support Budget 2024 processes.

Recommended Action

We recommend that you:

Total Capitalised Costs

a **note** that the Project Team now has a reasonable understanding of total capitalised costs over recent years, and how these compare to the cost assumptions underpinning the Kāinga Ora Long Term Investment Plan (LTIP) and Budget processes. In FY2022/23, analysis shows that at a high-level:

i. Kāinga Ora redevelopments (which do not include the cost of acquiring land) generally cost less than budgeted for.

ii. Developer-led projects cost less than budgeted for and less than redevelopments when land costs are excluded (in order to provide a more direct comparison with redevelopments).

Independent Quantity Surveyor Analysis

b **note** that an independent quantity surveyor has assessed Kāinga Ora build costs, which are marginally higher than a *modest market home* due to build features associated with Kāinga Ora requirements and 'public good' policy decisions in providing higher quality public housing.

c **note** that given this external validation of build costs, the Project Team is looking to better understand non-build costs.

Validating the level of borrowing set aside for Budget 2023

d **note** that to complete the process of validating the level of borrowing set aside for Budget 2023 the Project Team is working to understand:

i. The split of build costs to non-build costs. This will include extracting capitalised costs that are incurred prior to construction.

ii. Kāinga Ora operating costs (including overheads).

iii. Valuation methodologies for Developer-led projects, and the value-for-money that these projects deliver.

e **note** that once completed, this analysis will allow the Project Team to provide an estimate of total interest costs (i.e. the largest component of the Budget 2023 operating assumption of $60,000 per new build per annum).

Final Report

f **note** that the outcomes of the Spending, Funding and Financing (SFF) Review are expected to be provided to Ministers in late 2023 along with:

i. A greater understanding of current levels of expenditure, assurances around total costs and what that might mean for debt requirements over coming years, and different purchasing options in order to better manage the fiscal outlook.

ii. Advice assessing whether the Kāinga Ora funding and financing model is efficient, fit for purpose, provides value-for-money, is sustainable and supports the delivery of the Government's housing objectives and commitments.

Data and System Limitations

g **note** while Kāinga Ora has provided a range of information to support the SFF Review, improvements are required to the way asst cost data and project management information is recorded and linked across the organisation to improve cost visibility.

h **Agree** that Kainga Ora develop and submit a plan by late 2023 to improve its information systems and data capability in order to better understand costs, support good decision making, and provide assurance.

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister of Housing

Geraldine Treacher
Manager Housing and Urban Growth
The Treasury

Glenn Phillips
Head of Crown Entity Monitoring and Performance
Ministry of Housing and Urban Development

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Minister of Housing

_____/_____/_______

Joint Report: Kāinga Ora Spending, Funding, and Financing Review – Cost to Build

Purpose of Report

1. This report provides an update on progress on the Kāinga Ora Spending, Funding and Financing Review (the SFF Review), including:

   a. The cost to build public housing over recent years.

   b. Linking the cost to build public housing to Budget 2023 assumptions.

   c. How this links to work previously undertaken by the SFF Review Project Team.

   d. Next Steps for the SFF Review, including

      i. Validating build costs vs. non-build costs.

      ii. Validating operating costs (including overheads).

      iii. Validating methodologies for Developer-led projects, and the value-for-money that these projects deliver.

      iv. Comparing what has been provided through the Budget process to provide an overview of any expected difference and implications for the Government's overall fiscal position.

Budget 2023

2. As part of Budget 2023, borrowing and operating funding was provided to deliver Government commitments including:

   a. $3.1 billion of borrowing for the Kāinga Ora portion of the 3,000 additional public housing places by June 2025 including an allowance for renewal activity to offset demolitions to reach the net target.

   b. Approximately $4 billion of borrowing up to June 2024 to meet the previous public housing commitment including an allowance for renewal activity to reach the net target.

3. At an individual unit level, the broad financial assumptions included:

   a. Up to $760,000 per new build (both additional and renewal),

   b. The procurement of land additional to current State land holdings to enable new builds (value is dependent on the location of land), and

   c. Approximately $60,000 per new build per annum to operate[2] these places on an ongoing basis.

4. These figures were derived from the Kāinga Ora Long-Term Investment Plan (LTIP) model, which assumed the following average costing excluding capitalised overheads across typologies (Table 1 refers).

[2] This includes maintenance and asset management, property management and tenancy services, retrofit and complex remediations, and interest expenses.

s 9(2)(f)(iv) [redacted]

5. The Kāinga Ora Spending, Funding and Financing (SFF Review) is looking to validate the key assumptions in the LTIP model and the level of borrowing that was set aside in Budget 2023 with actual Kāinga Ora cost information.

Work already completed by the SFF Review Project Team

6. An initial update on progress of the SFF Review was provided to Joint Ministers in July [T2023/1385, HUD2023/002680 refers]. This provided an overview of validated costs associated with the provision of public housing including costs associated with:

   a. Maintenance and asset management, and

   b. Customer programme and tenancy support.

Table 2: Summary of validated public housing costs – FY2021/22

Category	Number of Assets	Total Spend FY22	Cost
1. Maintenance and Asset management [3]	70,000 homes	$1.1 billion	$15,300 per property[4]
2. Customer Programme and Tenancy Support [5]	70,000 tenancies / 200,000 customers	$0.23 billion	$3,700 per tenancy

Validating the capitalised costs per unit

7. Total Capitalised Costs for public housing units include both:

   a. Build costs (e.g., foundation, framing, cladding and fit out), and

   b. Non-build costs: including making land build ready; Consenting and Development Constructions; Site works and utilities; and Management, Contingency and GST.

8. The following analysis provides an overview of total capitalised costs in FY2022/23 split by redevelopment and new acquisitions[6].

Process for validating assumptions against actual capitalised costs

9. The Project Team has been working with Kāinga Ora to understand actual total capitalised costs over recent years to compare LTIP and budget assumptions.

10. Kāinga Ora records cost information at the project level (rather than at the individual home level) making the process of comparing actuals to Budget assumptions challenging. Adding to this complexity, projects are often split across multiple financial years, have mixed unit typologies and varying bedroom numbers. This further complicates the process of extrapolating and validating unit-level cost information.

[3] Direct asset management costs include total cost to operate a home including maintenance costs, rates, and people enabling these services. Overhead costs include functional areas supporting specific direct groups, leaderships teams, and overheads.

[4] Delivery of Health Homes increased expenses in 2022 above core maintenance of $7,700 per property.

[5] Direct costs include front facing customer and delivery group. Overhead costs include functional areas supporting specific direct groups, leaderships teams, and overheads.

[6] Total sample size of redevelopment and new build acquisition of 2,461 units

11. To identify unit-levels costs, Kāinga Ora has undertaken a matching exercise linking various asset management and project management datasets with accounting system information to develop a per-unit cost by typology and number of bedrooms.[7]

12. This matching exercise provides a sample size that accounts for around 88 per cent of projects that Kāinga Ora has delivered in FY 2022/23.

13. It is important to note timing issues impact when project costs are recorded over the financial year, and this timing issue sits against a backdrop of high cost inflation.

Average Total Capitalised Costs per unit: FY2022/23

Redevelopments

14. Redevelopment generally refers to the process of demolishing an existing public home which has reached the end of its economic life and then rebuilding. Depending on whether the land and community is suitable, redevelopment may result in replacing the home with more than one new property. Kāinga Ora manages the redevelopment, and in some situations, this involves works to make the land suitable. Kāinga Ora advise that their landholdings can be lower quality or more complex to build on than market land.

15. The Project Team identified 1,381 individual units in FY2022/23 with near-complete cost information at a total cost of $841 million. The average total capitalised cost of these units by size and typology is shown in Table 3 below. All cost averages include capitalised overheads expect for the LTIP benchmark.

Table 3: FY2022/23 Redevelopment actuals by typology and size compared to LTIP [8,9]

s 9(2)(f)(iv)

Developer-led Projects

16. Developer-led Projects (new and existing) refer to the purchase of new or existing homes from private developers or owners for use as a public . They have become an increasingly large part of the Kāinga Ora pipeline. Developer-led projects include the cost of land and build (i.e., complete houses) and developer's/builder's margins. Kāinga Ora often purchases these as 'turnkey' properties and developers manage the build.

17. The Project Team identified 1,080 individual developer-led projects with near-complete cost information were identified in FY2022/23 at a total cost of $837 million. The average total capitalised cost of these units by size and typology is shown in Table 4 below.

7 Because costs are recorded at the project level, proportional estimates have been applied.
8 Where cells are empty, less common typologies were not delivered within FY2022/23
9 These figures may increase marginally (i.e. by less than 10 per cent) as final invoices are paid before being capitalised
10 LTIP figures informing Budget requirements are escalated by 10.9% in FY2023/24 and 5.5% in 2024/25

s 9(2)(ba)(ii)

[redacted]

18. To understand value-for-money and compare redevelopment costs with new build acquisition costs on a like-for-like basis the Project Team is looking to understand the intrinsic value of the land component of acquire new costs.

19. Initial analysis against a reduced sample size (Table 5 refers) shows that, on average, Kāinga Ora redevelopments ($609,190) cost an average of $35,000 more than developer-led acquisitions ($574,000) when the cost of land is excluded.

s 9(2)(ba)(ii)

[redacted]

How these numbers compare to Budget 2023 funding

20. At a high-level, analysis shows that in FY2022/23:

    a. Kāinga Ora redevelopments (which do not include the cost of acquiring land) generally cost less than budgeted for.

    b. Developer-led projects cost less than budgeted for and less than redevelopments when land costs are excluded (in order to provide a more direct comparison with redevelopments).

Table 6: FY2022/23 Average redevelopment and new build acquisition (excluding and including land value) actuals compared to LTIP

s 9(2)(ba)(ii)

[redacted]

[11] These figures may increase marginally (i.e. by less than 10 per cent) as final invoices are paid before being capitalised.

[12] LTIP figures informing Budget requirements are escalated by 10.9% in FY2023/24 and 5.5% in 2024/25.

[13] Averages presented are dependent on the weighted bedroom average for each build type and acquisition method, which will contribute to the difference in price.

[14] These figures are based on a small subset of 54 per cent of total units for developer-led projects in FY2022/23.

21. With developer-led projects expected to be a significant proportion of delivery of coming years, the Project Team will undertake further work to better understand valuation methodologies and the value-for-money that these projects deliver.

How Kāinga Ora build costs compare to the market – quantity surveyor analysis

22. To provide external validation of the costs associated with new public homes (by size and typology) Kāinga Ora engaged an independent quantity surveyor (QS) to:

    a. Estimate the build cost of new public homes (by size and typology), and

    b. Compare that cost to a modest market home (i.e., KiwiBuild).

23. Analysis from the independent QS showed that build costs for public homes are marginally higher than a modest market (KiwiBuild) home, largely reflecting the cost of build features, components and specifications associated with Kāinga Ora requirements and policy decisions intended to provide higher quality public housing.

24. It is likely that higher level design choices (such as typology, bedroom configuration, gross floor area, land utilisation and common areas/parking) drive greater inherent cost differences relative to the market than the building components picked up in the QS analysis. Factors such as wall-to-floor ratios and the choices of typology to best utilise available land area may be significant, and these differences will be more challenging to pick up via QS analysis. More work is needed by Kāinga Ora to understand costs of providing particular typologies, configurations and land utilisation in a standardised way across the public housing portfolio (Attachments 1 and 2 refer).

25. Given the work undertaken by the QS validating Kāinga Ora build costs with those of the market, the Project Team is wanting to better understand non-build costs.

Next Steps

How these numbers compare to Budget 2023 funding

26. Given the size of the Kāinga Ora capital investment pipeline and the government's current fiscal position, the Project Team is looking to provide Ministers with assurances around total costs and what that might mean for debt requirements over coming years.

27. To complete the process of validating the level of borrowing set aside for Budget 2023 the Project Team is now working to understand:

    a. The split of build costs to non-build costs (the LTIP model assumes a split of 51 per cent build costs to 49 per cent non-build costs), including capitalised costs that are incurred prior to construction.

    b. Kāinga Ora operating costs (including overheads).

    c. Valuation methodologies for Developer-led projects, and the value-for-money that these deliver.

28. The Project Team will undertake a bottom-up validation approach utilising the FY2022/23 analysis and enhancing this with information that can be provided from contracts that have been entered into for delivery in FY2023/24 and FY2024/25.

29. Once completed, this analysis will also allow the Project Team to provide an estimate of total interest costs incurred (i.e. the largest component of the Budget 2023 operating assumption of $60,000 per new build per annum).

Final Report

30. The outcome of this work is expected to be provided to Ministers in late 2023 to support Budget 2024. The Final Report is aiming to provide:

    a. A greater understanding of current levels of expenditure, assurances around total costs and what that might mean for debt requirements over coming years, and value different purchasing options in order to better manage the fiscal outlook.

    b. Advice assessing whether the Kāinga Ora funding and financing model is efficient, fit for purpose, provides value for money, is sustainable and supports the delivery of the Government's housing objectives and commitments.

Progressing work to support better information systems and understanding of costs

31. While Kāinga Ora has provided a range of information where it is available to support the SFF Review, the Treasury is of the view that information available to support an understanding of actual cost is not at an adequate level to support good decision making or provide assurances to Ministers.

32. For example, the matching exercise that has been undertaken to understand actual costs has taken substantial time and requires manual matching of information from different sources and through a number of systems. Given the size of Kāinga Ora's capital investment pipeline this information should be readily available in order to understand actual costs, and how this compares to funding that has been allocated and approved.

33. The Treasury understands that Kāinga Ora is in the process of establishing a programme of work to enhance analytics relating to the cost of building public housing. This is likely to take several years to be fully implemented and operational.

34. Given the system limitations identified, it is recommended that Kāinga Ora develop and submit a plan to Joint Ministers in late 2023 that addresses these shortcomings in its information systems and supports better information collection and understanding of costs.

DPMC recommended that Kāinga Ora take immediate actions to strengthen its information systems.

35. Observations around the limitations of Kāinga Ora's systems are consistent with those identified by the Department of Prime Minister and Cabinet's Implementation Unit's (IU's) in its report – *Stocktake of Kāinga Ora Public Housing Construction Pipeline and Delivery* (DPMC-2022/23-599) which recommended Kāinga Ora take immediate actions to address risks and strengthen its information systems, and develop a more systematic approach to areas where it could intervene or adapt its practice to accelerate delivery.

36. The Treasury also understands that enhancements to the Kāinga Ora Pipeline are in the final stages of testing prior to final release in early 2024, and is expected to address the recommendations from the IU report. This new tool will enhance insight from the Pipeline, helping to understand aspects like project status timelines, progress against earlier estimates, and ensuring all of the major home delivery activities are captured.

s 9(2)(f)(iv)

[redacted]

Attachment 2: Overview of cost associated with higher Kāinga Ora build specifications: QS Estimates[15]

Cost Driver	1 bed Standalone	2 bed Terrace	3 bed Standalone	4 bed Standalone	5 bed Standalone	3 level Walk-up
KiwiBuild	$172,000	$193,000	$265,000	$359,000	$439,000	$239,000
Kāinga Ora	$193,000	$204,000	$322,000	$379,000	$399,000	$283,000
Difference	+$21,000	+$11,000	+$57,000	+$20,000	-$40,000	+$44,000

s 9(2)(ba)(ii)

[redacted]

Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

TE TAI ŌHANGA
THE TREASURY

Joint Report: Joint Report: Findings from the Kāinga Ora Spending, Funding, and Financing Review

Date:	15 December 2023	**Report No:**	T2023/2157 HUD2023-003422
		File Number:	SH-11-5-20-1-M100454

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis) **Minister of Housing** (Hon Chris Bishop)	**Note** the findings from the Kāinga Ora Spending, Funding and Financing Review	22 December 2023

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Emily Pearse	Project Lead - Kainga Ora Spending, Funding and Financing Review	N/A (wk)	s 9(2)(a) (mob)	✓
Geraldine Treacher	Manager Housing and Urban Growth	s 9(2)(a) (wk)	s 9(2)(a) (mob)	
Glenn Phillips	Head of Crown Entity Monitoring and Performance	s 9(2)(a) (wk)	s 9(2)(a) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Enclosure: No

Joint Report: Findings from the Kāinga Ora Spending, Funding, and Financing Review

Executive Summary

This report provides a summary of findings from the Kāinga Ora Spending, Funding and Financing Review (the SFF Review), including:

a. Costs associated with the provision of public housing:

   i. Capitalised cost to build: redevelopment and developer-led projects.

   ii. Operating costs: Maintenance and Asset Management, and Tenancy Services.

b. How these costs link to Budget 2023 assumptions and Funding.

c. Overheads Costs.

d. Opportunities to support better information systems and understanding of costs.

The SFF Review was governed by The Treasury and the Ministry of Housing and Urban Development with representation from Kāinga Ora. The Governance group was responsible for reviewing the work undertaken by the cross-agency Project Team to present these findings. A summary of the analysis completed by the SFF Review is provided in Table 1 below.

Table 1: Summary of SFF Review findings:

<table>
<tr><th>Category</th><th>Number of Assets</th><th>Total</th><th>Direct Costs</th><th>Non-Direct Costs</th></tr>
<tr><td colspan="5">Costs to Operate in 2021/22</td></tr>
<tr><td>Maintenance and Asset Management</td><td>70,000 homes</td><td>$1.1 B</td><td>$11,700 per property</td><td>$3,600 per property</td></tr>
<tr><td>Tenancy Services</td><td>70,000 tenancies</td><td>$0.23 B</td><td>$1,600 per tenancy</td><td>$2,200 per tenancy</td></tr>
<tr><td colspan="5">Capitalised Cost to Build in 2022/23</td></tr>
<tr><td>Redevelopment (excluding book value of and already owned)</td><td>1,381 units</td><td>$0.84 B</td><td>$609,000 per unit</td><td rowspan="3">Initial analysis attributes around $35,000 per new unit in enabling functions (e.g. interest and back-office expenses)</td></tr>
<tr><td>Developer-led projects (excluding land costs)</td><td colspan="2">Based on a small sample size</td><td>$574,000 per unit</td></tr>
<tr><td>Developer-led projects (including land costs)</td><td>1,080 units</td><td>$0.84 B</td><td>$775,000 per unit</td></tr>
</table>

While Kāinga Ora has provided a range of information where it is available to support the SFF Review, the information available to support an understanding of actual cost is not at an adequate level to support good decision making or provide assurances to Ministers.

Recommended Action

We recommend that you:

a **note** that in November 2022, the previous Government agreed to provide Kāinga Ora with a Crown lending facility to meet its financing needs through the New Zealand Debt Management Office rather than private markets [DEV-22-MIN-0240 refers]

b **note** that as part of this change, the previous Government requested that the Treasury and the Ministry of Housing and Urban Development (HUD) undertake a comprehensive review of the spending, funding, and financing (SFF Review) of Kāinga Ora

c **note** that the SFF Review was governed by the Treasury and HUD with representation from Kāinga Ora on the Governance Group. The Governance Group was responsible for reviewing the work undertaken by the cross-agency Project Team to present these findings

d **note** that there are two outstanding actions that were agreed and required of Kāinga Ora before the end of 2023 as a result of the SFF Review:

   i. Kāinga Ora to provide Joint Ministers with the outcomes of the post implementation review of the customer programme and tenancy support functions in late 2023.

   ii. Kāinga Ora develop and submit a plan by late 2023 to improve its information systems and data capability in order to better understand costs, support good decision making, and provide assurance.

Geraldine Treacher
Manager Housing and Urban Growth
The Treasury

Glenn Phillips
Head of Crown Entity Investment and Performance Monitoring
Ministry of Housing and Urban Development

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Hon Chris Bishop
Minister of Housing

_____/_____/_______

Joint Report: Findings from the Kāinga Ora Spending, Funding, and Financing Review

Purpose of Report

1. This report provides a summary of findings from the Kāinga Ora Spending, Funding and Financing Review (the SFF Review), including:

   a. Costs associated with the provision of public housing:

      i. Capitalised cost to build: redevelopment and developer-led projects.

      ii. Operating costs: Maintenance and Asset Management, and Tenancy Services.

   b. How these costs link to Budget 2023 assumptions and Funding.

   c. Overheads Costs.

   d. Opportunities to support better information systems and understanding of costs.

Background

2. Kāinga Ora is a capital-intensive Crown Entity that owns most of the Crown's state housing assets and is the Crown's urban development agency. It provides tenancy services to nearly 200,000 customers and owns and maintains around 70,000 homes.

3. The size of the organisation means Kāinga Ora has a significant impact on the Crown's fiscal indicators, and 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. In late November 2022, the previous Government agreed to provide Kāinga Ora with a Crown lending facility to meet its financing needs. It also agreed that all future borrowing needs would be centralised and met by New Zealand Debt Management, rather than private markets [DEV-22-MIN-0240 refers].

5. New Zealand Debt Management borrows centrally and then 'on lends' to Kāinga Ora. This significantly lowers borrowing costs at a whole-of-Crown level . It provides financing certainty and cheaper debt to Kāinga Ora and greater transparency to the Crown.

6. The previous Government further requested that the Treasury and HUD undertake a comprehensive review of the spending, funding, and financing of Kāinga Ora (SFF Review). The SFF Review has:

   a. assessed the costs associated with the provision of public housing,

   b. compared the level of borrowing required to that set aside at Budget 2023, and

   c. explored the assumptions in the model underpinning Budget 2023 decisions on operating funding.

7. Given limitations around data availability and timing constraints the Project Team was not able to undertake:

   a. Scenario analysis: in order to understand the different investment options over the medium-term and the relevant fiscal implications, or

   b. Work on alternative funding and Financing models.

8. The SFF Review was jointly led by the Treasury and HUD in close consultation with Kāinga Ora, which reflected the governance structure outlined in Table 2 below.

Table 2: Kāinga Ora Review Governance Structure

Group	Role	Membership
Governance Group	Overall responsibility for the output of the Review and for engagement with senior leadership and management (including at Board level) across the Treasury, HUD, and Kāinga Ora	• Deputy Secretary, the Treasury • Deputy Chief Executive, HUD • Chief Executive, Kāinga Ora
Steering Committee	Operational oversight of the Review and report up to the Governance Group	• Manager Housing and Urban Growth, The Treasury • Head of Crown Entity Investment and Performance Monitoring, HUD • General Manager Strategy, Finance and Policy, Kāinga Ora

Financial Impacts

OBEGAL Impacts

9. The costs of running Kāinga Ora and funding its activities across both roles is significant and escalating with a deficit forecast to grow to $1.1 billion in 2027/28. This will have an aggregate negative impact of $4.0 billion on OBEGAL over the forecast period (Table 3 refers).

10. Interest on the significant recent and forecast increases to debt and associated increases in depreciation on a growing portfolio are the main driver of the forecast impact on OBEGAL, while organisational growth (e.g., FTE growth) was the main driver of the cost growth between 2017/18 and 2022/23.

11. Most of Kāinga Ora revenue comes from the Crown through the Public Housing appropriation in the form of the Income-Related Rent Subsidy, which meets the difference between market rent and tenant rent (which is capped at 25 per cent of a tenant's income).

s 9(2)(f)(iv)

[redacted]

s 9(2)(f)(iv) [redacted]

Net Debt Impacts

12. At June 2018, Housing New Zealand held $2.7 billion in debt. Since then, significant capital investment has been debt financed, bringing Kāinga Ora's total debt to $12.3 billion as at 30 June 2023.

13. Kāinga Ora's debt is forecast to increase to $25.5 billion by June 2028, with an impact on net debt of $13.2 billion (i.e., the net increase to borrowing) over the forecast period, which includes borrowing to meet the previous Government's build commitments to June 2025 of approximately $7 billion (Table 4 refers).

14. Kāinga Ora's borrowing is driven by investment in the public housing portfolio. Currently, the Kāinga Ora Long-Term Investment Plan assumes that around 4,000 assets are renewed/retrofitted each year for the next 10 years (which has the effect of reducing the average age of the portfolio) partially offset for financial modelling purposes by disposals of current public housing places.

s 9(2)(f)(iv) [redacted]

15. There are choices for Ministers through the level of any future debt allocated for Kāinga Ora in future Budgets driven off how quickly existing stock is renewed over the coming years and how this is balanced with any growth within the portfolio.

Findings of the SFF Review

Costs associated with the provision of public housing

16. A summary of the analysis completed by the SFF Review is provided in Table 5 and outlined in detail in the sections below.

[1] Various adjustments are made by Kāinga Ora and by the Treasury for reporting purposes.
[2] s 9(2)(f)(iv) [redacted]
[3] Various adjustments are made by Kāinga Ora and by the Treasury for reporting purposes.

Table 5: Summary of costs associated with public housing

Category	Number of Assets	Total	Direct Costs	Non-Direct Costs[4]
Costs to Operate in 2021/22				
Maintenance and Asset Management	70,000 homes	$1.1 B	$11,700 per property	$3,600 per property
Tenancy Services	70,000 tenancies	$0.23 B	$1,600 per tenancy	$2,200 per tenancy
Capitalised Cost to Build in 2022/23				
Redevelopment (excluding book value of and already owned))	1,381 units	$0.84 B	$609,000 per unit	Initial analysis attributes around $35,000 per new unit in enabling functions (e.g. interest and back-office expenses)
Developer-led projects (excluding land costs)	*Based on a small sample size*		$574,000 per unit	
Developer-led projects (including land costs)	1,080 units	$0.84 B	$775,000 per unit	

Customer Programme and Tenancy Support

17. The introduction of the Kāinga Ora – Homes and Communities Act 2019 signalled a shift away from the commercial approach to tenancy management taken by Housing New Zealand to a greater focus on customer wellbeing. Specifically, Kāinga Ora is required to:

    a. Support good access to jobs, amenities, and services, and

    b. Provide help and advice on matters or services related to housing.

18. In response to the objectives set in the Act, Kāinga Ora has redesigned its property management and tenancy support functions to shift its focus towards customer wellbeing and being a world class landlord (taking a less transactional approach), given the range of tenants Kāinga Ora house who often have complex needs above and beyond private tenants.

19. Specifically, Kāinga Ora has indicated the new model has been designed to:

    a. Respond to far greater complexity in the Kāinga Ora customer base

    b. Sustain tenancies to help create stability and security for people who often have a range of other challenges (an evidence-based approach)

    c. Support customers to be well connected to their communities, lead lives with dignity, have the greatest degree of independence possible, and to sustain tenancies

    d. Work with community providers to support customers and ensure that most in need are supported and housed, and

    e. Be a fair and reasonable landlord, treating customers and their neighbours with respect, integrity and honesty.

20. The new model has resulted in significant growth in Kāinga Ora personnel, increasing from 666 in 2018 to 1,330 in 2022, with a corresponding increase in the cost of delivering tenancy support services.[5]

[4] Note that these are cash costs based on allocations of costs from across the organisation to these activities. The direct costs include capital and operating maintenance and repairs costs, and direct personnel costs. The non-direct costs include attributed portions of organisation-wide expenses such as rates, interest, tax, and back office overheads.

[5] FTE includes direct customer facing roles, supporting functions and corporate based overhead FTE allocation)

21. Documentation provided by Kāinga Ora shows that the primary driver of the overall FTE increase is to provide appropriate ratios for coverage of high and medium-need tenancies (Table 5 refers), allowing Kāinga Ora to spend more time with the tenants who need it.

22. As an example, high and medium-need customers are managed by the 'Senior Housing Support Manager' role, with a preferred target ratio of 100 customers per portfolio. 'Housing Support Manager' roles manage medium and low needs customers with a preferred target ratio of 220 customers per portfolio (Table 6 refers).

Table 6: Needs profile of Kāinga Ora tenancies

Category	Description	Proportion of tenancies
Low need	• Broadly comparable to individuals in private tenancies.	20.3%
Medium need	• Interact more frequently with customer support services and may need additional support accessing services.	33.7%
High need	• Very frequent interaction with customer support services. • Generally require additional support.	46.0%

23. While the Project Team was not well placed to comment on the details of the operating model or staffing ratios, an approach to validating resourcing against output measures should be developed to ensure value-for-money is being achieved.

Maintenance

24. There is a high correlation between increasing maintenance costs and the age of the portfolio:

    a. The average age of existing stock is 44 years. This has been reduced to 34 years in Auckland due to recent redevelopment programmes. Average maintenance costs in the Auckland region are lower than in other regions.

    b. Outside of Auckland, the average age of properties is increasing and varies significantly by region.

    c. Average cost of maintaining properties across the portfolio increases until homes reach 40 – 50 years and remain high until the end of their economic lives.

25. As such, direct asset maintenance costs are largely a function of the ageing legacy portfolio that Kāinga Ora inherited from Housing New Zealand and are therefore relatively fixed (based on the current age of the portfolio).[6]

26. While Kāinga Ora indicated in their Briefing to Incoming Ministers that a review of maintenance activity would result in savings, Kāinga Ora review did not assess the reasonableness of these savings assumptions or how they impact the current Kāinga Ora deficits incorporated into the HYEFU.

Replacement profile and the impact on overall cost

27. Currently, the Kāinga Ora Long-Term Investment Plan assumes that around 4,000 assets are renewed/retrofitted each year for the next 10 years (which has the effect of reducing the average age of the portfolio).

[6] Other direct asset costs including local council rates are also relatively fixed, though have been growing at rates faster than general inflation.

28. There are choices for Ministers through the level of any future debt allocated for Kāinga Ora in future Budgets about how quickly existing stock is retrofitted and renewed over the coming years and how this is balanced with any growth within the portfolio.

29. Given the relationship between maintenance costs and the age of the portfolio identified above, these would likely have broader implications for Kāinga Ora spending, funding and financing (including total spending on asset maintenance). For example:

    a. Retrofits and renewals could be undertaken at a slower pace and/or over a longer timeframe, likely reducing upfront capital requirements and possibly increase direct maintenance costs over time.

    b. Retrofits and renewals could be undertaken at a faster pace and/or over a shorter timeframe, likely increasing upfront capital requirements and possibly decreasing direct maintenance costs over time.

Capitalised Cost to Build

30. Kāinga Ora's build programme is mostly made up of redevelopments on existing properties and purchases of properties from private developers.

31. Total Capitalised Costs for public housing units include both:

    a. Build costs (e.g., foundation, framing, cladding and fit out), and

    b. Non-build costs: including making land build ready; Consenting and Development Constructions; Site works and utilities; and Management, Contingency and GST.

32. The review highlighted that the total capitalised cost (and therefore associated borrowing) were broadly split 50/50 between build and non-build costs, but due to data limitations further analysis of the main drivers of the non-build costs was difficult to progress.

Redevelopments

33. Redevelopment generally refers to the process of demolishing an existing public home which has reached the end of its economic life and then rebuilding. Depending on whether the land and community is suitable, redevelopment may result in replacing the home with more than one new property. Kāinga Ora manages the redevelopment, and in some situations, this involves works to make the land suitable. Kāinga Ora advise that their landholdings can be lower quality or more complex to build on than market land.

34. The Project Team identified 1,381 individual units in FY2022/23 with near-complete cost information at a total cost of $841 million (average cost of $609,000).

35. Further detail on average total capitalised cost by size and typology is provided in Attachment 1.

Developer-led Projects

36. Developer-led Projects (new and existing) refer to the purchase of new or existing homes from private developers or owners for use as a public housing. They have become a fundamental part of the Kāinga Ora pipeline.

37. Developer-led projects include the cost of land and build (i.e., complete houses) and developer's/builder's margins. Kāinga Ora often purchases these as 'turnkey' properties and developers manage the build.

38. The Project Team identified 1,080 individual developer-led projects with near-complete cost information were identified in FY2022/23 at a total cost of $837 million (average cost of $775,000).

39. Further detail is provided in Annex 1 Table 2 of average total capitalised cost by size and typology

40. To understand value-for-money and compare redevelopment costs with new build acquisition costs on a like-for-like basis the review looked at an estimation of the intrinsic value of the land component of acquire new costs.

41. Initial analysis against a reduced sample size (Annex One -Table 3 refers) shows that, on average, Kāinga Ora redevelopments ($609,000) cost an average of $35,000 more than developer-led acquisitions ($574,000) when the cost of land is excluded.

Comparison to Budget 2023 funding

42. At a high-level, analysis shows that in FY2022/23:

    a. Kāinga Ora redevelopments (which do not include the cost of acquiring land) generally cost less than the high level assumptions used in Budget 2023.

    b. Developer-led projects cost less than the high level assumptions used in Budget 2023.

43. As part of the review, modelling was undertaken by Kāinga Ora to update for the updated costs analysis to compare to $9.7 billion approved for total borrowing.

s 9(2)(ba)(ii)

[redacted]

44. As a result of the SFF work, actual requirements to June 2026 are expected to be s 9(2)(f)(iv) [redacted]. The remainder of the appropriation incuded as part of HYEFU allows Ministers to make decisions in due course about the level of growth and renewal activity within the Kāinga Ora portfolio.

[7] Capital component only. The operating component is in the operations line.

How Kāinga Ora build costs compare to the market – quantity surveyor analysis

45. To provide external validation of the build costs associated with new public homes (by size and typology) Kāinga Ora engaged an independent quantity surveyor (QS) to:

    a. Estimate the build cost of new public homes (by size and typology), and

    b. Compare that cost to a modest market home (i.e., KiwiBuild).

46. Analysis from the independent QS showed that build costs for public homes are marginally higher than a modest market (KiwiBuild) home, largely reflecting the cost of build features, components and specifications associated with Kāinga Ora requirements and policy decisions intended to provide higher quality public housing (Attachment 2 and 3 refers).

47. It is likely that higher level design choices (such as typology, bedroom configuration, gross floor area, land utilisation and common areas/parking) drive greater inherent cost differences relative to the market than the building components picked up in the QS analysis.

48. Factors such as wall-to-floor ratios and the choices of typology to best utilise available land area may be significant, and these differences will be more challenging to pick up via QS analysis. More work is needed by Kāinga Ora to understand costs of providing particular typologies, configurations and land utilisation in a standardised way across the public housing portfolio.

Overhead costs

49. There are material overheads allocated across the different activities that Kāinga Ora undertakes. These may be driven by the requirements of operating in the public sector (similar to Departments), the need to be regionally located and ensuring community engagement is robust.

50. The review did not undertake any work on the reasonableness of the level of corporate overheads incorporated into capitalised build costs due to time and information limitations.

Better information systems and understanding of costs

51. While Kāinga Ora has provided a range of information where it is available to support the SFF Review, the information available to support an understanding of actual cost is not at an adequate level to support good decision making or provide assurances to Ministers.

52. For example, the matching exercise that has been undertaken to understand actual costs has taken substantial time and requires manual matching of information from different sources and through a number of systems. Given the size of the Kāinga Ora capital investment pipeline this information should be readily available in order to understand actual costs, and how this compares to funding that has been allocated and approved.

53. Kāinga Ora is in the process of establishing a programme of work to enhance analytics relating to the cost of building public housing. This is likely to take several years to be fully implemented and operational.

DPMC recommended that Kāinga Ora take immediate actions to strengthen its information systems.

54. Observations around the limitations of Kāinga Ora's systems are consistent with those identified by the Department of Prime Minister and Cabinet's Implementation Unit's (IU's) in its report – Stocktake of Kāinga Ora Public Housing Construction Pipeline and Delivery (DPMC-2022/23-599) which recommended Kāinga Ora take immediate actions to address risks and strengthen its information systems, and develop a more systematic approach to areas where it could intervene or adapt its practice to accelerate delivery.

55. Enhancements to the Kāinga Ora Pipeline are in the final stages of testing prior to final release in early 2024 and is expected to address the recommendations from the IU report.

56. This new tool is envisaged to enhance insight from the Pipeline, helping to understand aspects like project status timelines, progress against earlier estimates, and ensuring all of the major home delivery activities are captured.

Outstanding Actions from the Review

57. As part of advice to the previous Ministers there are two outstanding actions that were agreed to:

    i. Kāinga Ora to provide Joint Ministers with the outcomes of the post implementation review of the customer programme and tenancy support functions in late 2023.

    i. Kainga Ora develop and submit a plan by late 2023 to improve its information systems and data capability in order to better understand costs, support good decision making, and provide assurance.

s 9(2)(ba)(ii)

s 9(2)(ba)(ii)

[redacted]

Attachment 3: Overview of cost associated with higher Kāinga Ora build specifications: QS Estimates[13]

Cost Driver	1 bed Standalone	2 bed Terrace	3 bed Standalone	4 bed Standalone	5 bed Standalone	3 level Walk-up
KiwiBuild	$172,000	$193,000	$265,000	$359,000	$439,000	$239,000
Kāinga Ora	$193,000	$204,000	$322,000	$379,000	$399,000	$283,000
Difference	+$21,000	+$11,000	+$57,000	+$20,000	-$40,000	+$44,000

s 9(2)(ba)(ii)

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:

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

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	Hon Chris Bishop
Minister of Finance	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 Kainga 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.

Cabinet 100-Day Plan Committee

Minute of Decision

Kāinga Ora - Homes and Communities Independent Review

Portfolios **Finance / Housing**

On 13 December 2023, the Cabinet 100-Day Plan Committee:

1 **noted** that a review of Kāinga Ora operations is included in the 100-day plan [CAB-23-SUB-0468];

2 **agreed** 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 **agreed** that 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 **agreed** that 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 **noted** that Responsible Ministers would give further consideration as to whether further refinements are needed to the scope, and will report-back to Cabinet if necessary;

6 **agreed** that the proposed structure for the review is three independent members appointed by the Responsible Ministers covering the key areas of:

6.1 governance of major capital investment programmes;

6.2 understanding of public finances and funding;

6.3 finance and commercial expertise in relation to property and land development;

6.4 practical experience regarding housing and urban development activities;

7 **noted** that resources to support the external reviewers will be made available from the Treasury and Ministry of Housing and Urban Development, including secretariat support;

8 **noted** that additional external expertise as required will be agreed between Responsible Ministers upon recommendation from the lead reviewer;

9 **authorised** Responsible Ministers to finalise the terms of reference, following consultation with Kāinga Ora as outlined in paragraph 3 above on the scope and structure outlined in paragraphs 4 and 5 above;

10 **agreed** to publicly release the finalised terms of reference and structure of the review, following the appointment of the lead reviewer;

11 **noted** that the 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;

12 **agreed** that $0.500 million will be provided from non-departmental appropriations in Vote Housing and Urban Development in 2023/24 to support the review;

13 **agreed** to establish the following new appropriation to give effect to the decision in paragraph 2:

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Housing and Urban Development	Minister of Housing	Ministry of Housing and Urban Development	Independent Review of Kāinga Ora - Homes and Communities	Non-departmental Output Expense	This appropriation is limited to conducting an independent review of Kāinga Ora - Homes and Communities (and any of its subsidiaries) and any immediate short term actions following the review.

14 **approved** the following fiscally neutral adjustment to give effect to the decision in paragraph 2 above with no impact on the operating balance and net debt:

	$m – increase/(decrease)				
Vote Housing and Urban Development Minister of Housing	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-departmental Output Expense: Independent Review of Kāinga Ora - Homes and Communities	0.500	-	-	-	-
Multi-Category Expenses and Capital Expenditure: Transitional Housing MCA Non-departmental Output Expense: Provision of Transitional Housing Places	(0.500)	-	-	-	-

15 **agreed** that the changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Jenny Vickers
Committee Secretary

Present:
Rt Hon Christopher Luxon (Chair)
Rt Hon Winston Peters
Hon Nicola Willis
Hon Chris Bishop
Hon Dr Shane Reti
Hon Shane Jones
Hon Simeon Brown
Hon Erica Stanford
Hon Paul Goldsmith
Hon Judith Collins
Hon Mark Mitchell
Hon Nicole McKee

Officials present from:
Office of the Prime Minister
Department of the Prime Minister and Cabinet

100-23-SUB-0011

Cabinet 100-Day Plan Committee

Summary

Kāinga Ora - Homes and Communities Independent Review

Portfolios **Finance / Housing**

Purpose This paper seeks agreement to the scope and approach of a review of Kāinga Ora – Homes and Communities (Kāinga Ora).

Previous Decisions None.

Proposal In the past 18 months two 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. This includes problems with obtaining reliable, accurate and regular delivery data, and fiscal costs being collected in a manner that does not enable value for money to be easily assessed.

Agreement is sought to establish an independent review of Kāinga Ora under Section 132 of the Crown Entities Act 2004. The review is proposed to be conducted by three independent members appointed by the Responsible Ministers (a lead reviewer and two additional independent experts). Additional expertise may be required in certain subject matter areas.

Authorisation is sought for Responsible Ministers to finalise the terms of reference, following consultation with Kāinga Ora. The terms of reference and structure of the review is proposed to be publicly released, following the appointment of the lead reviewer. The draft terms of reference is **attached**.

The review will consider matters such as the financial viability of the organisation, asset procurement and management, tenancy management, whether the remit of Kāinga Ora is conducive to good performance on their core functions, institutional arrangements that would incentivise better performance, and fiscal risks to the Crown.

Impact Analysis Not applicable.

Financial Implications None from this paper. Review costs of up to $500,000 for 2023/24 can be met from existing baselines.

Legislative Implications None from this paper.

Timing Matters The lead reviewer is proposed to be procured immediately following consultation with Kāinga Ora, and the two other independent experts as soon as possible after.

Responsible Ministers expect to receive the first report back by March 2024, which will be confirmed in January 2024 following commissioning with the lead reviewer.

Communications Once the terms of reference and appointment of the lead reviewer are finalised, Responsible Ministers intend to make a public announcement about the scope and structure of the review.

Consultation Paper prepared by MHUD and the Treasury.

The Minister of Finance and Minister of Housing recommend that the Committee:

1 note that a review of Kāinga Ora operations is included in the 100-day plan [CAB-23-SUB-0468];

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 that 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 that 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 that the proposed structure for the review is three independent members appointed by the Responsible Ministers covering the key areas of:

5.1 governance of major capital investment programmes;

5.2 understanding of public finances and funding;

5.3 finance and commercial expertise in relation to property and land development;

5.4 practical experience regarding housing and urban development activities;

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 paragraph 3 above on the scope and structure outlined in paragraphs 4 and 5 above;

9 agree to publicly release the finalised terms of reference and structure of the review, following the appointment of the lead reviewer;

10 note that the 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.

Jenny Vickers
Committee Secretary

Hard-copy distribution:
Cabinet 100-Day Plan Committee

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Kāinga Ora Independent Review

Date:	5 December 2023	**Report No:**	T2023/1989
		File Number:	SH-18-1-1-1

Action sought

To:	Action sought	Deadline
Minister of Finance (Hon Nicola Willis)	**Indicate** your preferred: • Level of involvement in in the establishment and governance of the independent review. • Structure for an independent review of Kāinga Ora and additional supporting actions. **Direct** the Treasury to work with HUD to establish the independent review.	8 December 2023

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Max Christie	Analyst, Housing and Urban Growth	s 9(2)(a) (wk)	N/A	
Emily Pearse	Principal Advisor, Financing Infrastructure and Urban Development	s 9(2)(a) (wk)	N/A	✓
Geraldine Treacher	Manager, Housing and Urban Growth	s 9(2)(a) (wk)	s 9(2)(a) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.
Refer to the Minister of Housing's office.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Kāinga Ora Independent Review

Executive Summary

This report provides you with context on Kāinga Ora – Homes and Communities (Kāinga Ora) and advice on an independent review. As a Responsible Minister for Kāinga Ora alongside the Minister of Housing, you have a role to oversee and manage the Crown's interests in the entity, especially considering its substantial fiscal impacts.

Kāinga Ora is a capital-intensive Crown Entity that owns most of the Crown's state housing assets and is the Crown's urban development agency. It provides tenancy services to nearly 200,000 customers and owns and maintains around 70,000 homes.

The size of the organisation means Kāinga Ora has a significant impact on the Crown's fiscal indicators, with contributions of $4.0 billion towards OBEGAL deficits and $13.2 billion increase to net debt over the forecast period. 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.

Treasury and the monitoring agency, the Ministry of Housing and Urban Development (HUD), have been reviewing Kāinga Ora over 2023, with the following key findings:

1. There has been significant growth in the operating costs of providing public housing, including growth in personnel of 2,000 FTE (145%) since 2017/18, and little assessment of the impact or value of the increased investment in tenancy services.
2. The actual costs for redevelopments of public homes were less than budgeted for in 2022/23, and acquisitions of homes from private developers (when land value is excluded) cost less than redevelopments.
3. According to Kāinga Ora's current forecasts, the amount of debt required to deliver existing commitments is $1.136 billion lower than what was anticipated during the Budget 2023 process. This difference is already incorporated into the Crown's fiscal forecasts.
4. Kāinga Ora's debt projections, which inform the Crown's fiscal forecasts, vary significantly between fiscal updates and contain assumptions like generating $6 billion revenue from the sale of public homes. The model developed by Kāinga Ora to inform Budget 2023 decisions on operating funding for new units used assumptions that have since been substantively revised. These forecasts are heavily dependent on the Government's decisions on the pace and scale of the public housing growth and renewals programme, and further investigation is warranted.
5. Kāinga Ora's information management systems for public housing (that could inform, for example, how or why the delivery pipeline faces delays) are not fit to provide the Board with sufficient information to govern effectively. This also limited HUD and the Treasury's ability to progress the SFF Review.

We understand that the Minister of Housing has requested that HUD develop a Cabinet paper for consideration by Cabinet on 18 December 2023 which is expected to seek agreement around the structure and scope of the review. The Treasury is working with HUD on the development of the Cabinet paper, and we are seeking your direction around the level of involvement that you wish to have.

We recommend that the Independent Review be led by a senior independent person supported by a cross-agency group and expert consultants as needed.

Subject to your steer on the scope and form of an independent review, the Treasury will engage with HUD to develop a draft Terms of Reference to support a consultation process with the Kāinga Ora Board (which is requirement under the Crown Entities Act).

We also recommend that joint Ministers refresh the Kāinga Ora Board, establish your relationship with the Board, and set out a new Letter of Expectations that, among other things, asks Kāinga Ora to provide concrete savings options to be considered in Budget 2024.

Recommended Action

We recommend that you:

a **note** the key findings of the 2023 joint Spending, Funding and Financing (SFF) Review of Kāinga Ora, which the Treasury worked on jointly with HUD

b **note** Kāinga Ora's information systems for public housing are insufficient to provide the Kāinga Ora Board with the consistent information needed to govern effectively, and we expect Kāinga Ora to deliver you with a plan for improving its capabilities by the end of the year

c **note** that the Minister of Housing has requested that HUD develop a Cabinet paper for consideration by Cabinet on 18 December 2023 which is expected to seek agreement around the structure, scope, and the level of involvement from Ministers, Cabinet and Kāinga Ora. The Treasury is working with HUD on the development of the Cabinet paper

d **indicate** your preferred level of involvement in the establishment and governance of the independent review (circle one):

i. Directly govern jointly with the Minister of Housing as the review progresses *[Treasury recommended]*
Yes / no

ii. Delegate governance to the Minister of Housing and stay updated on progress.
Yes / no

e **indicate** your preferred governance structure for the independent review (circle one):

i. A targeted review led by the Kāinga Ora Board
Yes / no

ii. An independent review led by an external consultancy accountable to Ministers.
Yes / no

iii. Rolling targeted reviews with an independent senior lead accountable to Ministers *[Treasury recommended]*
Yes / no

f. **direct** the Treasury to work with HUD to establish the independent review in line with the terms described in this report
Directed / not directed.

g. **note** that the Treasury supports refreshing the Board, refreshing Kāinga Ora's Letter of Expectation and establishing your relationship with the Board. HUD, as the primary monitor, will provide further advice on these issues

h. **indicate** whether you would like to discuss these issues with officials
Yes / no.

i. **note** that the findings of the SFF Review have been discussed with Kāinga Ora, but the actions moving forward remain sensitive

j. **refer** and **discuss** with the Minister of Housing
Referred / not referred
Discussed / not discussed

Geraldine Treacher
Manager, Housing and Urban Growth

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Treasury Report: Kāinga Ora Independent Review

Purpose of Report

1. This report provides you with:
   a. context on Kāinga Ora, including its financial and delivery performance and the key findings from Treasury's recent work reviewing Kāinga Ora's spending, funding and financing (SFF Review), and
   b. our recommended terms and preferred governance structure for the Independent Review of Kāinga Ora (Independent Review).

Kāinga Ora is a Crown Agent with roles in public housing and urban development

2. In 2019, Housing New Zealand Corporation and KiwiBuild were merged to form Kāinga Ora – Homes and Communities (Kāinga Ora), a capital-intensive statutory Crown Agent established under the Kāinga Ora – Homes and Communities Act 2019 (KOA) with new urban development functions. You and the Minister of Housing are responsible for administration of the KOA and for the management of the Crown's interests in the Kāinga Ora.
3. The obligations in the KOA are described at a relatively high level, meaning that Kāinga Ora has significant autonomy to determine in practice how it meets its statutory obligations.
4. Broadly speaking, Kāinga Ora has two key roles. It:
   a. owns and maintains around 70,000 public houses and provides home ownership products and other services, including tenancy services to nearly 200,000 customers and their families, and
   b. delivers urban developments that connect homes with jobs, transport, open spaces and the facilities for communities. This includes accelerating the availability of build-ready land and supporting the build of a mix of housing of different types, sizes and tenures.
5. The Ministry of Housing and Urban Development (HUD) is the primary monitoring agency for Kāinga Ora. HUD is responsible for the day-to-day administration of funding to Kāinga Ora and monitoring Kāinga Ora financial and delivery performance.
6. The Treasury is a secondary monitor with a particular interest in Kāinga Ora's balance sheet management and fiscal impacts. The Treasury also provides the Minister of Finance with advice on Kāinga Ora's investment activities given their significant fiscal implications.
7. Informed by its annual reports over the last few years and our experience working with Kāinga Ora, it is the Treasury's view that Kāinga Ora is struggling to meet its housing delivery targets and that it is not sufficiently able to demonstrate the value for money of its activities.
8. We also consider that Kāinga Ora's financial performance is weak and worsening, and that the Kāinga Ora Board is not governing these concerns effectively.

OBEGAL Impacts

9. The costs of running Kāinga Ora and funding its activities across both roles is significant and escalating. Kāinga Ora had an operating deficit of $520 million in 2022/23, compared to a $76 million surplus in 2017/18. The deficit is forecast to grow to $1.1 billion in 2027/28. **This will have an aggregate negative impact of $4.0 billion on OBEGAL over the forecast period.**
10. Interest on the significant recent and forecast increases to debt is the main driver of the forecast impact on OBEGAL, while organisational growth (e.g., FTE growth) was the main driver of the cost growth between 2017/18 and 2022/23.
11. Most of Kāinga Ora's revenue comes from the Crown in the form of the Income-Related Rent Subsidy, which meets the difference between market rent and tenant rent (which is capped at 25% of a tenant's income). In addition, there is some supplemental income, including in appropriations for specific urban development activities.

s 9(2)(f)(iv)

[redacted]

Net Debt Impacts

12. At June 2018, Housing New Zealand held $2.7 billion in debt. Since then, significant capital investment has been debt financed, bringing Kāinga Ora's total debt to $12.3 billion as at 30 June 2023.
13. Kāinga Ora's debt is forecast to increase to $25.5 billion by June 2028, with **an impact on net debt of $13.2 billion (i.e., the net increase to borrowing) over the forecast period.**
14. Kāinga Ora's borrowing is driven by investment in the public housing portfolio, which Kāinga Ora's forecast assumes will be offset by $6 billion in revenue from the sale of 10,200 public homes over the forecast period. These sales partially offset the new public houses built, such that Kāinga Ora forecast no change in the size of public housing portfolio between 2025/26 and 2027/28 (additions are equal to demolitions and sales). The Treasury does not consider this to be a reasonable assumption and have identified other assumptions that undermine the efficacy of the forecast modelling; the viability of their forecasting warrants further investigation.

[1] Various adjustments are made by Kāinga Ora and by the Treasury for reporting purposes.

s 9(2)(f)(iv)

Treasury and HUD have been reviewing Kāinga Ora

16. In late November 2022, the previous Government agreed to provide Kāinga Ora with a Crown lending facility to meet its financing needs. It also agreed that all future borrowing needs would be centralised and met by New Zealand Debt Management, rather than private markets [DEV-22-MIN-0240 refers]. New Zealand Debt Management borrows centrally and then 'on lends' to Kāinga Ora significantly lowers borrowing costs at a whole-of-Crown level. This provides financing certainty and cheaper debt to Kāinga Ora and greater transparency to the Crown.

17. The Government further requested that the Treasury and HUD undertake a comprehensive review of the spending, funding, and financing of Kāinga Ora (SFF Review). The SFF Review has:

    a. assessed the costs associated with the provision of public housing,

    b. compared the level of borrowing required to that set aside at Budget 2023, and

    c. explored the assumptions in the model underpinning Budget 2023 decisions on operating funding.

18. Kāinga Ora has provided a range of information where available to support the review. However, the information Kāinga Ora use to manage its public housing operations has either been inconsistent between systems or missing key financial and project management information. This has limited the progress of the review.

19. The Treasury considers that the information systems used by Kāinga Ora are not fit to provide the Board with sufficient information to govern effectively. The previous Government requested that Kāinga Ora to develop and submit a plan by late 2023 to improve its information systems and data capability.

[2] s 9(2)(f)(iv)

[3] Various adjustments are made by Kāinga Ora and by the Treasury for reporting purposes.

Costs associated with the provision of public housing

20. Costs associated with the provision of public housing found in the SFF Review are outlined in Table 3 below.

Table 3: Summary of costs associated with public housing

Category	Number of Assets	Total	Direct Costs	Non-Direct Costs[4]
Costs to Operate in 2021/22				
Maintenance and Asset Management	70,000 homes	$1.1 B	$11,700 per property	$3,600 per property
Tenancy Services	70,000 tenancies	$0.23 B	$1,600 per tenancy	$2,200 per tenancy
Capitalised Cost to Build in 2022/23				
Redevelopment (excluding land cost)	1,381 units	$0.84 B	$609,000 per unit	Initial analysis attributes around $35,000 per new unit in enabling functions
Developer-led projects (excluding land costs)	*Based on a small sample size*		$574,000 per unit	
Developer-led projects (including land costs)	1,080 units	$0.84 B	$775,000 per unit	

21. Maintenance and tenancy services are the two key services in providing public housing. Maintenance costs are driven by the aging legacy portfolio (average age of 44 years) while the tenancy services function has grown to meet the complex needs of its tenants. Kāinga Ora currently lacks an approach to validating resourcing against output measures (to ensure value-for-money is being achieved) but is intending to undertake a post-implementation review of the tenancy services operating model after 2023.

22. Kāinga Ora's build programme is mostly made up of redevelopments on existing properties and purchases of properties from private developers. The Review found that the costs for redevelopments (that have no land acquisition costs) are generally less than budgeted for, and developer-led projects (when land-value is excluded) cost less than redevelopments. This likely means that the lending facility appropriation is larger than it needs to be, and Kāinga Ora may be able to use this headroom to fund other activities.

23. An independent quantity surveyor concluded that Kāinga Ora redevelopment costs are marginally higher than a modest market home (once differences in size are accounted for) because Kāinga Ora tend to provide higher quality housing than private developers. This does not explain all of the difference in cost between Kāinga Ora redevelopments and developer-led projects. We hypothesise the additional cost are driven by its pre-construction activities.

Kāinga Ora now forecasts that less debt is required than anticipated at Budget 2023

24. In October 2023, the previous Government agreed to appropriate $9.474 billion to the Kāinga Ora borrowing appropriation (in addition to the $500 million existing appropriation) to enable the shift of debt raising from the private market to the Crown.

25. Kāinga Ora's Consolidated Forecast Model (CFM) now indicates that the expected debt needs of the growth and cost pressures that were appropriated for is now forecast at $8.838 billion. This is $1.136 billion lower than the borrowing appropriated. This is already accounted for in the fiscal forecasts.

26. s 9(2)(f)(iv) [redacted]

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4 s 9(2)(f)(iv) [redacted]

s 9(2)(f)(iv) [redacted]

27. The debt projections across the forecast period include substantive assumptions like generating $6 billion revenue from the sale of public homes, and that Kāinga Ora will build or buy 1,900 more homes by June 2025 than they currently have in their procurement, contract, and construction pipelines combined.

28. s 9(2)(f)(iv) [redacted] Areas for further investigation include public housing growth and renewals, and cash reserves.

Kāinga Ora now models that the cost of operating new homes is less than modelled at Budget 2023

29. The Long-term Investment Plan (LTIP) was used by Kāinga Ora to build a single-unit model that projected cashflow, revenue and expenses, and the balance sheet over the lifetime of a new unit built in 2023/24.

30. This model underpinned the Budget 2023 decisions to appropriate additional operating funding for the net new units.

31. Since Budget 2023, the LTIP has been updated. s 9(2)(f)(iv) [redacted] The main drivers of this change are:

    a. Kāinga Ora's new agile framework for housing developments (i.e. Project Velocity) which is expected to deliver s 9(2)(ba)(ii) [redacted] savings on each unit.

    b. Land values were previously based on the portfolio-wide average and how now been updated to reflect the average of a subset of the newer homes in the portfolio.

32. This cost to build flows into the single-unit model to forecast an expected operational cost[5] of s 9(2)(f)(iv) [redacted], which is s 9(2)(f)(iv) [redacted] less than modelled at Budget 2023.

33. This is higher than portfolio average, forecast to be s 9(2)(f)(iv) [redacted], because new units are 100% debt financed. Most of the existing portfolio have no associated debt servicing costs. Interest costs make up over half of the new unit costs in the first decade.

34. These revisions to the LTIP model more closely align with the actual cost-to-build figures found in the SFF Review. This will support future decisions to avoid appropriating more funding than required.

Kāinga Ora is drafting a business case for its urban development activities

35. Kāinga Ora's urban development activities are currently funded directly by the Crown through appropriations in Vote Housing and Urban Development. The *Homes and Communities* appropriation is set to decrease from $82 million in 2023/24 to $21 million in 2024/25 (and into the future). This funding profile was set by the previous Government subject to better information on the ongoing Costs.

[5] s 9(2)(f)(iv) [redacted]

36. Kāinga Ora is preparing a business case to inform Budget 2024 decisions on the level of funding for their urban development activities, some of which are legislatively required. We can advise you on this further during the Budget 2024 process and will continue to push Kāinga Ora to develop scalable options for Ministers to make informed decisions.

There are several issues that warrant further analysis or action

37. From the work undertaken as part of the SFF Review, the key issues identified include:

    a. Kāinga Ora's debt forecasting, which feed into the Crown's fiscal forecasts, are based on significant assumptions the Treasury consider should be revised, and which should be more transparent to HUD, Treasury, the Board, and Ministers moving forward.

    b. Kāinga Ora's information systems are insufficient to provide the Kāinga Ora Board with the consistent information they need to govern effectively, and we expect Kāinga Ora to deliver you with a plan for improving their capabilities by the end of the year.

    c. The Kāinga Ora Board has not been taking appropriate action to manage the concerning financial sustainability issues faced.

    d. It is unclear that value-for-money is being achieved from Kāinga Ora's operating activities.

Establishing an independent review of Kāinga Ora

38. Ministers have few levers for influencing Kāinga Ora's decision making and performance (refer Attachment 4). The Responsible Minister may review a Crown entity's operations and performance under s132 of the Crown Entities Act (2004), although this is seldom used explicitly. Before undertaking a review under that section, the Responsible Minister must consult with the entity on the purpose and nature of the review, and consider any submissions made by the entity on the proposed review.

39. You and the Minister of Housing are the current Responsible Ministers for Kāinga Ora.

We understand that you intend to establish an independent review of Kāinga Ora.

40. An independent review can springboard off the findings of the 2023 joint review, feed into savings options that should be provided by Kāinga Ora for Budget 2024, and provide options for improving their ongoing operations to achieve the objectives outlined below.

41. We note that the Minister of Housing has requested that HUD develop a Cabinet paper for consideration on 18 December 2023. We are working with HUD on the development of a Cabinet paper, and seek your view around objectives, structure, scope, and the level of involvement that you wish to have.

Objectives

42. Given Kāinga Ora's significant impact on the Crown's fiscal indicators and challenging financial sustainability issues, we consider that the key objectives of an Independent Review should be to improve Kāinga Ora's financial sustainability and ensure they are providing value for money by:

    a. Identifying opportunities to improve cost effectiveness and value for money across Kāinga Ora's programmes, beginning with those areas that have the highest levels of expenditure.

b. Identifying opportunities to rebalance investing cash flows with operating cash flows to reduce the agencies reliance on debt funding and reduce OBEGAL impacts.

c. Ensuring that Kāinga Ora's funding and financing settings are fit for purpose (i.e., market-rent settings, operating supplement, and 100 percent debt funding) and enable Kāinga Ora to undertake its statutory functions in a manner that is financially sustainable.

d. Improving governance, oversight, and enabling greater transparency over the cost of delivery in Kāinga Ora's programmes and functions.

Structure

43. There are a number of options for how an Independent Review could be structured and governed. Detail on the benefits and constraints of each option are provided in Attachment 2. In brief, the key options include:

Option 1: A targeted review led by the Kāinga Ora Board.

Option 2: An independent review led by an external consultancy accountable to Ministers.

Option 3: Rolling targeted reviews with an independent senior lead accountable to Ministers *[Treasury recommended]*.

44. The Treasury recommends Option 3 on the basis that it would preserve the independence of the review and maintain your control over review processes and outcomes. Dividing the programme into targeted pieces of work also enables the level of engagement with Kāinga Ora's Board to be adapted to the nature of the review questions for each workstream (which may limit the need to rely on Crown Entities Act powers). It would also create greater flexibility in procuring appropriate consultancy services.

45. In all cases we would expect the involvement of HUD, Treasury and DPMC in the review governance structures and at working level.

Scope

46. Given work undertaken to date, critical areas for enhancing Kāinga Ora's performance, ensuring value-for-money and improving financial sustainability (in order of priority) is provided in Table 4 below. Please note that we have worked closely with HUD in identifying these priority areas.

Table 4: Recommended sequencing of workstreams for Independent Review

Priority Area		Description	Comment
1	Public housing delivery	Reviewing the Board oversight, operating and investment models for public housing delivery (new build, redevelopment and acquisition) including the validation of processes and standards to ensure that they are value for money and are not "crowding out" other investment.	It is recommended that the public housing delivery operating model is prioritised in the review because of the size of public housing spend, and the significant impact which it has on net debt. We also believe that information currently available to support an understanding of actual cost in this area is not currently adequate to support good decision making or provide assurance to Ministers.
2	Kāinga Ora's overall operating model and service levels	Reviewing the need for the scale of corporate overheads and Kāinga Ora's tenancy management function.	The overall operating model and service levels (particularly corporate overheads and tenancy management) are recommended as a second priority because of the level of spend associated with these areas and because of the significant increases in head count associated with this work.

Priority Area		Description	Comment
3	Kāinga Ora's maintenance programmes	Reviewing the asset management strategy, including the appropriate average age of the portfolio and how Kāinga Ora decide to renew or retrofit older homes.	The average age of the portfolio is a key driver of maintenance costs. There are choices about how quickly existing stock is retrofitted and renewed over the coming years, and how this is balanced with government's intention to continue growing the portfolio.
4	Kāinga Ora's Large Scale Projects and urban development functions	Reviewing the role of land acquisitions and processes to ensure that these are value for money and not "crowding out" other investment).	Kāinga Ora's LSPs and urban development functions have been given a lower priority because it is unclear to us how these fit with the Government's intentions for the infrastructure sector and for city deals. Reviewing these operating models later provides time for decisions on Kāinga Ora's urban development role.

47. Attachment 1 provides an overview of the proposed general scope for each of the priority areas identified in Table 4.

48. It is not recommended that the Independent Review consider benchmarking or maturity frameworks. Previous experience suggests that like-for-like comparisons would be difficult to achieve, and that frameworks tend to look at structures rather than the quality of information or oversight. Given this, the Treasury's view is that the review should focus on building an in-depth understanding, particularly around costs.

49. We consider that the Independent Review should also assess how Kāinga Ora's funding and financing model (including the management of its balance sheet) could be changed to:

    a. Improve Kāinga Ora's financial sustainability, and

    b. Incentivise its ability to meet Government priorities (for example, promoting housing supply and construction of houses in areas of New Zealand which currently experience housing shortage and/or where it is relatively more expensive or uneconomic to build).

50. Given the scale of Kāinga Ora's activity in each of these areas it is recommended that the work be conducted on a rolling basis in order of agreed priority, in parallel to the funding and financing workstream.

51. In addition, it is recommended that work within each of these four workstreams is structured to provide Ministers with short term findings and recommendations within two to three months, followed by detailed work to analyse alternative models, provide Ministers with options on service levels and engage the Kāinga Ora Board on detailed implementation.

52. Timeframes in the table below are indicative, subjective to the chosen approach, procurement, and available resourcing and information from Kāinga Ora.

Table 5: Indicative timeframes and deliverables

	Deliverable	Timeframe
Establishment	Establishment phase + procurement processes	December 2023 – January 2024
Public Housing Delivery	Interim report + savings options for Budget 24	January – March 2024
	Final report	April – June 2024
Operating Model	Interim report	July– September 2024
	Final report	October– December 2024
Funding and Financing	Interim report	July – December 2024
	report	January– June 2024
	Budget 2025 decisions	November 2024 – April 2025
Subsequent areas if desired:		
Maintenance programme		TBC
Urban development functions		TBC
Budget 2026 decisions		From November 2025

Your level of involvement

53. In order to ensure the objectives of the independent review is achieved, the Treasury and the Minister of Finance roles are important to ensuring a suitable fiscal lens is applied to improve cost effectiveness and ensure value for money.

54. Given the significant fiscal implications, we recommend that you remain directly involved in decisions around objectives, scope, and structure of the independent review.

55. Alternatively, you could delegate decisions and governance to the Minister of Housing. If this is your preferred option, we will ensure that you are kept updated on progress and that you fulfil any relevant responsibilities under the Crown Entities Act.

Additional actions to improve the impact of the Independent Review

56. As the monitoring lead for Kāinga Ora, HUD is responsible for providing advice to you and the Minister of Housing on Board appointments and related issues. We have discussed the below actions with HUD, and understand it is well placed to advise further. If you indicate you would like these to progress, we will work with HUD on this advice.

Refreshing the Kāinga Ora Board

57. To improve the likely impact of the Independent Review, it is recommended that there is a refresh of the Board. This would enable you to reset the relationship between Kāinga Ora and Ministers and ensure the Board are aligned with the intent of an Independent Review.

58. s 9(2)(g)(i) [redacted]

Resetting the relationship with the Board

59. A refresh of the Board is also an opportunity to reset the relationship between the Government and the agency through Board induction processes provided by your monitoring agencies, and through regular face to face meetings with the Chair. Note that a key aspect of your role as responsible Minister is to hold the Board accountable for the performance of the entity. Meeting regularly with the Chief Executive has potential to dilute that accountability and may reduce the Board's ability to govern effectively.

Refreshing the Letter of Expectations

60. In addition, a new Letter of Expectations provides an opportunity for Ministers to set clear expectations regarding Kāinga Ora's engagement in the review process, and to position yourself as an active purchaser of housing outcomes, including regional targets.
61. Given current fiscal constraints this is also an opportunity to signal the expectations that Kāinga Ora provide concrete savings options to feed into Budget 2024 and that cash management policies will be tightened along with the debt drawdown framework.
62. As such, it is also recommended that Kāinga Ora's Letter of Expectation is updated prior to the Review commencing.

Additional levers

63. Other levers that you may wish to consider drawing on are outlined in Attachment 4. These include, with your powers under the Crown Entities Act, directly requesting information, issuing direction to give effect to policy, and requesting a review.

Next Steps

64. We expect the Minister of Housing will seek advice on the independent review and the additional actions from HUD.

65. Subject to ministerial preferences, the Treasury will engage with HUD to develop a draft Terms of Reference for the independent review that can be used as a basis for consultation with the Kāinga Ora Board.

66. We will also commence engagement with HUD and DPMC regarding agency roles and cross-agency governance. As HUD is the primary monitor for Kāinga Ora, HUD will be the Agency lead for the review (unless Ministers direct otherwise).

67. We will work with HUD to report back to you and the Minister of Housing to confirm the draft Terms of Reference, agency roles and governance prior to engaging with the Kāinga Ora Board.

Attachment 1: Proposed scope for each area of investigation – Independent Review

Description		Timeframe
Short-term		
1	Comprehensively describe and analyse Kāinga Ora's current operating and investment models in terms of the service levels it provides to customers, its personnel expenses, and number of employees (i.e. level of FTE), investing cashflows, decision-making criteria etc.	First 2 – 3 months
2	Provide Ministers with recommendations for ways in which the efficiency and value for money of Kāinga Ora's current operating and investing models could be improved by delivering more for less, or by limiting or ceasing some activities.	
Medium-Term		
3	Describe and analyse alternative operating models which Kāinga Ora could adopt which would provide different levels of service to [customers] (including, higher, lower, and differently distributed levels of service), while still satisfying Kāinga Ora's statutory obligations.	Next 2 – 3 months
4	Provide Ministers with choices over service levels and costs for Kāinga Ora's statutory functions.	
5	Critically evaluate Kāinga Ora's operating and investing models in terms of the distribution of responsibilities and decision-making powers across Ministers, HUD and Kāinga Ora, and provide choices for alternative distributions, and consider whether this distribution is fit for purpose, or whether a more active role for Responsible Ministers would better serve the Government's objectives.	
6	Engage with the Kāinga Ora Board and HUD to agree implementation plans (including enhanced monitoring and reporting) for consultation with / decision-making by Ministers.	

Attachment 2: Options around structure of the Review

<table>
<tr><th>Option 1: Kāinga Ora Board led targeted review</th><th>Option 2: External consultancy led fully independent review</th><th>Option 3: Rolling targeted reviews with an independent senior lead [Treasury recommended]</th></tr>
<tr>
<td>Direct the Kāinga Ora Board to commission an independent review within a scope set by Ministers, reporting to the Board.

Benefits
This approach is consistent with and reinforces the Board's statutory responsibility for the agency's performance and ensures the buy-in and engagement of the Board in implementing review recommendations. It does not require use of the Minister's powers under the Crown Entities Act and should have better access to agency information systems and resources than an external review.
Constraints
We consider that this option requires a refresh of the Kāinga Ora Board.
The downsides of this approach are that you will have no direct control over the review scope, reviewer selection, or review processes and findings. There may also be some matters that are not strictly within the Board's remit (funding and financing settings) or which the Board may feel conflict with their statutory duties (particularly structural or system role matters).</td>
<td>Commission a review led by an external consultancy that reports to Ministers via HUD, Treasury and DPMC.

Benefits
This approach maximises your control over the review scope and review processes. It may also provide greater access to resources and skill sets, providing flexibility to accommodate a broader scope. However, unless the Board are willing participants in the review you may need to use your Crown Entities Act powers to ensure engagement and provision of information.
Constraints
Given the length of the review period this approach is likely to be expensive and is not guaranteed to be effective. Consultancy staff may identify opportunities for improvement, but delivery of change will be the responsibility of the Board and agency management.
The size and scale of Kāinga Ora's investment activities means that it would be difficult to find a New Zealand based consultancy firm with the scale and capability to undertake a review of this kind, that does not already do a substantial volume of work for Kāinga Ora. This likely means bringing a consultancy from off-shore (Australia) to undertake the review work.</td>
<td>Establish an independent lead (for example, a very senior former public service official) for a series of targeted reviews of work areas supported by a cross-agency working group and any expert consultants required.

Benefits
This approach preserves the independence of the review and maintains your control over review processes and outcomes. Dividing the programme into targeted pieces of work also enables the level of engagement with and involvement of Kāinga Ora's Board to be adapted to the nature of the review questions for that stage, which may limit the need to rely on Crown Entities Act powers. It also creates greater flexibility in procuring appropriate consultancy services.
Constraints
Identifying an appropriate independent reviewer is a key risk. Unless the Board are willing participants in the review you may need to use your Crown Entities Act powers to ensure engagement and provision of information.</td>
</tr>
</table>

Attachment 3: Kāinga Ora's Financial Context

Fiscal Indicators

1. Kāinga Ora provides forecast balance sheets, income statements, and cashflow statements to the Treasury at each economic and fiscal update.
2. The operating surplus/deficit has a direct impact on OBEGAL: if Kāinga Ora forecast a deficit of $4 billion over the forecast period, there is a $4 billion impact on OBEGAL (subject to any top-down adjustments performed by the Treasury).
3. Kāinga Ora holds a significant balance sheet. In 2022/23, it held total assets of $45.1 billion (most of which is in the property portfolio of around 70,000 homes) and total liabilities of $14.7 billion. Most of its liabilities are split between market debt and Crown loans to Kāinga Ora.
4. Kāinga Ora debt is incorporated into the Crown's net debt fiscal indicator.
5. The previous Government agreed that Kāinga Ora would only borrow from the Crown going forward. There is an appropriation in Vote Housing and Urban Development that sets the limit to the lending facility agreed by Cabinet. Currently, there is $9.974 billion in the appropriation.
6. However, this amount was only intended to cover the investment in public home purchasing and developing (growth and renewals) to June 2025 and other cost pressures to June 2026, because there was insufficient information and uncertainty to commit to lending beyond this period at Budget 2023.
7. In addition, Kāinga Ora also have approval for $2 billion in relation to the Kāinga Ora Land Programme. s 9(2)(f)(iv) [redacted] n the LSP's the Crown funds the difference between costs and revenues from the HAF so it is arguably not debt funded. From a cash flow perspective Kāinga Ora will need to forecast cost and revenue separately. HAF funding for the LSPs is paid by HUD in arrears so there will be borrowing for working capital requirements (i.e. the size of the cash lake is a function of the entire capital draw, not just public housing purchasing and delivery).
8. Kāinga Ora's forecasts "look through" the appropriated lending facility. For the HYEFU, their debt projection submitted to New Zealand Debt Management forecasts $16.9 billion in new debt by June 2028. The Treasury has made a top-down adjustment that revises the forecast so the impact on the Crown's net debt is forecast at $13.2 billion in new debt by June 2028.

Funding model

9. Kāinga Ora has several sources of revenue, which can be thought of as revenue for public housing activities and revenue for urban development activities.

Revenue for public housing activities

10. Public housing activities are funded through a market rent model. Kāinga Ora charge tenants subsidised market rent, such that they only pay up to 25% of their income. The Crown pays this Income-Related Rent Subsidy (IRRS) to Kāinga Ora, appropriated for in the *Purchase of Public Housing Provision* appropriation and administered by HUD. The appropriation is not automatically inflation adjusted, so when market rents increase there is pressure on the appropriation, which has led to decisions to increase the appropriation annually over recent years.

11. Market rents are determined by prevailing market conditions for similar homes in the same region. For example, median weekly rental prices for a 3-bed house are $745 in Auckland Central and $560 in Palmerston North. These are then adjusted according to several variables on house quality and tenancy services provided.

12. When Kāinga Ora build new homes that are not offset by demolitions or sales (i.e., they grow the public housing portfolio), they can also seek the Operating Supplement (OS) from the Crown to a cap of 100% of market rent. The OS is also appropriated for in the *Purchase of Public Housing Provision* appropriation. It is intended to help meet the difference between the market rent collected and the operating costs of a new home so that Kāinga Ora have financial incentive to grow the portfolio (following Minister's decisions to do so). Operating Subsidy is relatively new, so it does not make up much of Kāinga Ora's current funding.

13. There are two key implications of this funding model for operating public housing:

    a. There is more financial incentive to invest in housing in high-rent areas than low-rent areas, which we hypothesise has caused Kāinga Ora to build fewer new homes in the regions.

    b. The cost to operate many new homes (especially renewed homes where no OS can be claimed) will not be sufficiently met by market rent, driving an operating deficit.

Revenue for urban development activities

14. The Crown also pays Kāinga Ora to undertake various urban development activities.

15. Some of the funding is appropriated for in the *Homes and Communities* appropriation, with only $21 million per year appropriated for from 2024/25 onwards (compared to $82 million in 2023/24).

16. It is mostly time-limited; the previous Government decided to only provide one year of funding through Budget 2023 with the expectation that Kāinga Ora produce a business case to inform decisions at Budget 2024. Kāinga Ora is preparing this business case. We have set the expectation that it will provide detailed options for the level of funding for the urban development activities moving forward, (with clarity on which are legislatively required), which we not available at Budget 2023.

17. There are various other activities, like Large Scale Projects, that are funded through other Crown appropriations. Kāinga Ora also collect minimal revenue from 3rd party sources, such as by leasing houses to Community Housing Providers.

18. Depending on Kāinga Ora's financial management, there may be cross-subsidisation (e.g., revenue for public housing activities used for urban development activities, or vice versa), but we have not confirmed this.

s 9(2)(f)(iv)

[redacted]

Attachment 4: Levers for Influence

Responsible Minister(s) have relatively few levers to influence Kāinga Ora's performance. Ministers:

- Have influence through regular meetings with the Chair, and through the feedback provided to the Board on performance reporting.
- Have the opportunity to influence the organisation's direction and performance through their input into the Statement of Intent, Statement of Performance Expectations, and in the (usually annual) Letter of Expectations (LoE) to the Board.
- Have influence through funding settings and through feedback on investment proposals that come to them for consultation.
- Have the power to request information relating to the operations and performance of the entity (s133). This power is rarely, if ever used. Ministers and their monitors usually prefer to work with agencies to improve information provision over time and use the LoE to signal where further improvement is needed. Failure to provide information may be due to inadequacies in recording or data systems. A statutory request is of little help in that circumstance.
- May direct an entity to give effect to government policy (s103) or support a whole of government approach (s107), but may not direct an entity in relation to any statutorily independent function, or direct the performance or non-performance of a particular "act" (s113). This power is rarely, if ever used. This is in part because it is sometimes seen as a nuclear option, and in part because of the limitations on what can be directed. There are, however, some matters that a Board may feel run contrary to their statutory duties and where use of this power may be appropriate.
- My review the entity's operations and performance (Crown Entities Act (2004) s132). This power is rarely, if ever used. Ministers and their monitors usually prefer a more collaborative approach to reviews because this improves the likelihood of review findings being implemented. There are, however, some matters that a Board may feel run contrary to their statutory duties and where use of this power may be appropriate.
- Have power to appoint and remove members of the Board.

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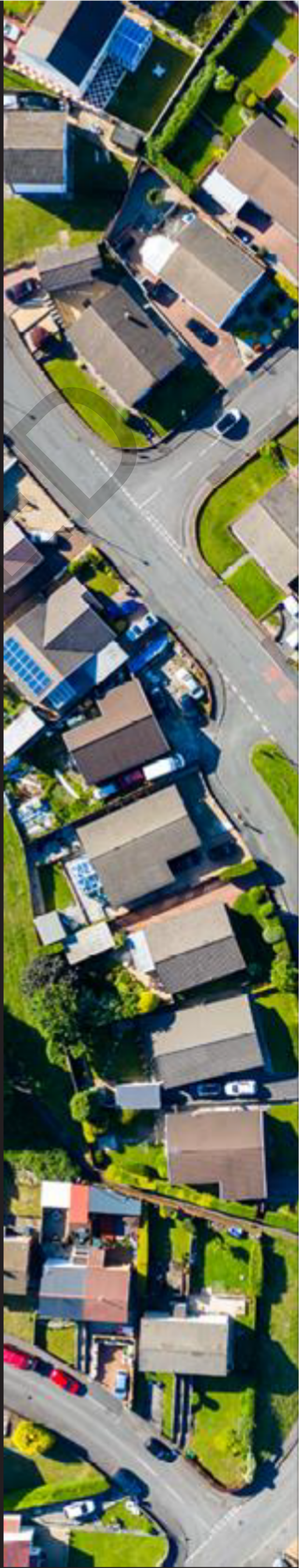
We find the patterns that matter.



Independent review of Kāinga Ora

Population comparison and outcomes research

8/03/2024

Document classification: Client use

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IDI disclaimer

These results are not official statistics. They have been created for research purposes from the Integrated Data Infrastructure (IDI) which is carefully managed by Stats NZ. For more information about the IDI please visit https://www.stats.govt.nz/integrated-data/.

The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements.

Confidentiality

To protect confidentiality, data is rounded to a multiple of 3. Results with small totals are suppressed. As a result, data in tables and figures may not add up exactly to population totals and table totals may differ slightly throughout the report.

1 Executive summary

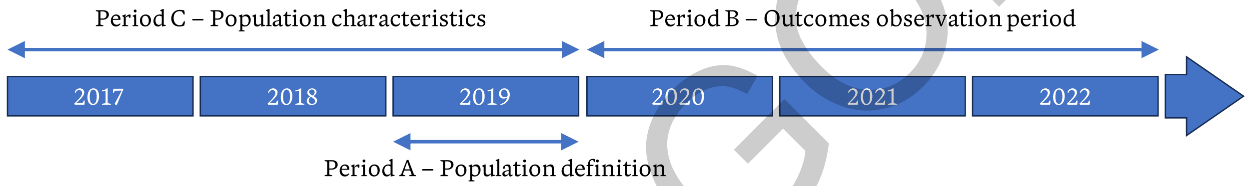
The Government has commissioned an independent review of Kāinga Ora to look into the Crown agency's financial situation, procurement and asset management.

To support the review, Taylor Fry have been commissioned by the Ministry of Housing and Urban Development to perform research to:

- Compare, with respect to a range of demographic and government service use factors, the Kāinga Ora population ('KO'), the Community Housing Provider population ('CHP') and the Accommodation Supplement population ('AS').
- Understand how outcomes differ for these populations controlling for, as best as possible with the available data, differences in the underlying populations.

Figure 1 illustrates three time periods which have been used to define and construct the research:

Figure 1 – Data and outcomes timeline



- Period A – The year to 31 December 2019 – This has been used to define the KO, CHP and AS populations.
- Period B – The three years to 31 December 2022 – This defines the observation period over which we observe outcomes for people in the three populations.
- Period C – The three years to 31 December 2019 – This defines the time window over which we define characteristics that describe people in the three populations.

1.1 Population comparison

Key points

- **The KO and CHP populations are materially similar**. Across almost all factors, the populations are, on average, very similar.
- A notable exception is region. The CHP population are more heavily weighted towards Auckland than the KO population, reflecting the location spread of CHP and KO public housing stock.
- **The AS population is notably different to the CHP and KO populations** in several ways:
  - Demographics – The CHP and KO populations are more weighted towards Auckland than the AS population and are much more weighted towards Pacific People. These two points are somewhat related – A relatively high proportion of Pacific People reside in Auckland.
  - Government service use – **The AS population appears to have more complex needs than the CHP and KO populations**. On average, the AS population:
    - Spends a higher proportion of time on the JobSeeker Support benefit
    - Has lower average income
    - Has a lower proportion who have attained NCEA level 3

- Has a higher proportion who interacted with child protection services as a child
- Has a higher proportion accessing mental health and additions services.

The exception to this observation is that the KO population has a higher proportion of people with a criminal conviction in the past three years.

1.2 Outcomes analysis

In this section, we describe the results of exploratory modelling, which attempts to identify which factors explain variation in outcomes for the AS and KO populations and, specifically, the extent to which housing status (AS or KO) explains variation.

Three separate models were developed initially, to predict taxable income, conviction rates, and mental health service use over a three-year observation period to 31 December 2022. Note that the modelling cannot be used to estimate causal effects; i.e. even if a factor explains a high proportion of variation in an outcome, it does not necessarily mean that one causes the other.

Key points

- **The model used in this research suggests that the variation in taxable income, conviction rates, and mental health service usage can be primarily explained by the equivalent variables of the preceding three years** (to 31 December 2019). For example, the taxable income earned in the three-year period to 31 December 2019 can explain almost all of the income variation in the three-year period to 31 December 2022.
- **The model used in this research suggests that housing status (AS or KO) explains very little variation in taxable income, conviction rates, and mental health service use.** Or expressed in a different way, whether a person receives AS for a full year or is in a KO public house for a full year appears to explain very little variation in income, conviction rates and mental health service use over the subsequent three-year period.
- More importantly, the research findings suggest that there are differences between the KO and AS populations, and they experience materially different outcomes. These differences can be explained by the underlying differences in the populations and their prior outcomes.

Due to the limited scope imposed by a short timeframe, this research did not disaggregate sub-cohorts with different characteristics in the KO and AS populations and explored a limited set of outcome variables. Therefore, variation in outcomes experienced by different sub-cohorts of the KO and AS populations are not presented in this research.

Note that this research does not rule out the possibility that there is a link between housing status and these outcomes, nor does it rule out the possibility that there is a link between housing status and other outcomes not considered in this research, e.g., specific health conditions, or housing quality.

Nevertheless, this research has identified interesting indications that warrant further investigation that will lead to insights on better aligning housing support and people. We recommend that the further work be carried out.

Note 2019 research by the Social Wellbeing Agency exploring the impact of public housing on people's wellbeing[1]. The research identified two key findings:

- Housing conditions generally improve for people placed in public housing
- Life satisfaction improves for people placed in public housing.

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[1] Social Wellbeing Agency (2019) *Measuring the impact of social housing placement on wellbeing*

2 Scope and research approach

The Government has commissioned an independent review of Kāinga Ora to look into the Crown agency's financial situation, procurement and asset management.

The review is being supported by the Ministry of Housing and Urban Development (the 'Ministry') and The Treasury.

To support the review, Taylor Fry have been commissioned by the Ministry to perform research to:

- Compare, with respect to a range of factors, the:
  - The Kāinga Ora population – The public housing population in Kāinga Ora ('KO') properties. We define somebody who resides in a KO property as being in the KO state.
  - The Community Housing Provider population – The public housing population in Community Housing Provider ('CHP') properties. We define somebody who resides in a CHP property as being in the CHP state.
  - The Accommodation Supplement population – The population receiving Accommodation Supplement ('AS'). Note that about two-thirds of AS recipients are renters[2]. We define somebody who is receiving AS as being in the AS state.
- Understand how outcomes differ for these populations controlling for, as best as possible with the available data, differences in the underlying populations.

The research is also intended to support broader policy considerations of who public housing is best targeted to and its role within the continuum of housing supports (including monetary supports such as AS). While this document is for public release, its original purpose was to provide technical information to a specialised audience.

2.1 Outline of approach

The research incorporates two phases covered by Parts A and B in this report:

- Population comparison – Descriptive statistics comparing the three populations with respect to a range of factors. The populations incorporate people aged 16 and above.
- Outcomes analysis:
  - Descriptive statistics to compare outcomes for the three populations
  - Exploratory modelling techniques to compare outcomes for the three populations after controlling for differences in the underlying populations.

We used Stats NZ's Integrated Data Infrastructure ('IDI') to perform the research.

Figure 1 illustrates three time periods which have been used to define and construct the research:

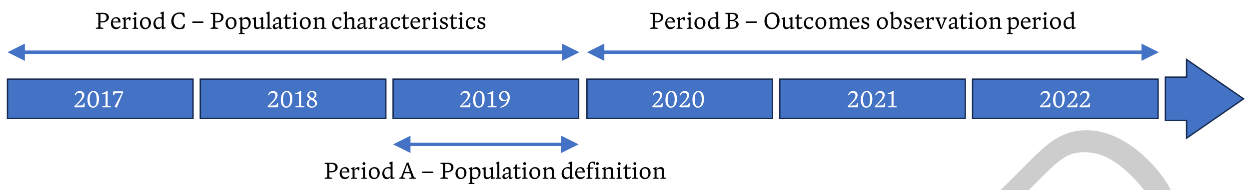
- Period A – The year to 31 December 2019 – This has been used to define the KO, CHP and AS populations. Specifically, people who are in the KO state for the whole of period A are defined to be in the KO population for this research. And equivalently for the CHP and AS populations.
- Period B – The three years to 31 December 2022 – This defines the observation period over which we observe outcomes for people in the three populations.

[2] Hyslop D and Rea D (2018) *Do housing allowances increase rents? Evidence from a discrete policy change*

- Period C – The three years to 31 December 2019 – This defines the time window over which we define characteristics that describe people in the three populations.

The periods have been chosen to balance the need for recency of analysis with the need to have a long enough observation period for outcomes to materialise over.

Figure 1 – Data and outcomes timeline

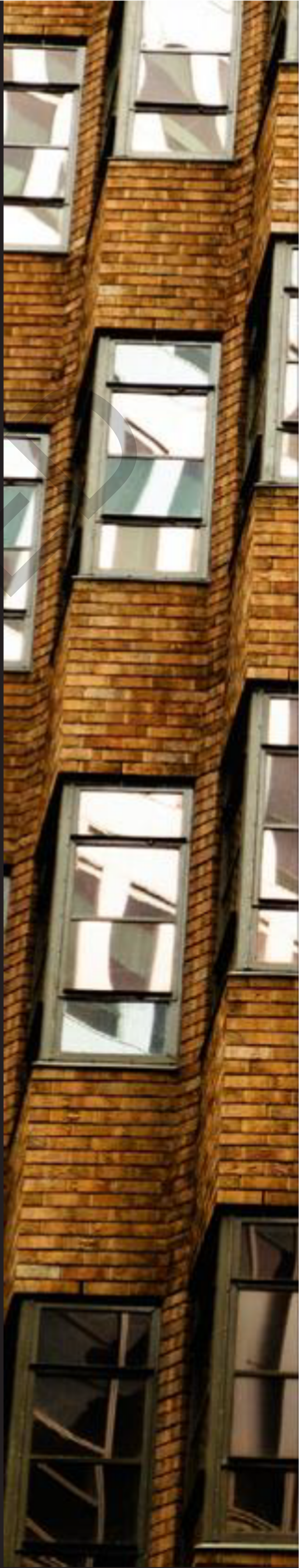


The scope of our commissioned work does not include a full technical write-up of the research approach. However, we provide more detail in Section 4.6. Also, the research code in the IDI is well organised and commented.

Some limitations of the research are also described in Section 4.2, noting that the research approach has had been designed to ensure it was achievable in a timeframe for it to inform the Kāinga Ora review.

PART A

Population comparison



3 Kāinga Ora, Community Housing Provider and Accommodation Supplement populations

In this section, we compare the KO, CHP and AS populations in relation to a range of demographic and government service use factors.

Key points

- The KO and CHP populations are materially similar. Across almost all factors, the populations are, on average, very similar.
- A notable exception is region. The CHP population are more heavily weighted towards Auckland than the KO population, reflecting the location spread of CHP and KO public housing stock.
- The AS population is notably different to the CHP and KO populations in several ways:
  - Demographics – The CHP and KO populations are more weighted towards Auckland than the AS population and are much more weighted towards Pacific People. These two points are somewhat related – a relatively high proportion of Pacific People reside in Auckland.
  - Government service use – The AS population appears to have more complex needs than the CHP and KO populations. On average, the AS population:
    - Spends a higher proportion of time on the JobSeeker Support benefit
    - Has lower average income
    - Has a lower proportion who have attained NCEA level 3
    - Has a higher proportion who interacted with child protection services as a child
    - Has a higher proportion accessing mental health and additions services.

    The exception to this observation is that the KO population has a higher proportion of people with a criminal conviction in the past three years.

In this section, we present results of descriptive analysis to compare the KO, CHP and AS populations. We show analysis by:

- Demographic variables
- Variables based on Government service use data.

The analysis is purely descriptive (no modelling or standardisation is involved). The three populations are defined as having been in the relevant state for the whole of the year to 31 December 2019.

Note that while descriptive analysis can be informative, it also has the potential to be misinterpreted. Descriptive analysis charts that appear to show correlations between variables may actually be highlighting correlations with other variables. For example, Pacific People are over-represented in the KO and CHP populations. However, this is at least partly because a high proportion of Pacific People live in Auckland, where housing affordability issues are acute, and a relatively high proportion of public housing is situated.

3.1 Population totals

Table 1 shows the size of the three populations (defined as being in that state for the whole of the year to 31 December 2019).

Table 1 – Population totals over year ending 31 December 2019

Kāinga Ora	Community Housing Provider	Accommodation Supplement
85,836	7,374	220,155

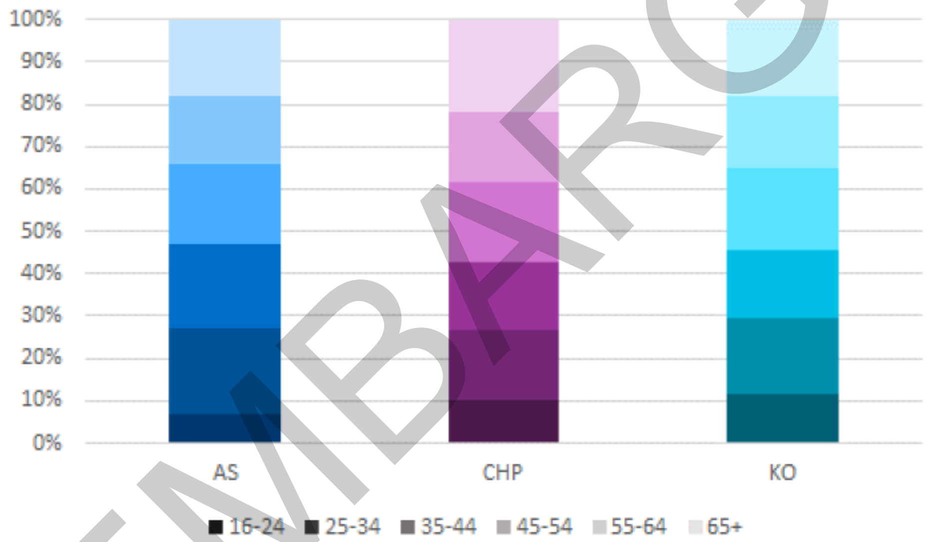
Note that:

- The KO and CHP POPULATIONS include all people aged 16 and over who are named on the tenancy, which notionally includes all people aged 16 and over residing in the house (excluding any boarders)
- The AS population includes all people aged 16 and over and receiving AS directly. There may be other people aged 16 and above in the same household who are not captured by this definition.
- 300 data points are omitted out of 313,665 because individuals did not link to the IDI spine.

3.2 Demographic variables

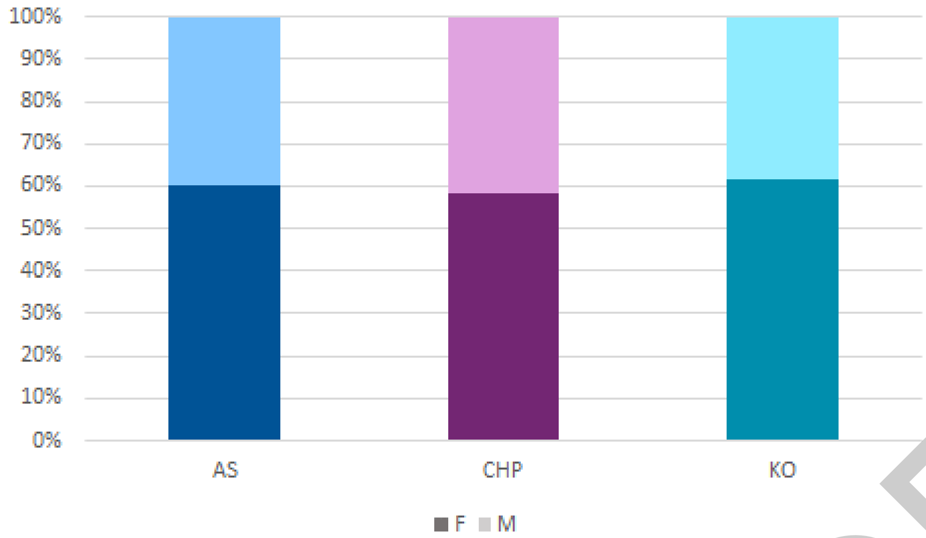
In this section, we describe and compare the populations with respect to demographic variables. Age (Figure 2), gender (Figure 3) and ethnicity (Figure 4) variables are sourced from the IDI personal details table. The region variable (Figure 5) is sourced from the IDI address notification table. These tables are derived from a variety of data sources in the IDI.

Figure 2 – Age



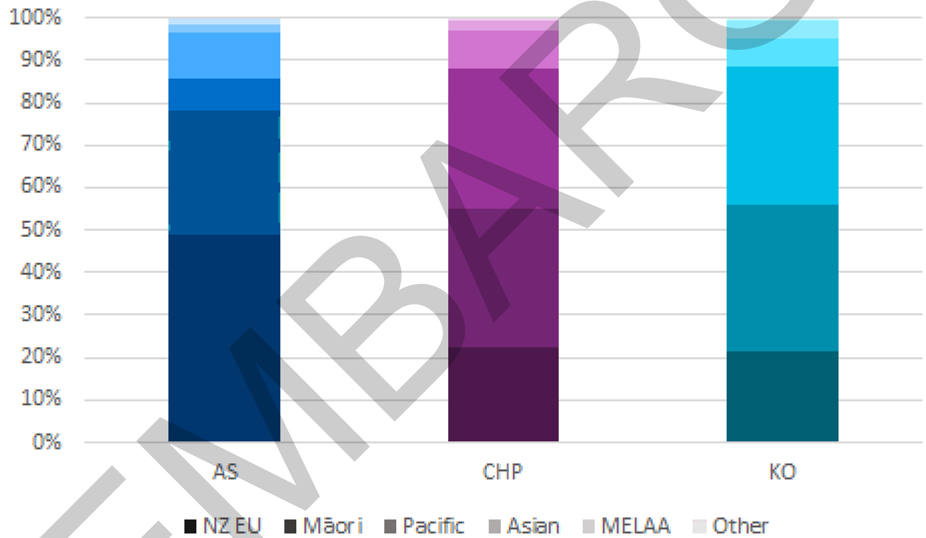
- The age profiles of the three populations are broadly comparable, with some minor differences:
  - The AS population has a lower proportion of 16-24-year-olds, but a higher proportion of 25-44-year-olds
  - The CHP population has a higher proportion of over-65-year-olds.

Figure 3 – Gender



- The gender profiles of the three populations are broadly comparable, with about 60% females.
- The reason this is materially higher than 50% is because all three populations, and the welfare system more generally, contain a large number of sole parents. The vast majority of sole parents are female.

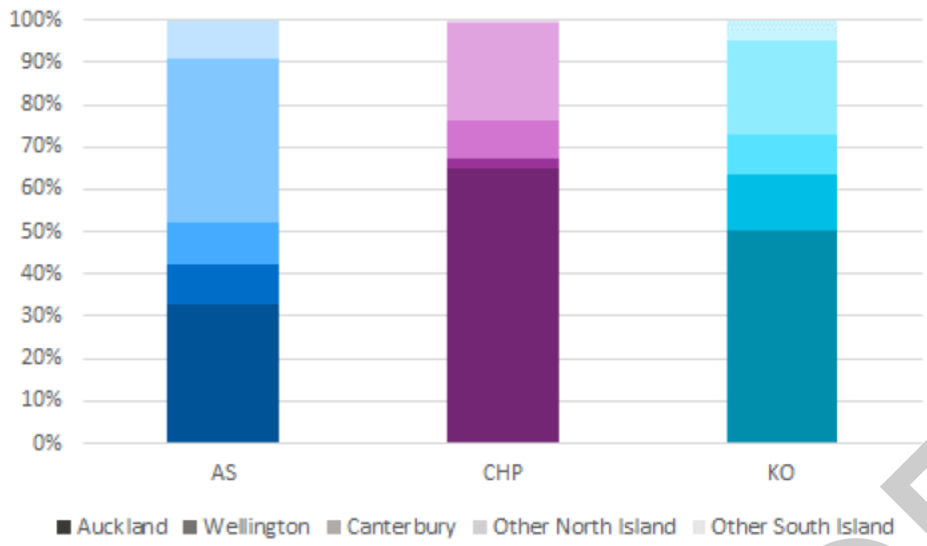
Figure 4 – Prioritised ethnicity[3]



- The ethnicity profile of the CHP and KO populations are materially different to the AS population. A significantly higher proportion of the CHP and KO populations are Pacific People, and a significantly lower proportion are NZ European.
- This partly reflects the regional spread of different ethnicities and, in particular, the high concentration of Pacific People residing in Auckland, where housing affordability issues are acute, and a high proportion of public housing is situated.

[3] People are allocated to a single ethnic group in an order of priority, even if they identify with more than one ethnicity. Our priority ordering is Māori, Pacific, Asian, MELA, Other, NZ European.

Figure 5 – Region



- The CHP and KO populations are heavily skewed to Auckland, reflecting public housing demand and supply factors in the region.
- The CHP population is more skewed to Auckland than the KO population, reflecting the historical supply of public housing in New Zealand and the concentration of community housing providers in Auckland.
- There are very few CHP public housing places in the South Island.

3.3 Government service use

Variables defining government service use in Table 2 are either:

- Defined over a 3-year period before the observation date of 31 December 2019. For example, how many convictions an individual has in the 3 years before 31 December 2019.
- An indicator which describes whether the event has ever occurred in an individual's life, before 31 December 2019. For example, whether an individual has experienced an Oranga Tamariki intervention before 31 December 2019.

Note that some variables are only defined for an age-based subset of the population, reflecting how far back in time the associated data source goes.

In Figure 6 to Figure 25, each variable is shown in charts by population:

- For the total population
- In most cases, by gender and age band for each population.

Table 2 – Government service use variables

Variable	Data source	Time window	Population restriction
JobSeeker Support benefit	Ministry of Social Development	Preceding 3 years	NA

Variable	Data source	Time window	Population restriction
Supported living payment benefit	Ministry of Social Development	Preceding 3 years	NA
Sole parent support benefit	Ministry of Social Development	Preceding 3 years	NA
Taxable income (not including benefit payments)	IRD	Preceding 3 years	NA
Convictions (any)	Ministry of Justice	Preceding 3 years	NA
Highest NCEA level achieved	Ministry of Education	Ever	Age 20 to 25 only (not available for those with schooling outside NZ)
Oranga Tamariki interactions (from notice of concern up to placement)	Oranga Tamariki	Ever	Age 19 or 20 only
Mental health pharmaceutical service use	Ministry of health (pharmaceuticals table)	Preceding 3 years	NA
Mental health acute service use	Ministry of health (PRIMHD database)	Preceding 3 years	NA
Hospital discharges	Ministry of health	Preceding 3 years	NA

3.3.1 Benefit receipt

In Figure 6 to Figure 11, for JobSeeker Support, Sole Parent Support and Supported Living Payment, we show the average percentage of the preceding three years (to 31 December 2019) that people in each population received that benefit, among people who received that benefit at least once in the period.

- In general, the average percentage for the three populations is materially similar for Sole Parent Support (Figure 8 and Figure 9) and Supported Living Payment (Figure 10 to Figure 11), across all age bands and genders
- For Jobseeker (Figure 6 to Figure 7), the pattern is different, with a higher percentage for the AS population, particularly for younger ages and for males
- The proportions that received each benefit at any point in the preceding three years is fairly consistent across the three populations:
  - JobSeeker Support – AS 41.5%, CHP 41.5%, KO 40.2%
  - Sole Parent Support – AS 24.2%, CHP 17.4%, KO 20.6%
  - Supported Living Payment – AS 26.4%, CHP 24.4%, KO 22.3%.

Figure 6 – Average % of preceding 3 years on JobSeeker Support benefit given received Jobseeker benefit in that period and aged under 65

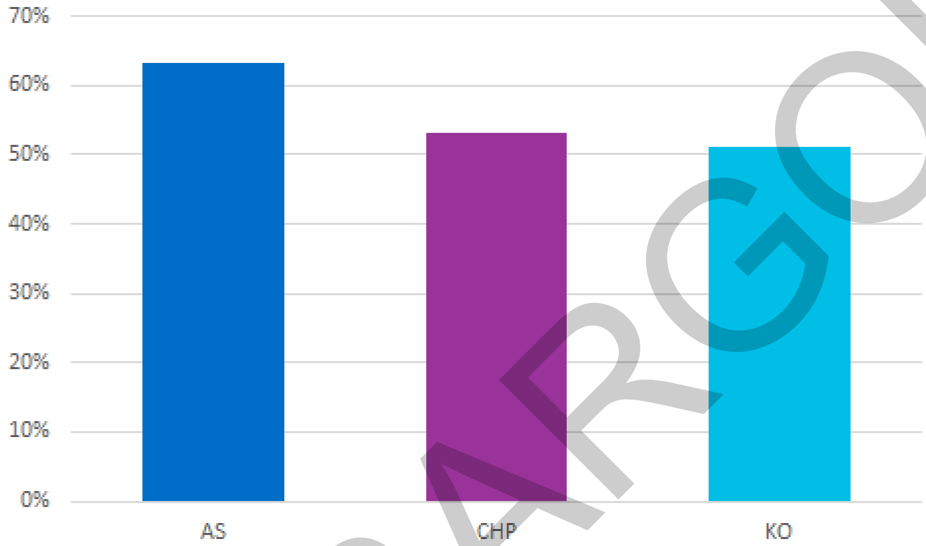


Figure 7 – Average % of preceding 3 years on JobSeeker Support benefit given received Jobseeker benefit in that period – by gender and by age band

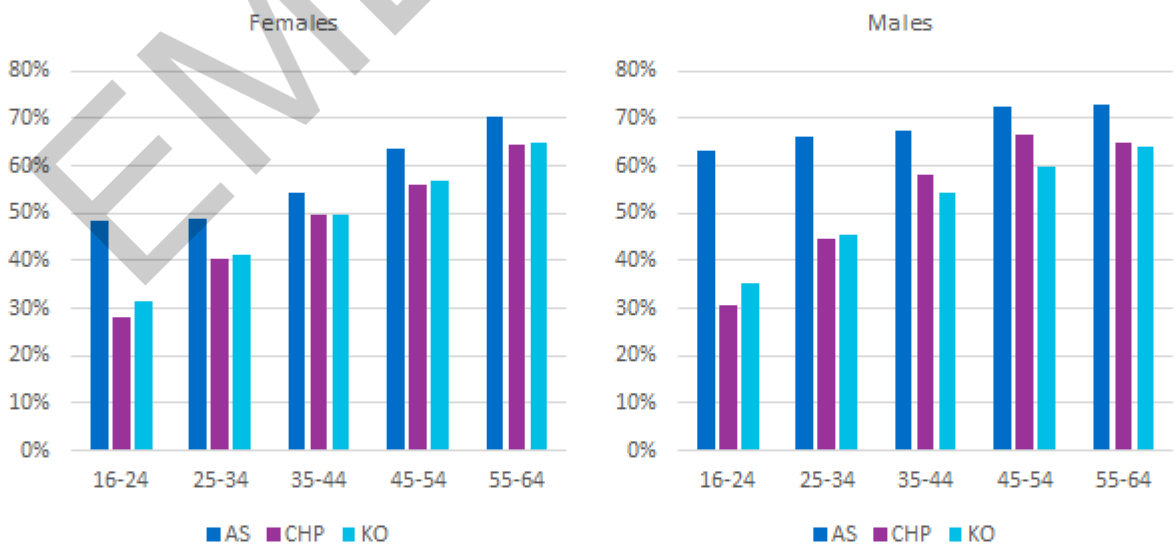


Figure 8 – Average % of preceding 3 years on Sole Parent Support benefit given received Sole Parent Support benefit in that period and aged under 65

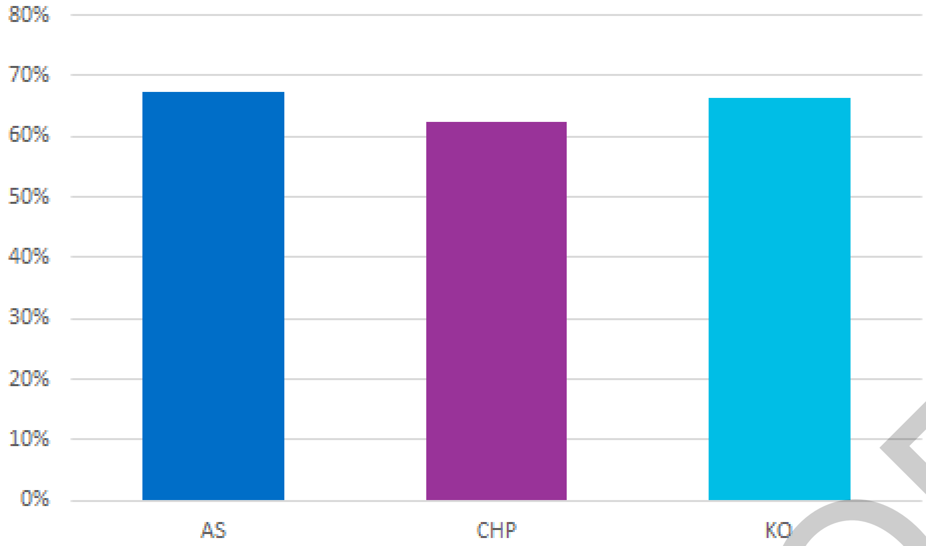


Figure 9 – Average % of preceding 3 years on Sole Parent Support benefit given received Sole Parent Support benefit in that period and under 65 – females by age band

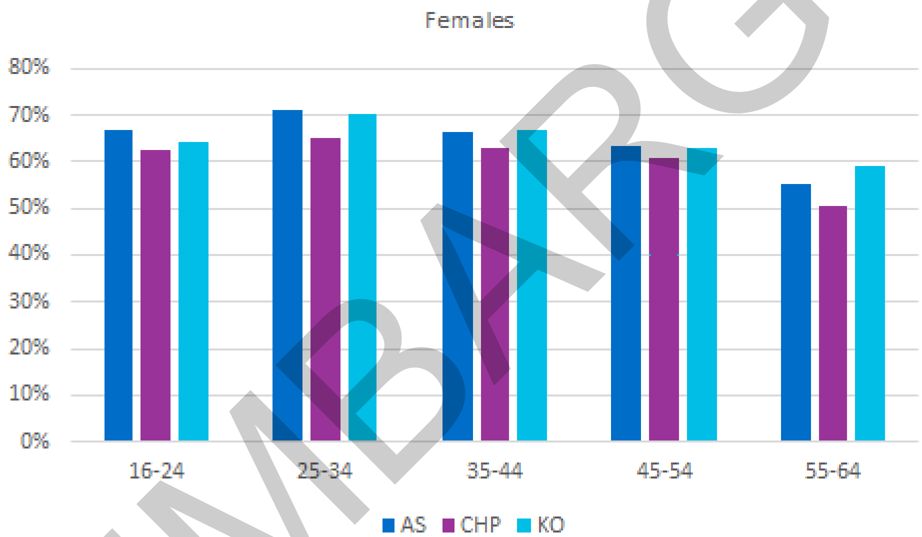


Figure 10 – Average % of preceding 3 years on Supported Living Payment benefit given received Supported Living Payment benefit in that period and aged under 65

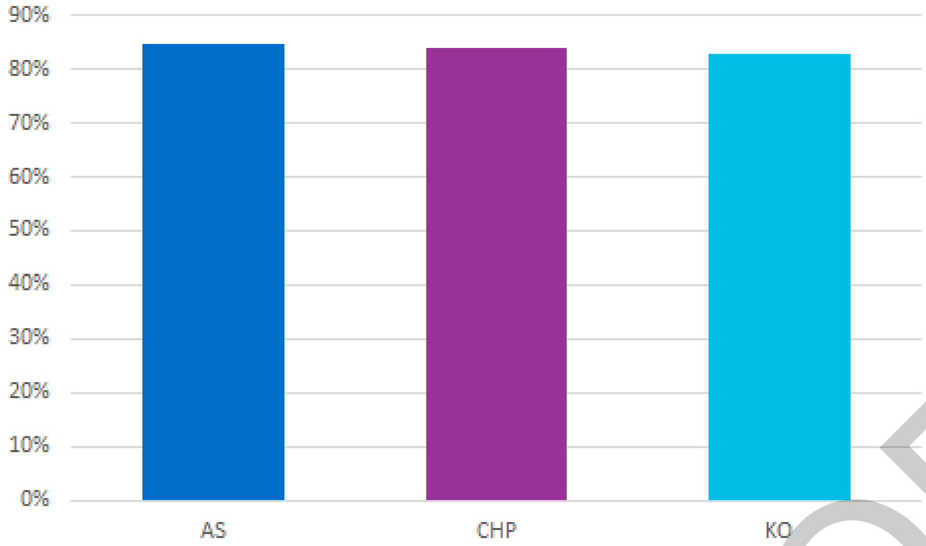
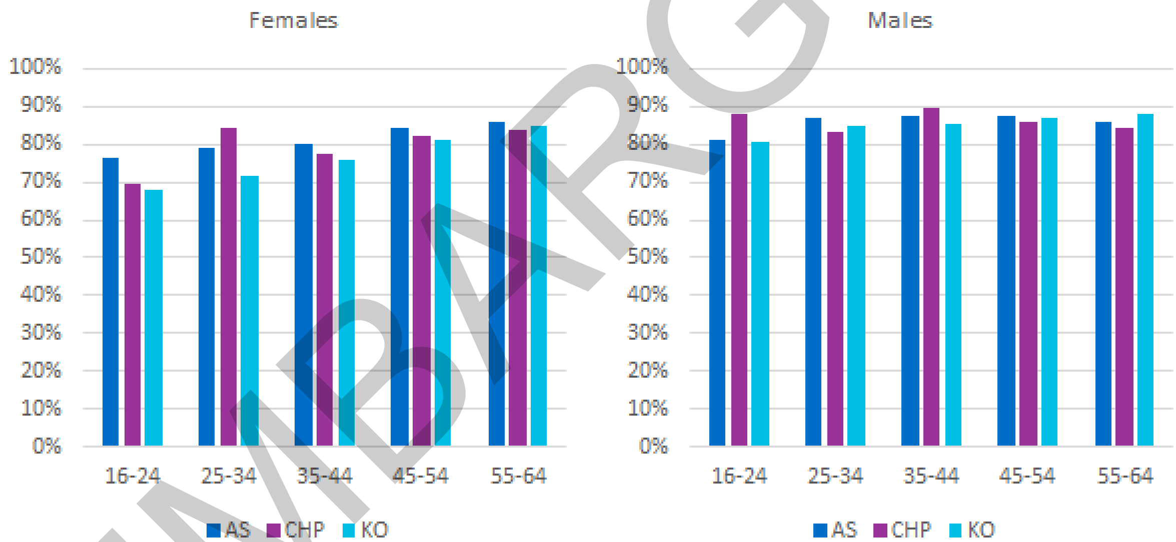


Figure 11 – Average % of preceding 3 years on Supported Living Payment benefit given received Supported Living Payment benefit in that period and aged under 65 – by gender and by age band



3.3.2 Income

In Figure 12 and Figure 13, we show the average taxable income for each population (excluding benefit payments), among people who receive taxable income.

- Incomes for people in the CHP and KO populations are higher than for the AS population. This is particularly true for males.
- Note that the proportions that received taxable income at any point in the preceding three years is fairly consistent across the three populations – AS 66.0%, CHP 71.1%, KO 70.5%.

Figure 12 – Average taxable income (excluding benefit payments) given taxable income in the period and aged under 65

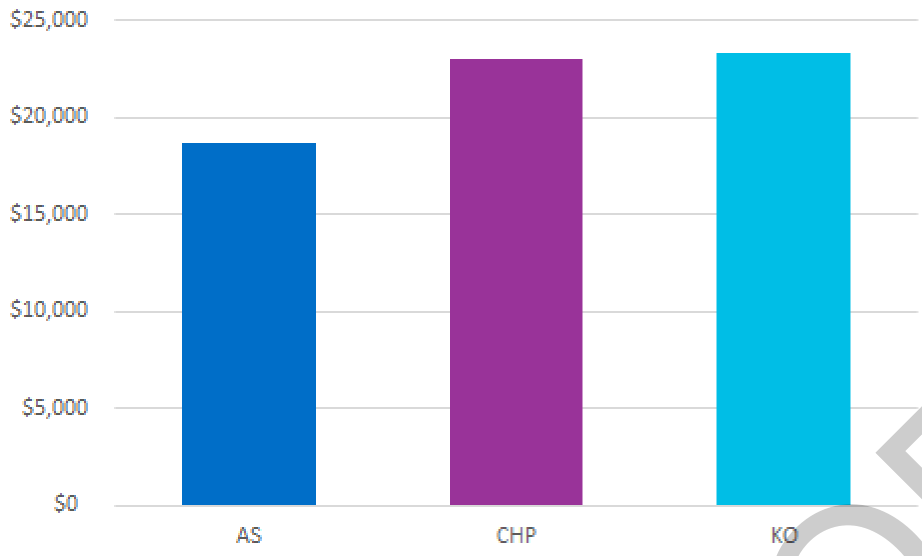
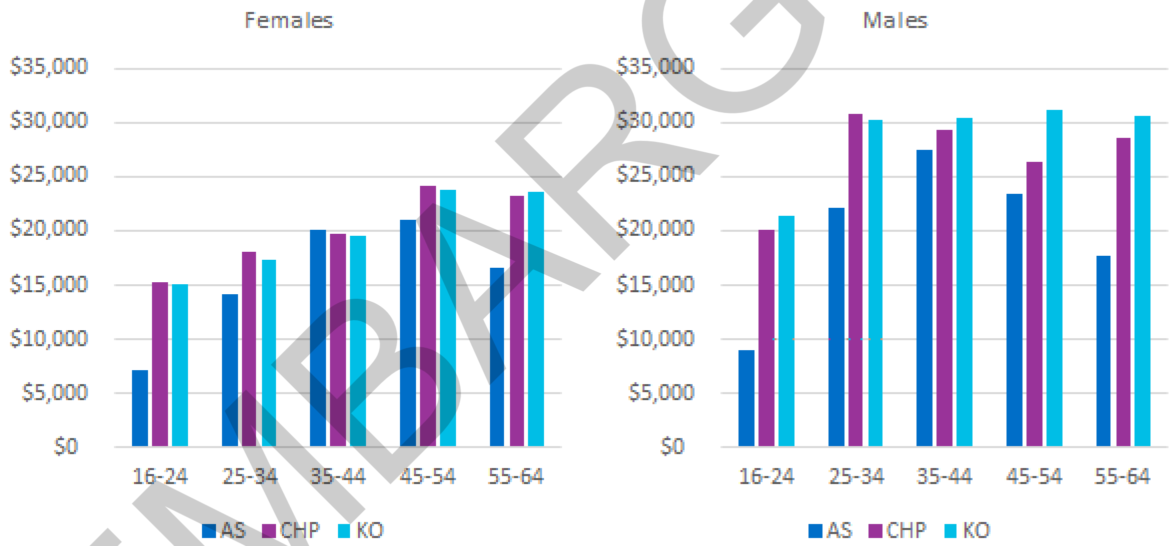


Figure 13 – Average taxable income (excluding benefit payments) given taxable income in the period and under 65 – by gender and by age band



3.3.3 Convictions

In Figure 14 and Figure 15, we show the proportion of people in each population who were convicted of a crime in the preceding three years.

- The proportion for the KO population is higher than for the AS and CHP populations, though by age band and gender the relativities are less clear and consistent. Note that a higher proportion of the KO population are under the age of 35, compared to the AS and CHP populations.

Figure 14 – Proportion with a conviction in the preceding 3 years

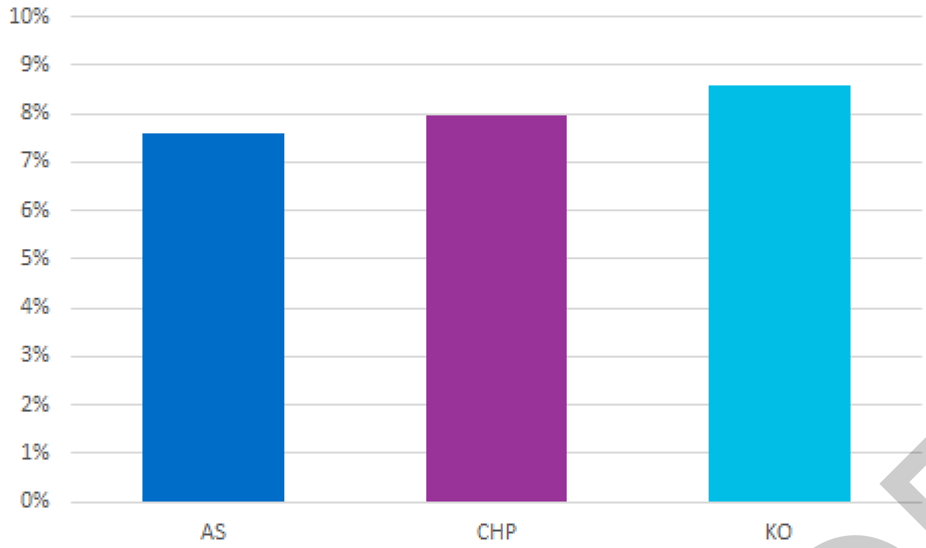
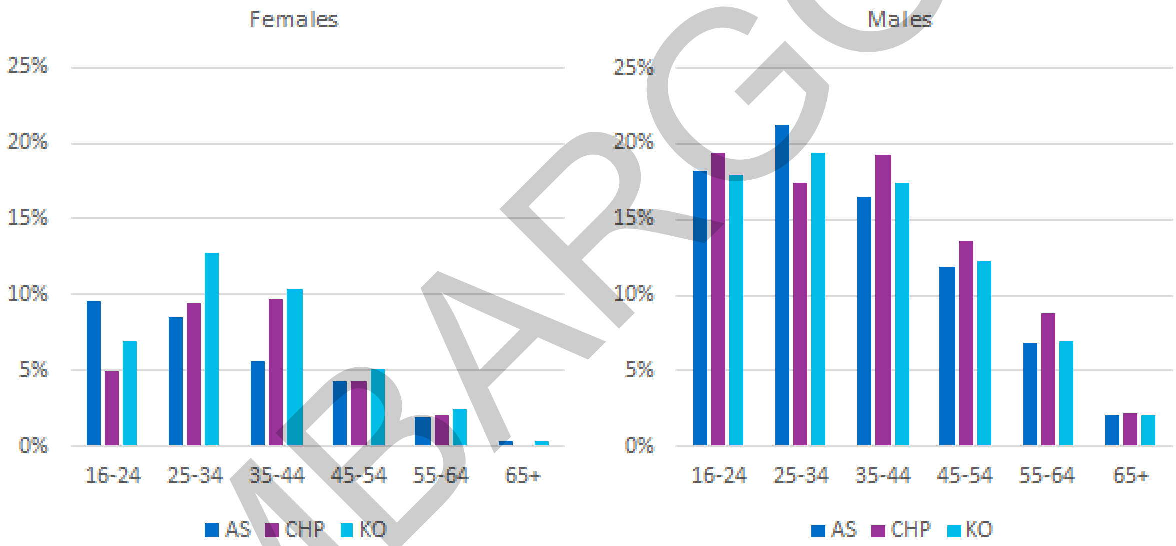


Figure 15 – Proportion with a conviction in the preceding 3 years – by gender and by age band



3.3.4 NCEA level 3 attainment

In Figure 16 and Figure 17, we show the proportion of each population who have attained NCEA level 3 by 31 December 2019. This is restricted to people aged 20 to 25 at 31 December 2019.

- Attainment rates for the CHP and KO populations are substantially higher than for the AS population.

Figure 16 – Proportion with NCEA level 3 or higher (age 20 to 25 at 31 December 2019)

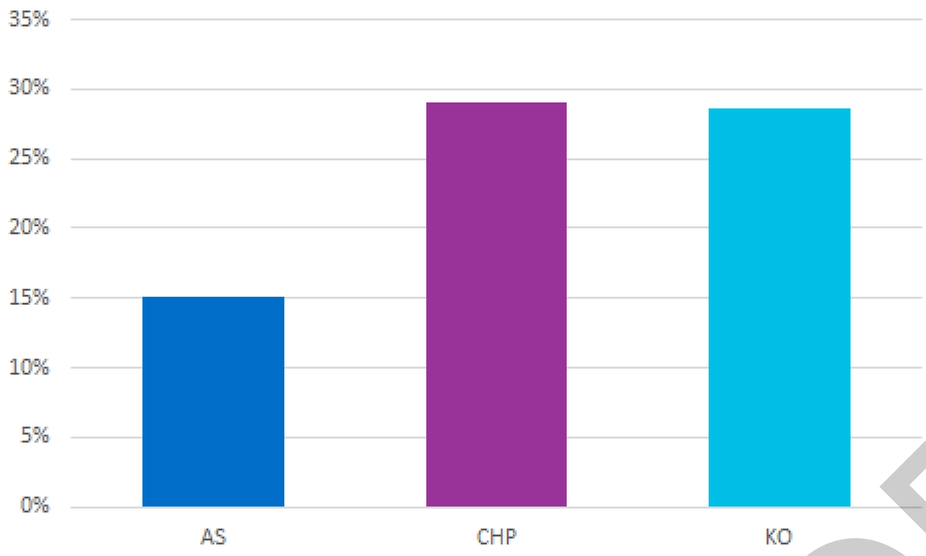
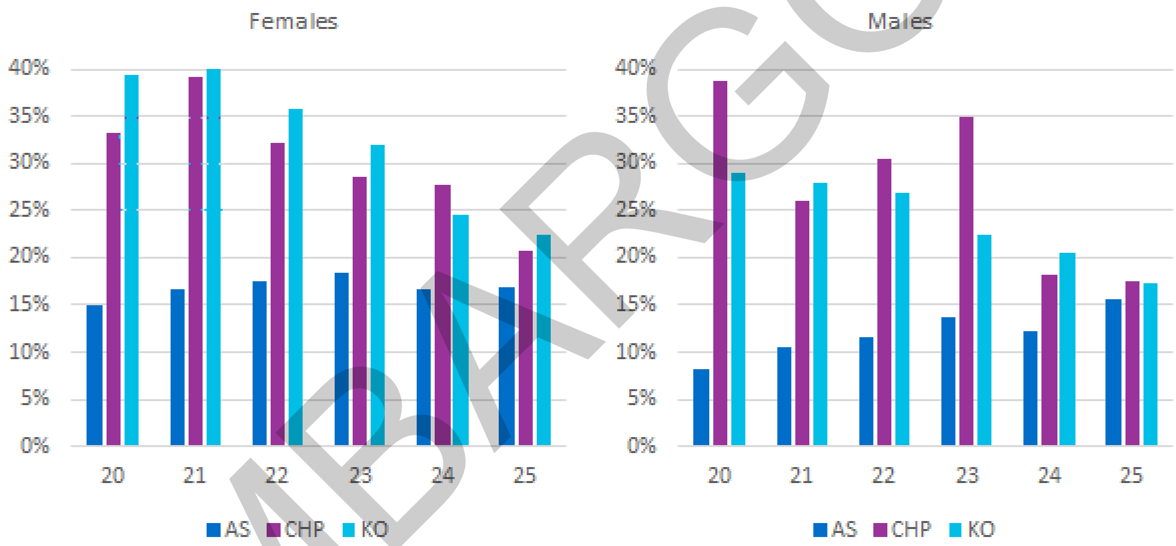


Figure 17 – Proportion with NCEA level 3 or higher (age 20 to 25 at 31 December 2019) – by gender



3.3.5 Oranga Tamariki interactions

In Figure 18 to Figure 20, we show the proportion of each population who interacted with Oranga Tamariki as a child. This is restricted to people aged 19 and 20 at 31 December 2019

- A higher proportion of the AS population interacted with Oranga Tamariki as a child, than the CHP and KO populations.

Figure 18 – Proportion with Oranga Tamariki interactions (age 19 and 20 at 31 December 2019)

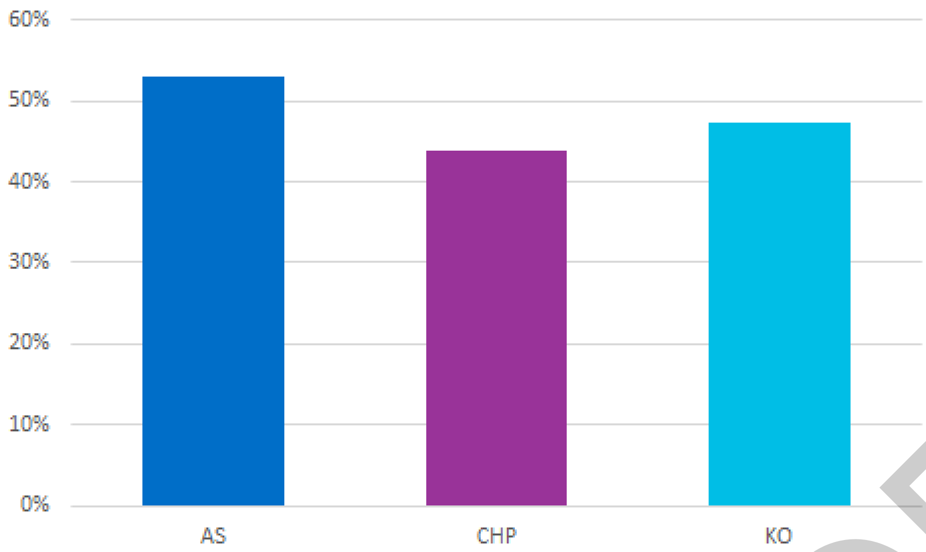
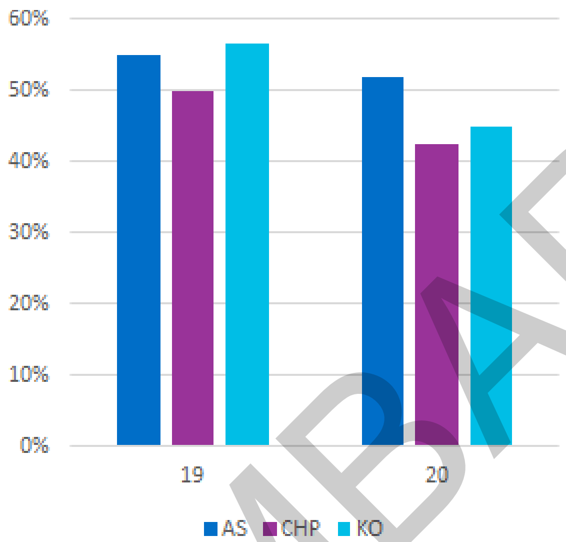


Figure 19 – Proportion with Oranga Tamariki interactions (age 19 and 20 at 31 December 2019) – by age



3.3.6 Mental health and addiction service use

In Figure 20 and Figure 21, we show the proportion of each population who accessed mental health and addiction related pharmaceuticals in the preceding three years.

- A significantly higher proportion of the AS population accessed mental health and addiction related pharmaceuticals, than the CHP and KO populations. This is particularly true at younger ages.

Figure 20 – Proportion with mental health/addiction pharmaceutical use in the preceding 3 years

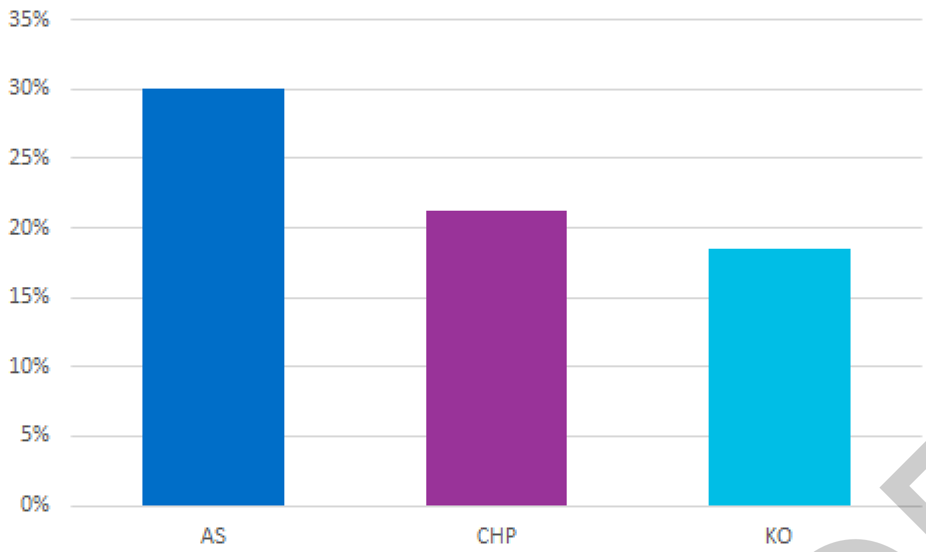
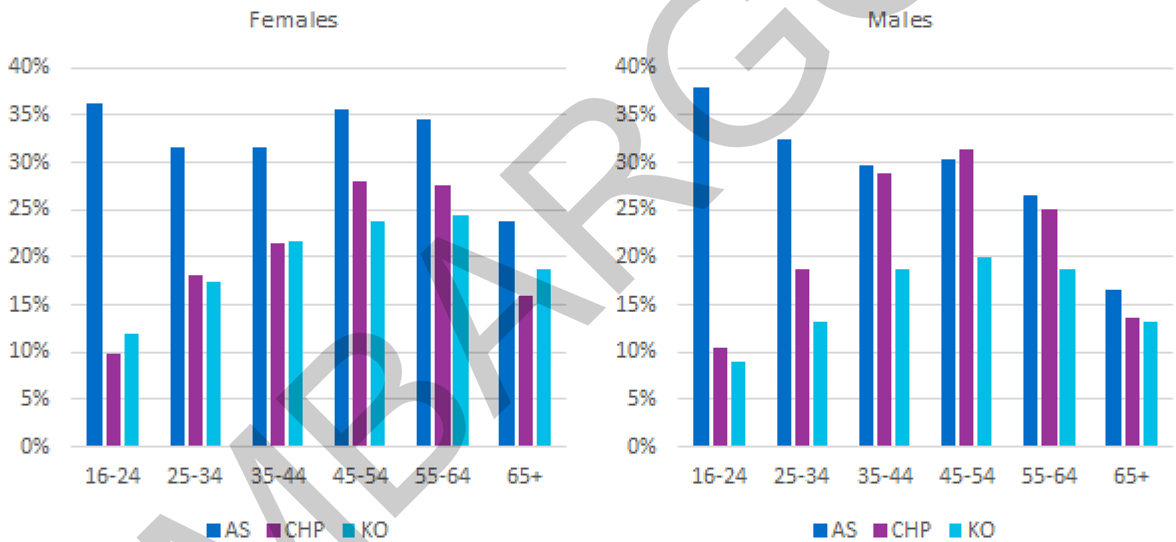


Figure 21 – Proportion with mental health/addiction pharmaceutical use in the preceding 3 years – by age and by gender



In Figure 22 and Figure 23, we show the proportion of each population who accessed acute mental health and addiction services (inpatient and outpatient) in the preceding three years.

- A relatively high proportion of 16-24-year-olds in the AS population access acute mental health services
- For ages 35+, a relatively high proportion of the CHP population access acute mental health services.

Figure 22 – Proportion with acute mental health/addiction service use in the preceding 3 years

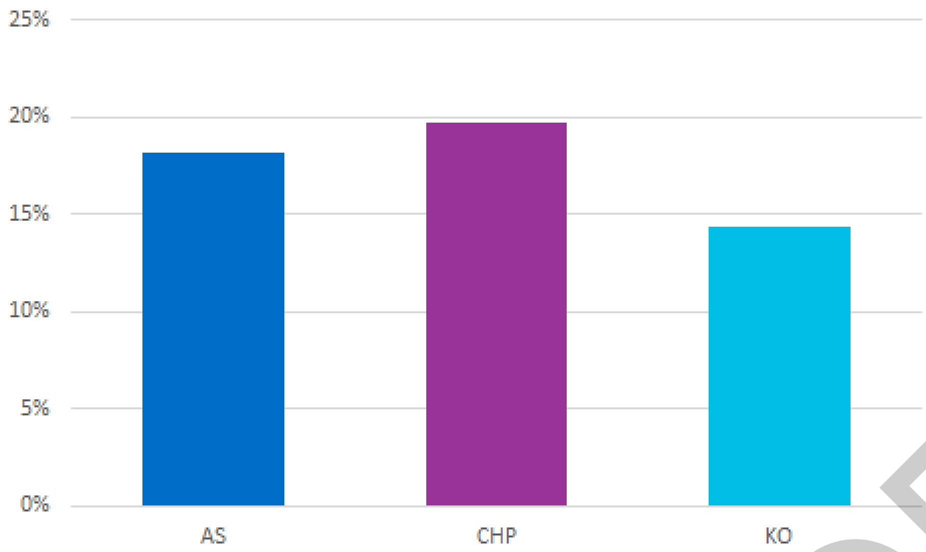
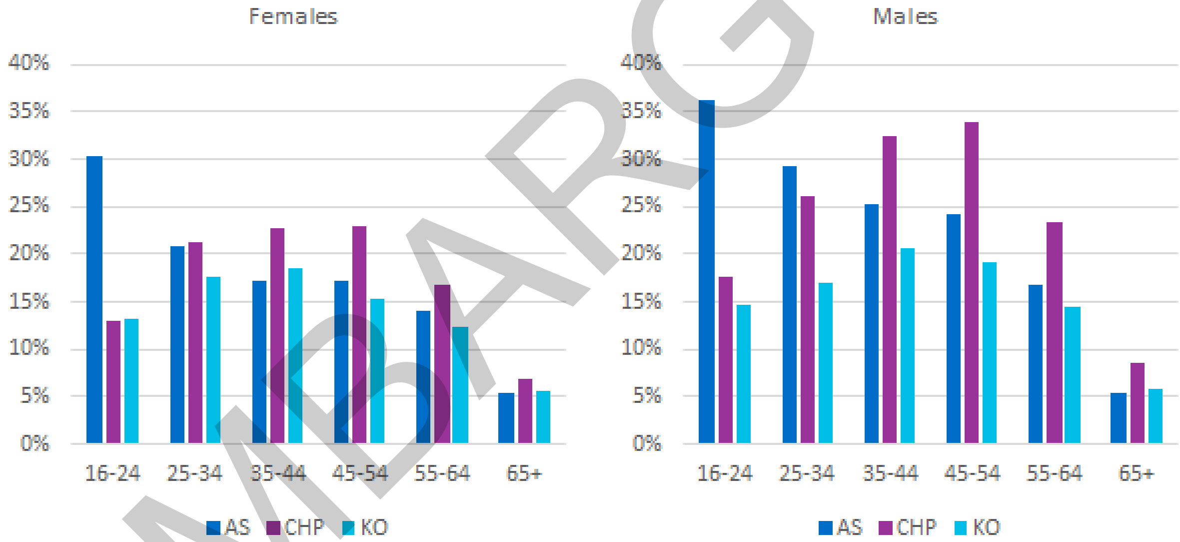


Figure 23 – Proportion with acute mental health/addiction service use in the preceding 3 years – by age and by gender



3.3.7 Hospital discharges

In Figure 24 and Figure 25, we show the proportion of each population who was discharged from hospital at least once in the preceding three years.

- The proportions are similar for the three populations and there are no clear and consistent differences in patterns by gender and age.

Figure 24 – Proportion who have been discharged from hospital at least once in the preceding 3 years

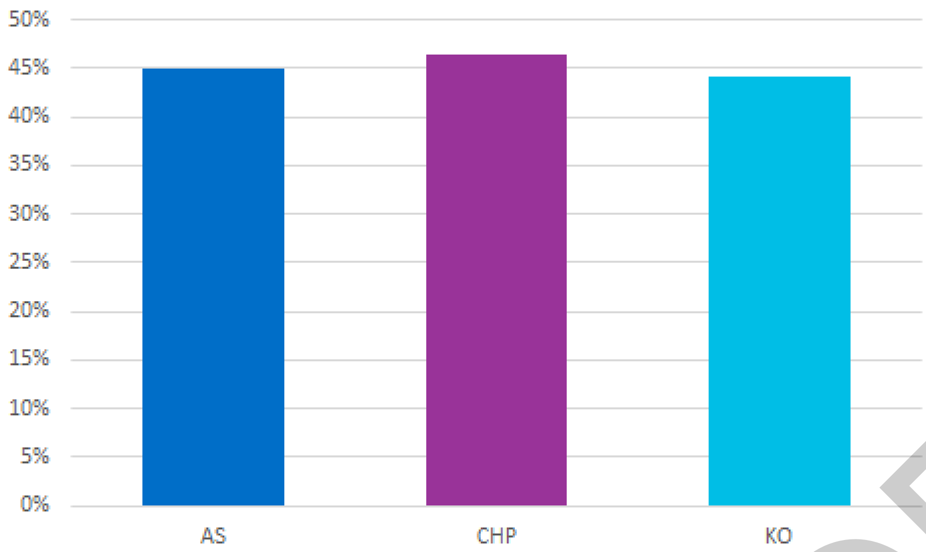
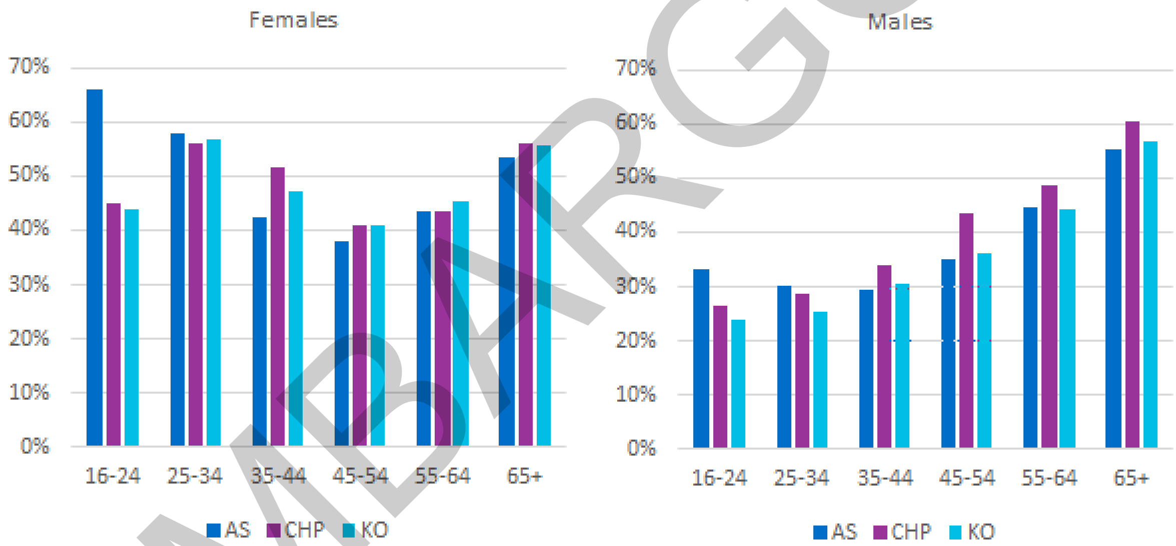


Figure 25 – Proportion who have been discharged from hospital at least once in the preceding 3 years – by age and by gender



PART B

Outcomes analysis

4 Exploratory modelling

In this section, we describe the results of exploratory modelling, which attempts to identify which factors explain variation in outcomes for the AS and KO populations and, specifically, the extent to which housing status (AS or KO) explains variation.

Three separate models were developed initially, to predict taxable income, conviction rates, and mental health service use over a three-year observation period to 31 December 2022. The modelling cannot be used to estimate causal effects i.e. even if a factor explains a high proportion of variation in an outcome, it does not necessarily mean one causes the other.

Key points

- The model used in this research suggests that the variation in taxable income, conviction rates, and mental health service usage can be primarily explained by the equivalent variables of the preceding three years (to 31 December 2019). For example, the taxable income earned in the three-year period to 31 December 2019 can explain almost all of the income variation in the three-year period to 31 December 2022.
- The model used in this research suggests that housing status (AS or KO) explains very little variation in taxable income, conviction rates, and mental health service use. Or expressed in a different way, whether a person receives AS for a full year or is in a KO public house for a full year appears to explain very little variation in income, conviction rates and mental health service use over the subsequent three-year period.
- More importantly, the research findings suggest that there are differences between the KO and AS populations, and they experience materially different outcomes. These differences can be explained by the underlying differences in the populations and their prior outcomes.

Due to the limited scope imposed by a short timeframe, this research did not disaggregate sub-cohorts with different characteristics in the KO and AS populations and explored a limited set of outcome variables. Therefore, variation in outcomes experienced by different sub-cohorts of the KO and AS populations are not presented in this research.

Note that this research does not rule out the possibility that there is a link between housing status and these outcomes, nor does it rule out the possibility that there is a link between housing status and other outcomes not considered in this research, e.g., specific health conditions, or housing quality.

Nevertheless, this research has identified interesting indications that warrant further investigation that will lead to insights on better aligning housing support and people. We recommend that the further work be carried out.

Note 2019 research by the Social Wellbeing Agency exploring the impact of public housing on people's wellbeing[4]. The research identified two key findings:

- Housing conditions generally improve for people placed in public housing
- Life satisfaction improves for people placed in public housing.

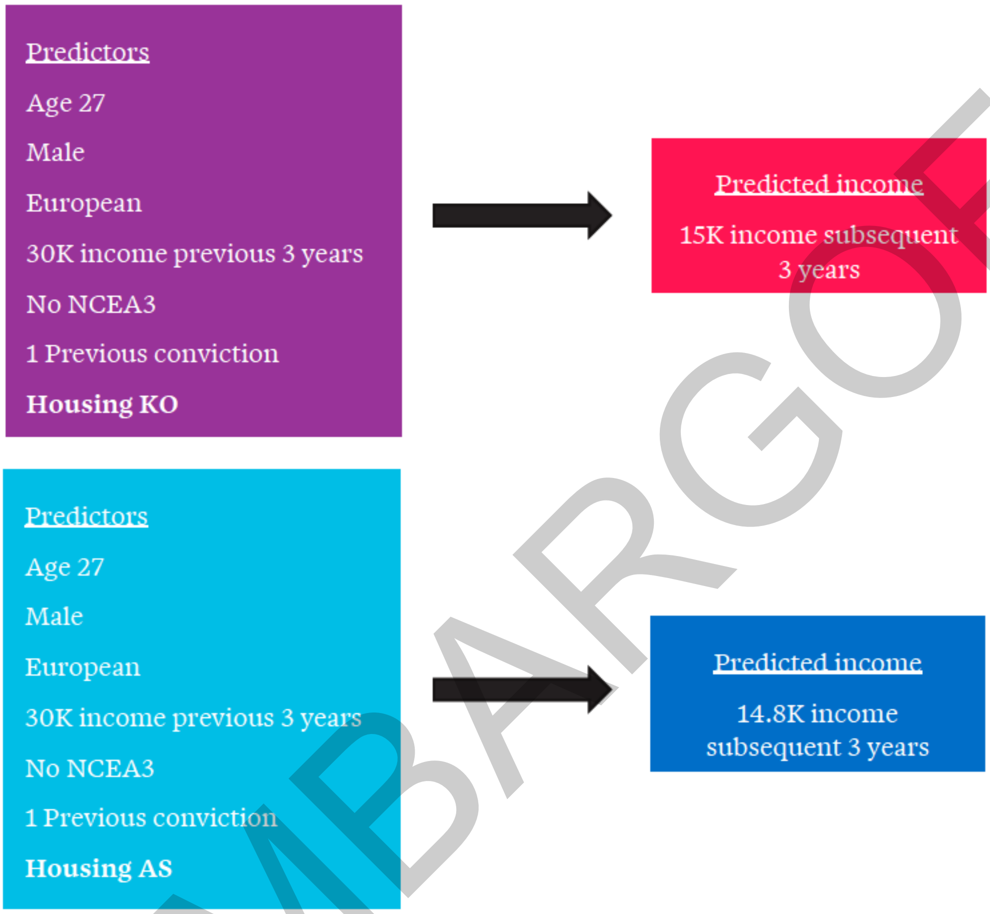
In this section, we present results of exploratory modelling to look at how individuals in different housing populations experience different outcomes over the observation period (2020-2022). For ease of comparison, and to focus on the groups with largest sample size, we have restricted our analysis in this section to comparing people in the KO and AS populations.

[4] Social Wellbeing Agency (2019) *Measuring the impact of social housing placement on wellbeing*

4.1 Outline of modelling

To understand how previous government service use and housing status help predict future outcomes, we have built models that predict a range of outcomes over the observation period. These predictions are based on all the government service use described in Table 2 and demographic factors. These predictions are also based on the housing status of an individual during 2019 (either KO or AS) and duration in that state over the three years to 31 December 2019. This allows us to compare predictions for people who are similar, based on the data available to us, except for their housing status – see Figure 26.

Figure 26 – Indicative example



For this research, the purpose of the modelling isn't explicitly to produce predictions of outcomes. Rather, the purpose is to disaggregate the relationships between factors that explain variation in outcomes, and specifically understand the extent to which housing status explains the variation. This can't be achieved from the descriptive analysis in Part A, because the populations vary with respect to other factors.

Further detail on the modelling process is contained in Appendix A.

4.2 Limitations

Before discussing the results of the exploratory modelling, limitations should be noted, as they impact the conclusions that can be drawn from the research.

- **Differences in population** – When we compare the KO and AS populations, we only have access to information about their demographics and government service use. For example, there is no information about untreated mental health. There are almost certainly differences between the two populations which are not visible in our data. Differences in prediction may be at least partly explained by differences in such unobserved factors, rather than a difference in housing status.
- **Correlation vs. causality** – The analysis we have undertaken cannot be used to infer causal relationships. Rather, the exploratory modelling we have performed considers correlations between variables.
- **Population definition** – Housing status for the purpose of defining the populations has been defined based on being in a housing state for the full year to 31 December 2019. The relationships between housing status and outcomes, as identified in the exploratory modelling, is limited to this definition of housing status. Rather than any broader definition of being in a Kāinga Ora public house or in receipt of Accommodation Supplement.
- **Time constraints** – Concessions in research design needed to be made to fit in with tight timescales. These include:
  - Limiting our research population to people aged 16 and above.
  - Limiting our research to considerations of individuals i.e. not households.
- **Timeframes** – The observation period used for this research covers the pandemic period. It is plausible that correlations between variables may be materially different during this period.
- **Data limitations** – There are known limitations to several of the IDI datasets, and many (such as education and Oranga Tamariki) are only available for certain age groups or are unavailable for immigrants to New Zealand. We have indicated possible data restrictions in Table 2.

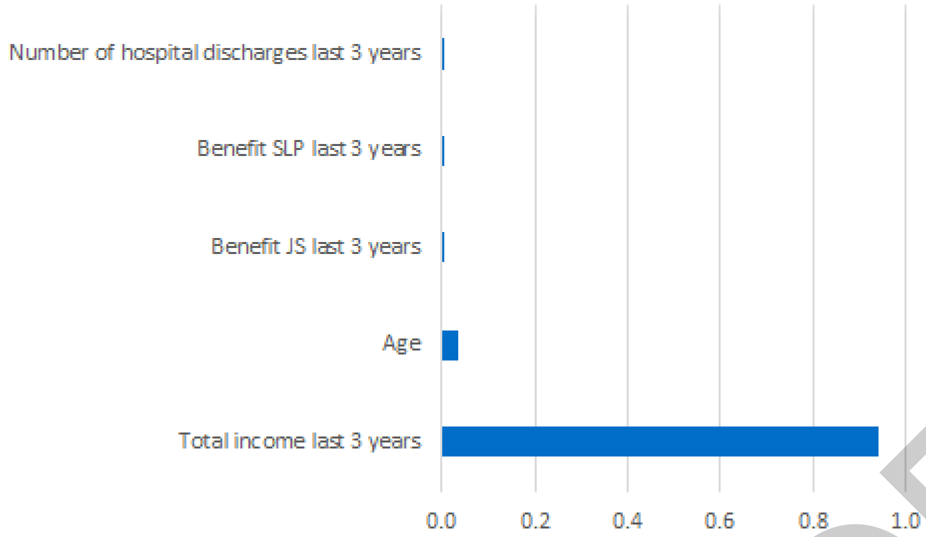
4.3 Taxable income

We built a model of the taxable income in the three years after 31 December 2019 to try and understand relationships to previous government service use and demographic factors. Note that the definition of taxable income in this analysis does not include benefit payments.

The first output from modelling is Figure 27 which shows the top 5 most important variables for predicting taxable income in the observation period, ranked by how much variation in taxable income they explain. In this scale, a value of 1 means that the variable explains all the variation in predicted future taxable income. Figure 28 shows that predicted future taxable income is almost entirely predicted by past taxable income, and other factors don't play a large role.

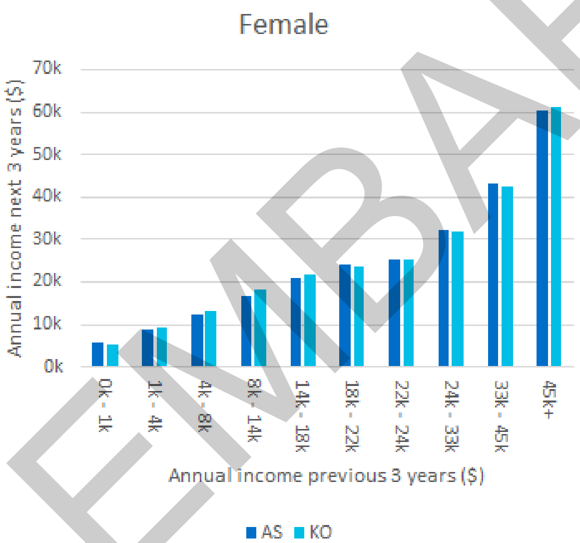
While this may seem like a very intuitive result, it is nonetheless an important one. It tells us that very little variation in taxable income is explained by factors other than past taxable income for the AS and KO populations. Or expressed differently, once we control for taxable income in the past three years there is relatively little variation in taxable income over the next three years.

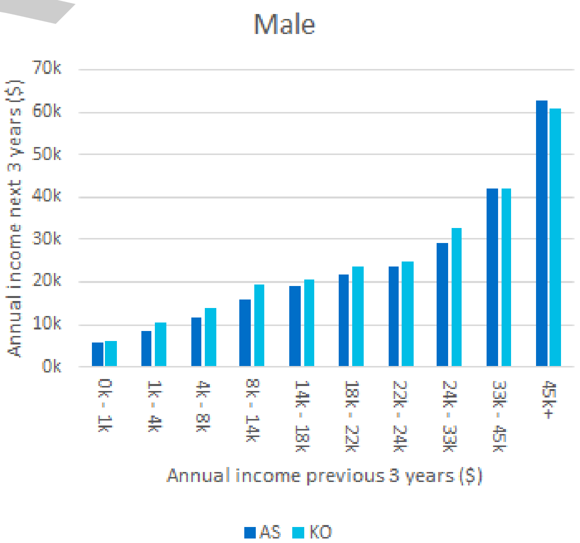
Figure 27 – Top 5 variable importance for future taxable income model



Further confirmation of the strong relationship between past taxable income and future taxable income can be seen in Figure 28, which shows average total income in the three years after 31 December 2019, restricted to individuals who had any income. The data is shown by average total income in the three years to 31 December 2019. In these plots, average income in the three years after 31 December 2019 is closely aligned to average income in the three years to 31 December 2019.

Figure 28 – Average annual taxable income during the three years after 31 December 2019 (for individuals with > 0 income) – by average annual taxable income in the three years to 31 December 2019[5]





To analyse specifically the effect of housing status, when all other factors are kept the same, we look at average predicted taxable income for people with different housing status. Table 3 shows that altering housing status has little effect on predicting future taxable outcome when all other factors in the modelling are kept the same. Or, expressed differently, once we control for all other factors in the modelling (notably taxable income in the past three years), there is very little variation in taxable income by housing status.

[5] Each plotted previous income band is approximate to the nearest thousand. 10% of the entire population (males and females) are in each band. This equates to roughly 10% of males and 10% of females in each band.

Table 3 – Partial dependence of income on housing status

Housing status	Predicted taxable income (3 years)
AS	52,744
KO	53,084

4.4 Convictions

In this section, we model how conviction rates depend on characteristics of the population before the observation window. This will determine if the differences between conviction rates for AS and KO populations displayed in Figure 29 are explained by housing status or underlying differences in the populations.

Figure 29 – Rates of conviction over observation period

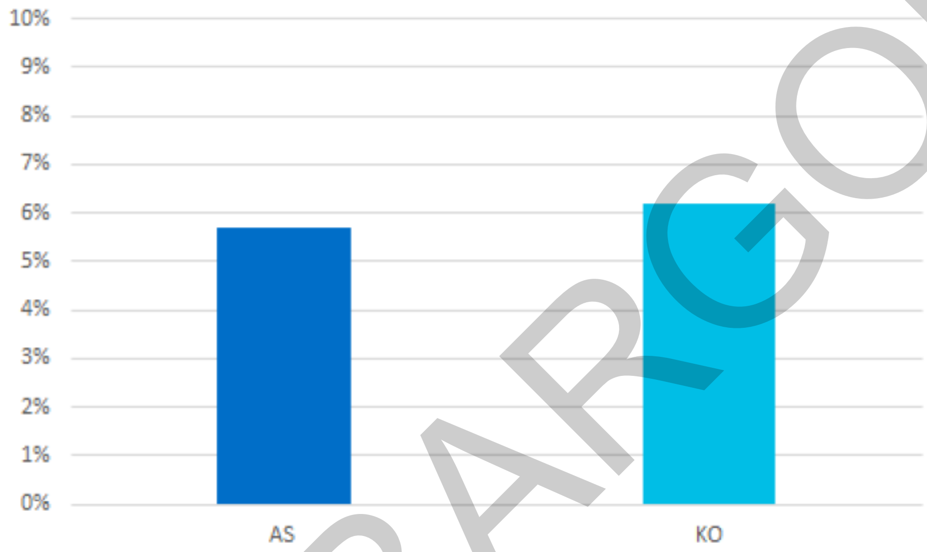


Figure 30 shows that previous convictions are the most important factor in predicting future convictions. Māori ethnicity is correlated with other factors that influence likelihood of conviction – this is not a causal factor in itself.

Figure 30 – Top 5 variable importance for convictions models

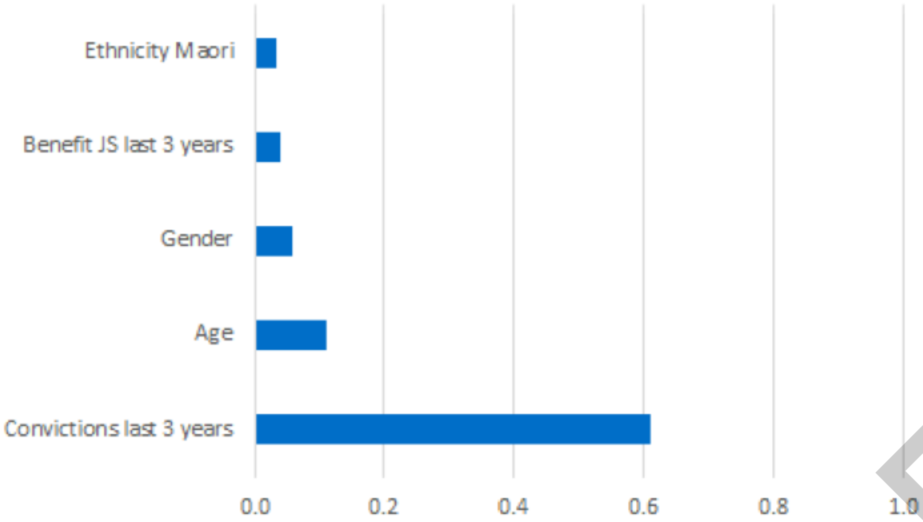
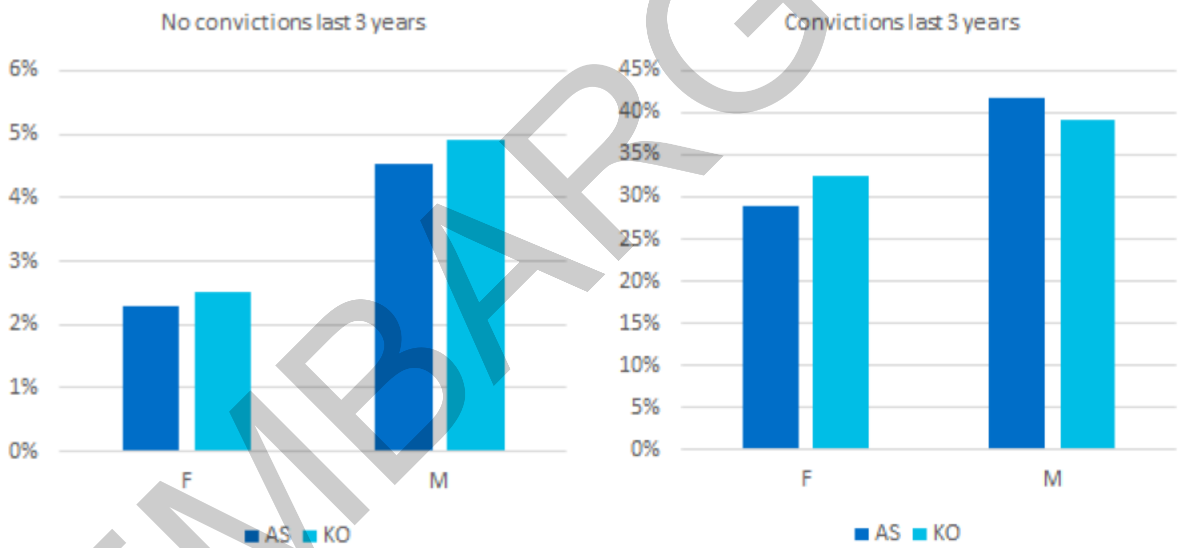


Figure 31 shows how rates of convictions over the observation period are strongly related to gender and whether someone has previous convictions, consistent with the results from the modelling.

Figure 31 – Rates of convictions over observation period (subsets)



To analyse the effect of housing status, when all other factors are kept the same, we look at average proportion of people with future convictions for people who are in KO, compared to people in AS. Table 4 shows that altering housing status has little effect on predicting future convictions, when all other factors are kept the same. Or expressed differently, once we control for all other factors in the modelling, there is very little variation in predicted conviction rates by housing status.

Table 4 – Partial dependence of future convictions on housing status

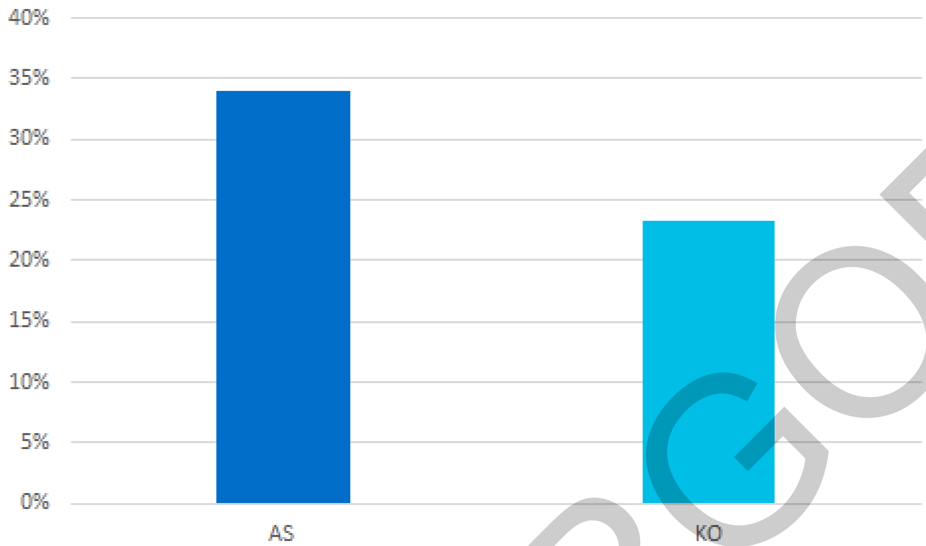
Housing status	Predicted rate of future convictions (3 years) – all other factors constant
AS	5.8%
KO	5.9%

4.5 Mental health and addiction service use

In this section, we look at the proportion of people who access any mental health/addiction services in the three years of the observation window. This incorporates pharmaceutical use, acute mental health and addiction services (inpatient and outpatient) and mental health and addiction related hospitalisations.

Figure 32 shows that there is a clear difference in mental health/addiction service use in the observation period – The AS population are more likely to use mental health services.

Figure 32 – Proportion with any mental health/addiction service use over the observation period



As in Section 4.3 and Section 4.4 we model how rates of mental health/addiction service use in the observation window depend on characteristics of the population before the observation window. This will determine if the differences between rates of mental health/addiction service use for AS and KO populations seen in Figure 32 is explained by housing status or underlying differences in the populations.

Figure 33 shows that previous mental health/addiction service use is the most important factor in predicting future mental health/addiction service use.

Figure 33 – Top 5 variable importance for mental health outcome model

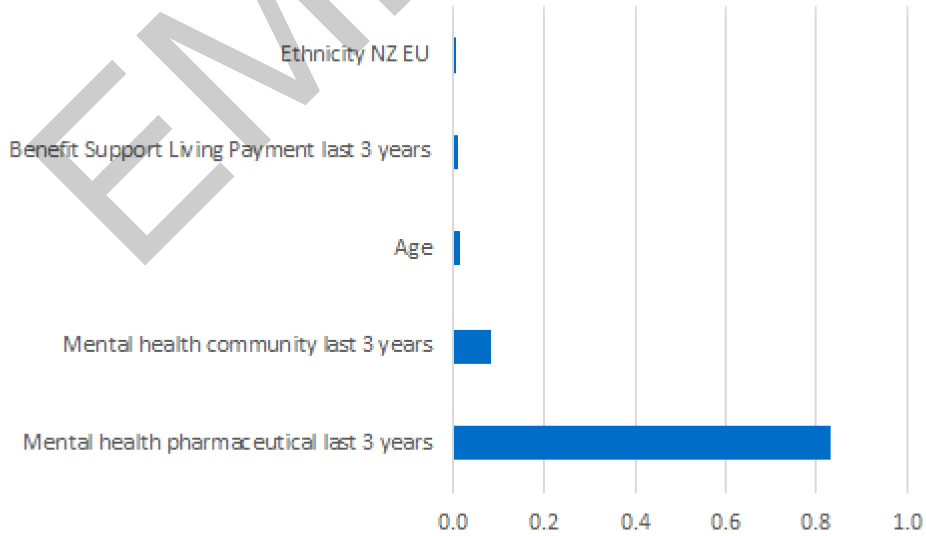
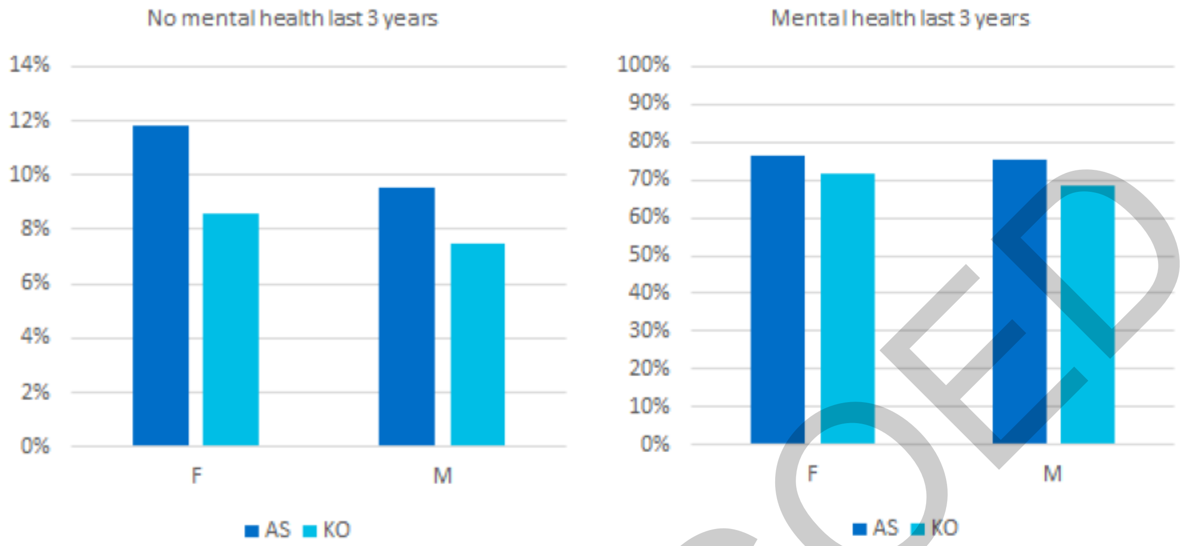


Figure 34 confirms that differing rates of mental health/addiction service use in the subsequent 3 years of the observation window are clearly related to mental health/addiction service use in the 3 years before the observation window.

Figure 34 – Proportion with mental health/addiction service use over the observation window



To analyse the effect of housing status, when all other factors are kept the same, we look at predicted average proportion of people with mental health service use, comparing people who are in KO with people on AS. Table 5 shows that altering housing status has little effect on predicting future mental health service use, when all other factors are kept the same. Or expressed differently, once we control for all other factors in the modelling, there is very little variation in mental health/addiction service use by housing status.

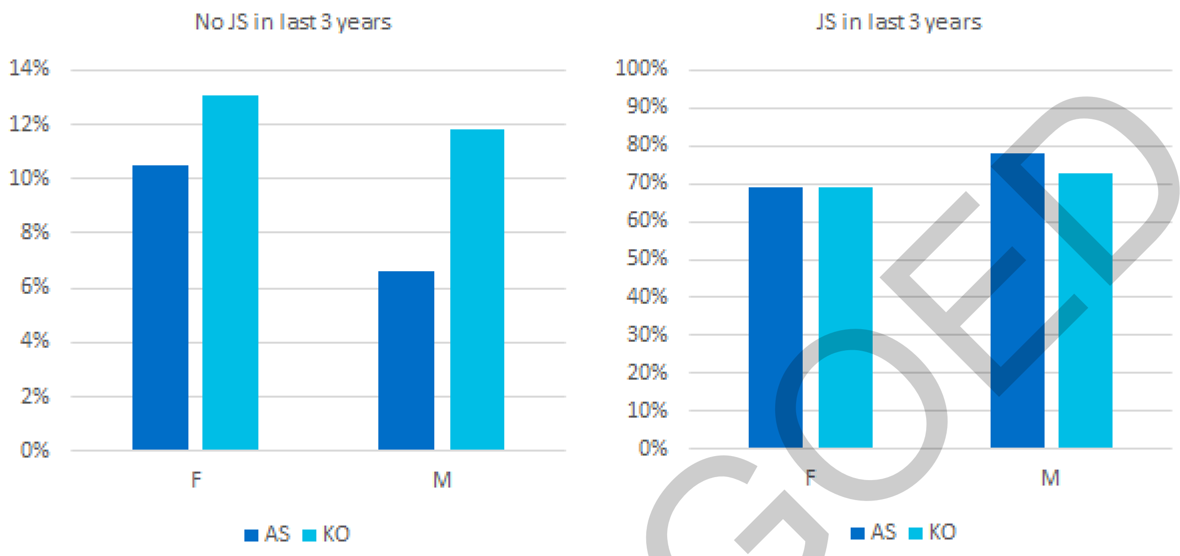
Table 5 – Partial dependence of mental health service use on housing status

Housing status	Predicted rate of future mental health service use (3 years) – all other factors constant
AS	31.0%
KO	30.6%

4.6 Further descriptive statistics

We also extracted descriptive statistics on jobseeker benefit status over the observation period, which is displayed in Figure 35.

Figure 35 – Proportion receiving JobSeeker Support at any point in the three years to 31 December 2022 (subsets)



Appendix A – Research approach

A.1 Population definitions

All data for this analysis is from the 202310 IDI refresh.

Table 6 – Population definitions

	KO	CHP	AS
Definition	All individuals with KO spell that starts before 1 January 2019 and ends after 31 December 2019. Spells that end within 2 days of the start of another spell are concatenated.	All individuals with CHP spell that starts before 1 January 2019 and ends after 31 December 2019. Spells that end within 2 days of the start of another spell are concatenated.	All individuals with a spell related to support codes 471, 470, 472, 474, 473 or 832 where the spell starts before 1 January 2019 and ends after 31 December 2019. Nested and overlapping spells are concatenated.
IDI Data sources	[hnz_clean].[tenancy_snapshot]	[hnz_clean].[tenancy_snapshot]	[msd_clean].[msd_second_tier_expenditure]
	[hnz_clean].[tenancy_household_snapshot]	[hnz_clean].[tenancy_household_snapshot]	
Total	85,836	7,374	220,155

In principle, there should be no overlap between the three categories in Table 6. Due to a small number of data inaccuracies, there are some individuals who are in different states at the same times. In our modelling dataset, overlaps have been eliminated – if an individual is both in CHP and KO state at the same time, they are set be in the KO state. If they are in the AS and KO/CHP state at the same time, they are set to be in the KO/CHP state.

Table 7 highlights the number of data overlaps.

Table 7 – Data overlaps

One person in multiple households	One person in multiple households (different categories)	Overlaps between KO and AS	Overlaps between CHP and AS
345	213	2,526	144

A.2 Exploratory modelling

The exploratory modelling in this analysis uses a type of machine learning called Gradient Boosting Machines (GBMs). Roughly speaking, GBM models are constructed by minimising an 'objective function' which measures the error between the actual target values and the predicted values of the model. This class of models have the following features which make them appropriate for this analysis:

- Ability to incorporate flexible nonlinear relationships and complex interactions
- Robust to the inclusion of multiple correlated features
- Simple to fit multiple models with large numbers of features.

Table 8 lists the variables used in the modelling.

Table 8 – Variables used in GBM models

Variable name	Transformations
Age	NA
Convictions (imprisoned) past 3 year	NA
Convictions past 3 years	Transformed to indicator
Days in KO in previous 3 years	NA
Days on benefit JS past 3 year	NA
Days on benefit SLP past 3 years	NA
Days on benefit SPS past 3 years	NA
Ethnicity	One-hot encoded
Gender	One-hot encoded
Highest secondary qualification	Restricted to Age 19 to 28 only
Mental health community service use	Transformed to indicator
Mental health pharmaceutical service use	Transformed to indicator
Number of hospital discharges past 3 years	NA
Observation period status (KO or AS)	Transformed to indicator
Oranga Tamariki intervention	Transformed to indicator for ages 19 and 20
Region	One-hot encoded
Total income past 3 years (not including benefits)	NA

Three GBM models were constructed for our analysis, as outlined in Table 9. In itself, the RMSE doesn't give an intuitive measure of how accurate the model is, we used Actual vs. Expected plots to verify the accuracy of the three models.

Table 9 – Modelling details

Model	Target type	Objective function	Optimised value of objective function
Total income	Continuous	Root mean squared error (RMSE)	36,529
Convictions	Binary	Log loss	0.161
Mental health	Binary	Log loss	0.367

Wellington
Level 6
22 The Terrace
Wellington 6011

Melbourne
Level 27
459 Collins Street
Melbourne VIC 3000

Sydney
Level 22
45 Clarence Street
Sydney NSW 2000

TE TAI ŌHANGA
THE TREASURY

Reference: T2024/784

Date: 22 March 2024

To: Minister of Finance (Hon Nicola Willis)

Deadline: Wednesday 22 March 2024

Kāinga Ora's Impact on the Fiscal Forecasts

At the Housing Bilateral on Wednesday 20 March 2024, you expressed concern that Kāinga Ora is forecasting more debt than they are appropriated for by several billion. This aide memoire outlines:

1. Our general approach to forecasting.
2. Our specific approach to including Kāinga Ora's forecasts.
3. Options for addressing your concerns.

1. Our general approach to forecasting

Under the Public Finance Act 1989 (PFA), the fiscal forecasts presented in the Treasury's Economic and Fiscal Update must include all Government decisions and other circumstances to the fullest extent possible. The fiscal forecasts represent the Treasury's best estimate of the Government's fiscal performance and position over the next five years. The Treasury is responsible for preparing the fiscal forecasts included in *Economic and Fiscal Updates*. As the Minister of Finance, you are responsible to advise the Treasury of all government decisions that have a material economic or fiscal impact.

Forecasting will always include some level of judgement. To guide our judgement, we use a framework to consider when an item should be included in the forecasts. Matters are incorporated into the fiscal forecasts if:

- a decision has been taken, or a decision has not yet been taken but it is reasonably probable the matter will be approved; and
- it is reasonably probable the situation will occur and the matter can be quantified for particular years with reasonable certainty.

The fiscal forecasts are prepared using information provided by Government reporting entities (including Crown Entities), based on their best professional judgement. In general, the fiscal forecast information submitted by Crown Entities have been approved by their Boards. The Treasury relies on Crown Entity Boards being accountable for the accuracy and reasonableness of their fiscal forecast information.

In some instances, the Treasury may need to make a central adjustment to forecasts provided from agencies to ensure the Government fiscal forecasts do represent a best estimate. For example, an adjustment is put through to reduce core Crown expenses (top-down adjustment) as most departments use appropriations which are upper limits of spending to base their expense forecasts. Based on historical trends, our judgement is using appropriation as a base for expenses overstates the Government's expense track.

2. Our specific approach to including Kāinga Ora's forecasts

The forecasts submitted by Kāinga Ora are based on housing targets set by the Government but constrained by the amount of permitted borrowing and operating funding approved by the Government. There is no growth in the public housing stock planned past the 2024/25 year (see Appendix).

The capital investment forecast beyond the 2024/25 year is focussed on renewal and re-fits of their existing housing portfolio. This includes 4,450 new builds each year, offset by 1,190 demolitions each year, and 3,140 sales each year, and is based on the Kāinga Ora Board-approved Asset Management Strategy (see Appendix).

s 9(2)(b)(ii) [redacted] There will be implications for Kāinga Ora's operating spend because of the significant new interest costs associated with the renewals, but no direct impact on appropriations because Kāinga Ora's operating activities are not limited by appropriations. This is a significant driver of the operating deficit that we advised you on in December 2023 [*T2023/1989 refers].*

s 9(2)(b)(ii) [redacted]

The forecast that the Kāinga Ora Board approved includes borrowing that is currently higher than the permitted borrowing. The need for this borrowing is mostly driven by the significant renewal pipeline.

To ensure the forecasts submitted to the Treasury are within the permitted borrowing limits, Kāinga Ora assumes selling further housing stock. In the submission for the preliminary fiscal forecasts, Kāinga Ora assumed sales proceeds from reducing the housing stock of $1.8 billion above the $6 billion sales proceeds already in the Board-approved forecast, which would result in a decrease to the total number of IRRS spots that Kāinga Ora provide.

The Treasury's judgement for forecasting purposes has been that it is highly unlikely that the total social housing stock will decrease and that it is more likely the Government will approve additional borrowings. Therefore, the Treasury has historically adjusted the debt forecast upwards and returned the level of housing stock on the balance sheet to that approved by the Kāinga Ora Board. For forecasting purposes, we rely on the Kāinga Ora Board being accountable for this information.

An adjustment to borrowings of $1.8 billion by 2027/28 has been included in our preliminary fiscal forecasts to better reflect the more likely outcome that the total housing stock will not decrease.

At the 2023 Half Year Economic and Fiscal Update (HYEFU), the adjustment was $6.5 billion. The significant reduction since HYEFU is a result of Kāinga Ora identifying cost savings that reduces the cost of their investment, though the build pipeline remains equivalent. At the Bilateral, you mentioned that $3.8 billion was outside the debt limit; this related to the adjustment at the preliminary HYEFU forecasts.

3. Options for addressing your concerns

The renewal pipeline is based on a strategy approved by the Kāinga Ora Board, which we have historically considered to be the best estimate of capital investment expected over the forecast period (noting the Board is accountable). Kāinga Ora has not revisited its capital pipeline assumptions since your Government has come into power.

To support the findings of the Kāinga Ora Independent Review, the Treasury is in the process of preparing advice on changes to support stronger monitoring, reporting, lending facility agreement conditions, as well as Board composition and accountabilities.

Option 1:
The Kāinga Ora Independent Review is likely to recommend that the Kāinga Ora budget is refreshed and that the build programme is phased over a longer timeframe. In addition, we expect recommendations on future growth of Kāinga Ora's housing supply relative to the supply from Community Housing Providers.

We expect that Ministers will want to provide the Kāinga Ora Board with new expectations following the Kāinga Ora Independent Review, but this will happen after the fiscal forecasts are finalised. You could leave the forecasts as they stand for BEFU under the expectation that these will be revised to reflect government policy at HYEFU.

Option 2:
Ministers could advise the Kāinga Ora Board that until decisions are made to the contrary, Kāinga Ora's debt limit will not be increased and set an expectation that the renewals pipeline should be phased to ensure that the cost is within the existing debt limits and not rely on a high volume of social housing stock sales. The Kainga Ora Board would need to readjust its forecasts to reflect this expectation.

We consider there is space within the existing debt limit for Kāinga Ora to continue building beyond the 2024/25 year based on our analysis of their forecasts. [redacted]
s 9(2)(f)(iv)

Note that we expect the Kāinga Ora Board will receive new expectations from the Minister of Housing following the Kāinga Ora Independent Review, but this will happen after the fiscal forecasts are finalised. Kāinga Ora received an interim Letter of Expectations from the Minister of Housing on 18 March. It did not mention the renewals pipeline. An additional letter is an opportunity to communicate this expectation.

s 9(2)(f)(iv) [redacted]

s 9(2)(f)(iv) [redacted]

[redacted]

[redacted]

Next Steps

Given the scale of the adjustments, we will ensure that going forward you are informed of what is reflected in our fiscal forecasts.

Following your confirmation, we can progress one of the options outlined. We can discuss this with you early next week.

Following this, you will be able to consider findings of the Independent Review at the end of March, and our advice regarding implementing its recommendations.

Max Christie, Analyst, Housing and Urban Growth, s 9(2)(a) [redacted]
Geraldine Treacher, Acting Director, Financing Infrastructure and Urban Development, s 9(2)(a) [redacted]
Jayne Winfield, Chief Government Accountant, s 9(2)(a) [redacted]

s 9(2)(f)(iv)

[redacted]

Formal stakeholder meetings

The below list details the formal meetings undertaken by the Review Panel. This was also supplemented by a wide range of more informal conversations with individual panel members which have also informed the Panel's recommendations.

Accessible Properties
Auckland Council
Community Finance
Community Housing Providers
Emerge Aotearoa
Ernst & Young
Fletcher Living
Great South
Habitat for Humanity
Hastings District Council
Height PM
Housing Foundation
Invercargill City Council
Jennian Homes
Kāhui Tū Kaha
Kāinga Ora Board
Kāinga Ora Construction Programme Advisory Panel
Kay Saville-Smith
Leon Grandy
Master Builders Association
Members of Kāinga Ora Executive and Management
Ministry of Housing and Urban Development
Ministry of Social Development
Murihiku Regeneration
NZ Living
Ockham Residential
Office of the Auditor General
PSA Kāinga Ora National Delegates
Queenstown Community Housing Trust
Southland Chamber of Commerce
Tāmaki Regeneration Company
Te Matapihi
Te Pae Hakāri
Te Rūnanga o Ngāi Tahu
The Salvation Army
Toitū Tairāwhiti Housing

NAME	DESCRIPTION	Rate ($) per day	Actual ($)
Bill English	Independent Reviewer	2,500	64,986.00
Simon Allen	Independent Reviewer	2,165	46,606.92
Ceinwen McNeil	Independent Reviewer	2,165	50,705.44

Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

TE TAI ŌHANGA
THE TREASURY

Joint Report: Initial Government response to the Independent Review of Kāinga Ora

Date:	19 April 2024	**Report No:**	T2024/1095 HUD2024-004314
		File Number:	[SH-18-1-1-1]

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis) **Minister of Housing** (Hon Chris Bishop)	**Agree** to the recommendations in this report	22 April 2024

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Brad Ward	DCE Organisational Performance (*Ministry of Housing and Urban Development)*		s 9(2)(a) (mob)	✓
Geraldine Treacher	Acting Director, Financing Infrastructure and Urban Development (*The Treasury)*	s 9(2)(a) (wk)	s 9(2)(a) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Joint Report: Initial Government response to the Independent Review of Kāinga Ora

Executive Summary

You received the Independent Review of Kāinga Ora on 19 April.

1. The report put forward seven key recommendations, which vary in levels of complexity, and the time required for implementation. Taken together, the recommendations propose significant change to both Kāinga Ora and the social housing system as a whole.
2. At this stage, given the significant Kāinga Ora financial losses, there is an immediate need to take action to improve its governance and financial sustainability. We recommend that you accept and take action on the following recommendations:

   4A: Aligning contractual arrangements between Kainga Ora and CHPs

   5A: Refreshing the Kainga Ora Board

   5B: Issuing simplified direction to Kāinga Ora

   6: Requesting a plan to improve financial performance
3. The other recommendations relate to significant changes or reforms. Given the scale of change and potential for significant fiscal impacts, we recommend you receive further advice before accepting the following recommendations:

   1: Consolidating Crown funding for social housing

   2: Becoming a more active purchaser

   3: Increasing local management and ownership of social housing

   4B: Addressing barriers to other social housing providers

   4C: Ensuring the funding model incentivises delivery and responds to needs

   5C: Considering options to narrow the scope of Kāinga Ora

   7: Phasing the response over the next 2-3 years
4. In light of this, we recommend taking a multi-phase approach to the response including:

   Immediate actions on the accepted recommendations, including refreshing the Board, sending a new letter of expectations, and beginning work on a new delivery contract with Kāinga Ora.

   A report back to Cabinet in June 2024 including consideration of whether to accept the remaining recommendations, proposed approaches and an implementation plan over the short and medium term to respond to and implement the other recommendations.

   Report back to Ministers in late 2024 on progressing the consolidation of funds, feasibility of progressing locally based delivery approaches, approach to remit of Kāinga Ora and levelling the playing field for CHP's, Iwi and Māori providers.
5. In preparation for the release of the report, the Treasury and Ministry of Housing and Urban Development are preparing a proactive release of previous information leading up to the review and any relevant background papers that agencies prepared for the review panel. A covering briefing will be prepared for Ministers by 1 May 2024 for consideration prior to the public release of the report.

6. The Kāinga Ora Board is broadly comfortable with the recommendations put forward by the review but provided detailed feedback on the contents of the report. The Independent Review Panel has considered this as part of the finalisation of the report and provided a supplementary document to you outlining the Panel's approach to the Kāinga Ora Board's feedback.

Recommended Action

We recommend that you:

1. **Note** that the Interim Report of the Independent Review of Kāinga Ora report has been finalised following feedback from the Kāinga Ora Board;
2. **Note** that Sir Bill English is intending to send you the Final Report of the Independent Review of Kāinga Ora on 19 April 2024;
3. **Note** that the Final Report put forward the following seven recommendations which vary in levels of complexity and implementation requirements:
   a) Recommendation 1: Consolidating Crown funding for social housing
   b) Recommendation 2: Becoming a more active purchaser
   c) Recommendation 3: Increasing local management and ownership of social housing
   d) Recommendation 4: Levelling the playing field between providers
   e) Recommendation 5: Improving Kāinga Ora governance
   f) Recommendation 6: Requesting a plan to improve financial performance
   g) Recommendation 7: Phasing the response over the next 2-3 years
4. **Agree** that the Government's response to the Final Report will occur in the following three phases:
   a) Immediate actions on the accepted recommendations, including refreshing the Board, sending a new letter of expectations, and beginning work on a new delivery contract with Kāinga Ora.
   b) A report back to Cabinet in June 2024 including consideration of whether to accept the remaining recommendations, proposed approaches and an implementation plan over the short and medium term to respond to and implement the other recommendations.
   c) Report back to Ministers in late 2024 on progressing the consolidation of funds, feasibility of progressing locally based delivery approaches, approach to remit of Kāinga Ora and levelling the playing field for CHP's, Iwi and Māori providers.

Immediate Actions

5. **Accept** recommendation 4A to change the Kainga Ora contract to align with expectations with Community Housing Providers.
6. **Direct** HUD to progress development and negotiation of a contract with Kāinga Ora by June 2024.
7. **Accept** recommendation 5A to refresh the Kāinga Ora Board.
8. **Note** that selecting a high-quality candidate as Board Chair will be critical to the long-term performance of Kāinga Ora.

9. **Agree** to advance conversations with potential candidates for vacant positions including the Chair and that sufficient time is taken to find high-quality candidates.

10. **Agree** to send letters to existing Board members to inform them of your intent to consider the composition of the Board.

11. **Direct** HUD to provide advice on new appointments to the Board.

12. **Accept** recommendation 5B to issue simplified direction to Kāinga Ora.

13. **Accept** recommendation 6 to request the Kāinga Ora Board develop a credible and detailed plan by November 2024 to improve financial performance with the goal of eliminating losses.

14. **Agree** to seek Cabinet agreement in June to reduce the investment decision making rights of Kāinga Ora to the standard delegations in Cabinet Office Circular 23(09) reflecting that the previous delegation granted under the Investor Confidence Rating scheme does not align with the findings of the review.

15. **Direct** HUD, in consultation with the Treasury, to provide advice on additional measures required to ensure the November 2024 plan meets Ministers' expectations, including considering additional monitoring, a variation to the facility agreement between Kāinga Ora and the Treasury, and transferring Kāinga Ora's debt appropriation to a tagged contingency.

16. **Note** that HUD, in consultation with Treasury, will monitor the progress developing this plan and keep Ministers informed as needed.

17. **Direct** HUD to draft a new letter of expectation for Kāinga Ora that outlines:

    a) The scale and standard of the functions Ministers expect Kāinga Ora to perform
    b) Budget 2024 outcomes
    c) A request for Kāinga Ora to develop and present to Ministers a plan to improve financial performance by November 2024.
    d) Reiterating value for money and progress towards savings targets is a Ministerial priority
    e) Establishing a clear Board monitoring framework to hold management to account for performance

18. **Note** the Treasury is beginning work on tighter debt reporting controls as agreed by Joint Ministers (T2024/197 refers).

Cabinet consideration in June 2024

19. **Note** HUD will provide you with advice in June on:

    a) Principles to approach a consolidation of housing funding (Review Recommendation 1)
    b) Approaches for HUD to take a more active purchaser role (Review Recommendation 2)
    c) Approaches to taking placed based approaches to social housing delivery (Review Recommendation 3 and 4D).
    d) Approaches to address barriers to greater delivery by CHPs, Iwi, Māori and other providers (Review Recommendation 4B).

e) A high level plan to undertake the policy work and factors to be considered for further advice in November on funding settings and scope of Kāinga Ora (Review Recommendations 4C and 5)

Release of Independent Report

20. **Agree** to a Cabinet paper being drafted covering the critical themes, recommendations and approaches outlined in this briefing for lodging with Cabinet Committee on 2 May, with a proposed release date of 13 May subject to Cabinet approval.

21. **Agree** to proactively release materials covering all briefings leading up to the review and relevant documents associated with the review at the same time as releasing the Independent Review.

22. **Direct** HUD and Treasury to provide Ministers with the proactive release material by 1 May for consideration.

23. **Discuss** the Review report and the proposed Government response with officials from HUD and Treasury.

Geraldine Treacher

Acting Director,
Financing Infrastructure and Urban Development

19 April 2024

Hon Nicola Willis

Minister of Finance

..... / ...... / ......

Brad Ward

DCE Organisational Performance

.19 April 2024

Hon Chris Bishop

Minister of Housing

..... / ...... / ......

Joint Report: Initial Government response to the Independent Review of Kāinga Ora

Purpose of Report

1. This report provides you with advice on the initial response to the Independent Review of Kāinga Ora, which you received on 19 April.
2. It also provides supporting information for the public release of the review.

Independent Review of Kāinga Ora finalised after consultation with the Kāinga Ora Board

3. The Kāinga Ora Board provided feedback on the interim report to the panel on 15 April 2024. Ministers received this feedback from the Acting Chair of Kāinga Ora on the same day. While the Board is broadly comfortable with the review recommendations, they did provide detailed feedback on the contents of the report
4. The independent panel has assessed the Board's feedback and made changes to the interim report in response to this feedback. HUD and Treasury, as secretariat to the Review, supported the Panel in making these changes.

Approach to Recommendations in the Report

5. The final report contains the following 7 recommendations (detailed in Annex One) which have varying levels of complexity and implementation time-frames:
    a. Recommendation 1: Consolidating Crown funding for social housing
    b. Recommendation 2: Becoming a more active purchaser
    c. Recommendation 3: Increasing local management and ownership of social housing
    d. Recommendation 4: Levelling the playing field between providers
    e. Recommendation 5: Improving Kāinga Ora governance
    f. Recommendation 6: Requesting a plan to improve financial performance
    g. Recommendation 7: Phasing the response over the next 2-3 years
6. Taken together, the recommendations propose significant change to both Kāinga Ora and the social housing system as a whole.
7. Given the scale of change recommended and the potential for significant fiscal impacts, we recommend taking time to fully consider the proposed changes.
8. This includes considering alignment of, and sequencing with, broader Government priorities, including targets to reduce emergency housing use by 75%, implementation of the Going for Housing Growth plan, and reform of the Resource Management Act.
9. However, given the significant financial losses of Kāinga Ora, there is an immediate need to take action to improve governance and financial sustainability.
10. Based on this, we propose responding to Final Report in the following three phases:

- Immediate actions on the accepted recommendations, including refreshing the Board, sending a new letter of expectations, and beginning work on a new delivery contract with Kāinga Ora.
- A report back to Cabinet in June 2024 including consideration of whether to accept the remaining recommendations, proposed approaches and an implementation plan over the short and medium term to respond to and implement the other recommendations.
- Report back to Ministers in late 2024 on progressing the consolidation of funds, feasibility of progressing locally based delivery approaches, approach to remit of Kāinga Ora and levelling the playing field for CHP's, Iwi and Māori providers.

Immediate Recommended Actions

Recommendation 4A: Aligning Contractual Arrangements between Kāinga Ora and CHPs

11. We recommend that Ministers accept the recommendation to align contractual arrangements between Kāinga Ora and CHPs, and direct the Ministry of Housing and Urban Development (HUD) to progress work required to achieve this.
12. We consider that placing consistent contractual requirements on social housing providers will allow Kāinga Ora performance to be benchmarked against CHPs, enable Ministers to become more active purchasers, and provide additional levers with which to hold Kāinga Ora to account for delivery.

Recommendation 5A: Refreshing the Kāinga Ora Board

13. We recommend that Ministers accept the recommendation to refresh the Kāinga Ora Board. The review found significant challenges relating to governance and financial management, including opaqueness of financial information.
14. Given the poor financial performance of Kāinga Ora and the significant scale of change required, we consider that change is needed to governance at Kāinga Ora, including refreshing the board.
15. The minimum requirement is for the board is to have eight members. Currently:
    a. The Board consists of seven members, following the resignation of the Chair in April 2024.
    b. two Board members terms expired in February 2024, but they have agreed to continue in the roles until further appointment decisions are made.
    c. Two other Board member terms will expire during 2024.
16. There is an immediate need to bring the Board to at least the minimum membership requirements by appointing three Directors including the Chair.
17. There are two main approaches to refresh the existing Board:
    a. Option One: Leave existing directors in their roles and appoint new directors as their contracts expire, or
    b. Option Two: Make discrete decisions on directors' terms ahead of contract expiration.
18. Option One would enable different skill sets to be incorporated onto the Board while maintaining some continuity and avoiding ending directors' terms early.

19. Option Two would enable Ministers to make discrete decisions on members' tenure after understanding relative skillsets, and the contribution they can make to lifting Board performance.

20. On balance, HUD's recommendation is Option Two. As part of this, we recommend engaging with individual members, s 9(2)(f)(iv) [redacted]

21. Selecting high-quality candidates will be critical to the long-term performance of Kāinga Ora, particularly for the Board Chair, which will take time particularly given the significance of the Independent Reviews findings.

22. The appointment process may need to be done in phases to balance the need for finding high quality candidates and reducing uncertainty for the Board and Kāinga Ora.

Recommendation 5B: Issue Simplified Direction to Kāinga Ora

23. We recommend that Ministers accept the recommendation to issue simplified direction to Kāinga Ora.

24. Over the past few years, Kāinga Ora has been issued numerous letters of expectations as new functions have been established and have in some instances left interpretation of the extent of activity to Kāinga Ora to benchmark. Simplified directions will enable the Board to govern more effectively.

25. There is a limit to the amount that the expectations can be simplified without Cabinet decisions (and any necessary legislative change) to narrow the scope of Kāinga Ora activities. Decisions about this can be considered in phase 2.

26. However, at this stage Ministers can provide clarity and simplified direction about the scale and standard of the functions that Ministers expect Kāinga Ora to perform within the existing legislative expectations. This would support the refreshed Board to meet your expectations.

27. This can be communicated through a letter of expectations (see below).

Recommendation 6: Approach to improving Kāinga Ora financial performance

28. We recommend that Ministers request the Board to develop a credible and detailed plan by November 2024 to improve financial performance with the goal of eliminating losses.

29. We propose that the plan covers:

    a. Investment scenarios (with Ministerial defined financial parameters) which provide Ministers with choices around the delivery approach, speed and scale of the asset renewal process (including retrofits), and credible divestment approaches where relevant

    b. The approach to treasury and liquidity management practices, aligned to the current debt financing approach.

    c. Detailed implementation plans with tangible actions and measures of the savings proposals incorporated into Budget 2024 including interdependencies and major risks to achieving these savings.

    d. Additional savings identified as part of developing the Plan.

30. While setting expectations that the Board develop a credible plan is an important first step, additional measures will likely be needed to ensure the Board deliver a plan that meets your expectations.

31. These could include additional and more frequent monitoring, s 9(2)(f)(iv) [redacted]

32. HUD, in consultation with Treasury, will provide advice on these options in June.

Other immediate actions

33. We also recommend:

    a. that Ministers set revised purchasing intentions for delivery in 2024/25, strengthening regional delivery purchasing expectations and setting thresholds for Ministerial consultation on changes.

    b. Seeking Cabinet agreement, in line with Cabinet Office Circular 23(09), to reduce the delegation to the Board for individual investment decisions to $35 million (from $50 million, transferred over under the now defunct Investor Confidence Rating system) through the Cabinet paper in June 2024, and

    c. Implementing changes to the debt financing agreement between the New Zealand Debt Management Office and Kāinga Ora to enhance reporting obligations as agreed by Joint Ministers (T2024/197 refers).

A new letter of expectations

34. Several of the actions require setting new expectations with the Board. We propose that a letter of expectation is sent to the new Board chair once in place covering:

    a. The scale and standard of the functions that Ministers expect Kāinga Ora to perform, covering at least:

    i The social housing growth and renewals (including sales) programme

    ii Urban development functions

    iii Statutory functions

    b. Budget 2024 outcomes including approach to delivery in 2025/26

    c. Request for a credible plan to eliminate losses by November 2024

    d. Reiterating value for money and progress towards savings targets is a Ministerial priority

    e. Specific metrics to hold management to account for performance.

35. HUD will draft a new letter of expectations to be received by the new Chair immediately after they are appointed.

Approach to Remaining Recommendations

36. Further work will be required to determine how to respond to the remaining recommendations, and understand the financial implications associated with each proposal.

37. The Independent Review Panel indicated in recommendation 7 that the time horizon for their proposed changes is over a few years given the nature and size of the system change required to achieve the end state.

38. It is proposed that additional advice is given to Ministers in June 2024 before formally responding to the remaining recommendations.

39. The first tranche of advice in June would cover:

    a. Principles to approach a consolidation of housing funding with final recommendations in November 2024 (Review Recommendation 1)

b. Advice on approaches for HUD to take a more active purchaser role (Review Recommendation 2)

c. Advice on approaches to taking placed based approaches to social housing delivery (Review Recommendation 3 and 4D).

d. Advice on approaches to address barriers to greater delivery by CHPs, Iwi, Māori and other providers (Review Recommendation 4B).

e. A high level plan to undertake the policy work and factors to be considered for further advice in November on funding settings and scope of Kāinga Ora (Review Recommendations 4C and 5)

Approach to Releasing Report

40. HUD officials are currently drafting a Cabinet paper covering the critical themes, recommendations and approaches outlined in this briefing for lodging with Cabinet Committee on 2 May, with a proposed release date of 13 May subject to Cabinet approval.

41. Given the volume of Official Information Act requests received by both the Treasury and HUD to date, we will provide Ministers with a proactive release package on 1 May for consideration for proactive release alongside the review.

42. This release will cover previous advice provided to Ministers from the funding and financing work undertaken by the Treasury and HUD prior to the review and any documents relating to the establishment of the review.

Annex One: Recommendations from the Final Report of the Independent Review of Kāinga Ora

Recommendation 1: To strengthen government accountability for social housing outcomes, Cabinet considers consolidating government funding for housing outcomes under the Minister of Housing, who will be supported by the Ministry of Housing and Urban Development to administer that funding on behalf of the Crown, together with expectations of formal reporting of outcomes by a third party.
Recommendation 2: To prioritise tenant outcomes and cost-effective provision of housing support and supply, the Minister of Housing directs the Ministry of Housing and Urban Development to become an active purchaser that takes a social investment approach to cost-effectively improving housing outcomes.
Recommendation 3: To better enable tenants and local communities to meet their diverse housing needs and aspirations, government policy and investment leverages the advancements made in place based and specialised approaches to increase local decision making regarding the management and ownership of housing .
Recommendation 4: To increase choice, diversity, and innovation, Government enables more providers to participate in the provision of social housing by: a) the purchaser contracting with Kāinga Ora in a similar manner that it does with CHPs b) addressing barriers to greater provision of social housing by CHPs, Iwi and Māori, and other providers c) ensuring the funding model incentivises delivery where needed and is responsive to the different needs of tenants d)
Recommendation 5: To ensure that Kāinga Ora has the leadership and mandate to effectively implement the recommendations of this Review, responsible Ministers: a) refresh the Board with a focus on the skills to implement the recommendations of this Review b) issue simplified government expectations and direction to Kāinga Ora c) report back to Cabinet with options to narrow the scope of Kāinga Ora activities to social housing and ensure it has the leadership and governance expertise to deliver effectively, including simplifying the Kāinga Ora Act and considering more commercially focussed organisational forms such as company under Schedule 4A of the Public Finance Act 1989. d)
Recommendation 6: Responsible Ministers set an expectation that the board will develop a credible and detailed plan to improve financial performance with the goal of eliminating losses. The board should be held accountable for implementing this plan through regular reporting to Ministers, supported by on-going engagement between Kāinga Ora management, the Kāinga Ora board and the Monitor.
Recommendation 7: To generate momentum toward the recommendations above, the Panel recommends the following timeframe for key milestones: Within 3-6months • Strengthen Kāinga Ora governance by refreshing the Board including Cabinet decisions on any necessary changes to Kāinga Ora legislation and entity form. • Set new Ministerial expectations with HUD and Kāinga Ora. • HUD and Kāinga Ora to agree a refreshed contract. • Cabinet make decisions on consolidation of Crown funds to inform Budget 25.

In 12-18 months

- Implementation of any change to Kāinga Ora legal entity.
- Active purchaser role of HUD developed and being implemented
- Place-based solutions in four locations being implemented, together with plans to establish Community Housing Associations.
- Funding and delivery settings in place to support contestability and better outcomes for tenants.

In 2-3 years

- Nationwide social housing investment strategy developed.
- Supported by place-based housing strategies and delivery plans for all tenures.
- Kāinga Ora no longer making operating losses.

Sensitive

Office of the Minister of Housing

Office of the Minister of Finance

Cabinet Business Committee

Initial Response to the Independent Review of Kāinga Ora

Proposal

1 Following the completion of independent review of Kāinga Ora, we are proposing an initial response to respond to and implement the recommendations of the review which includes:

1.1 immediate actions to improve Kāinga Ora's governance and financial sustainability, and

1.2 a report back to Cabinet in August 2024 with proposed approaches and a staged programme to respond to the other recommendations.

Relation to government priorities

2 The independent review of Kāinga Ora was a priority under the Coalition Government's 100 Day Plan [100-23-MIN-0011]. Responding to the independent review of Kāinga Ora is item six on the Coalition Government's 2024 Quarter 2 Action Plan.

3 The proposed steps in this paper also contribute the Coalition Government's drive to get better value for money from public services and make them fiscally sustainable.

Executive Summary

4 The performance of Kāinga Ora has a significant impact on the Government's fiscal position. On 18 December 2023, we announced an independent review of Kāinga Ora, to be led by Sir Bill English, under section 132 of the Crown Entities Act 2004 to provide assurance over the approach and delivery of significant programmes by Kāinga Ora.

5 We received the final report from the Independent Review of Kāinga Ora on 19 April 2024. It made two broad findings. First, it found that Kāinga Ora is underperforming and not financially viable without significant savings and funding and financing settings that the Government has not yet agreed. Second, it found that the wider social housing system is not delivering the results we need, and is lacking in transparency and accountability, coupled with a poor understanding of tenant outcomes.

6 Specifically, the review finds:

6.1 New Zealand’s social housing system is not socially or financially sustainable and it is not delivering the homes and support people need.

6.2 There is a lack of transparency and accountability in the social housing system, coupled with a poor understanding of tenant outcomes. This results in decision-making that is remote from affected individuals, households and communities.

6.3 Interventions and investments are not based on evidence of a long-term view, with current settings incentivising higher-cost support in urban areas and creating poverty traps for tenants.

6.4 Within this context, the performance of Kāinga Ora is deteriorating and its ability to maintain and renew its assets is at risk. Current institutional settings and remit do not support role clarity and strategic focus, and there is scope for improved governance.

6.5 Kāinga Ora is not financially viable under current settings, and this is further compounded by limited attention to value for money and opaque apportionment of costs and revenue within Kāinga Ora, making it difficult to identify the underlying drivers of financial results.

6.6 Asset procurement is not done transparently, and it is not providing value for money. Asset management costs are forecast to become unsustainable. Tenancy management costs are growing, but there is little evidence that this additional investment is improving service provision.

7 The final report puts forward seven recommendations that propose significant change for both Kāinga Ora and the social housing system.

8 At this stage, given the scale of Kāinga Ora financial losses, there is a need for immediate action to improve its governance and financial sustainability. Other recommendations relate to changes or reforms which have the potential for significant fiscal impacts, and therefore warrant further consideration.

9 In light of this, we are proposing taking a two-step approach to the response including:

9.1 Accepting and taking immediate actions on four of the recommendations, including refreshing the Board, sending a new letter of expectations, and beginning work on a new delivery contract between HUD and Kāinga Ora.

9.2 A report back to Cabinet in August 2024 by the Minister of Housing which includes consideration of whether to accept the remaining recommendations, and proposed approaches and a staged programme over the short and medium term.

10 The Minister of Housing also intends to report back to Cabinet in late 2024 on progress implementing actions agreed to in the August 2024 Cabinet paper.

Background

11 On 18 December 2023, the Government announced an independent review of Kāinga Ora as part of its 100-day plan [100-23-MIN-0011]. The objective of the review was to identify ways to improve Kainga Ora performance and value for money, and to manage the impacts of Kāinga Ora on debt and OBEGAL. Its scope was to cover, at a minimum, financial viability, asset procurement and management, tenancy management, remit and institutional arrangements.

12 The review was led by Sir Bill English supported by Simon Allen and Ceinwen McNeil (the panel), with the Ministry of Housing and Urban Development and the Treasury providing secretariat support.

13 Kāinga Ora is a large Crown entity with expenditure of $2.5 billion in 2022/23 and total assets of $45 billion at June 2023. It has a significant impact on the Government's financial statements, including on OBEGAL and net core Crown debt.

14 Kāinga Ora faces challenging financial sustainability issues, with an operating deficit forecast to grow from $520 million in 2022/23 to over $700 million in 2026/27, driven by interest on the debt-financed capital investment programme. There has also been a significant increase in staffing levels (over 2,000 additional staff since 2017/18) across various functions.

15 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 there is a high degree of confidence that it is operating efficiently and effectively and focusing on the Government's priorities.

16 The challenging conditions Kāinga Ora has had to face should not be ignored, with interest rates and construction prices rising.

Key findings of the Independent Review

17 The review focuses on the financial sustainability of Kāinga Ora within the context of an underperforming social housing system. The reviewers say the system is not delivering the best results for tenants or quality housing for the funding it receives. Kāinga Ora has scaled up in recent years to respond to deteriorating housing affordability that is putting pressure on households and the government finances, but it has come at a considerable cost.

18 Kāinga Ora is both impacted by these issues and exacerbates them. The review found that Kāinga Ora has substantially increased its capacity to grow its housing stock and improved quality of its stock. However, the imperative to increase the number of houses rapidly has resulted in a high-cost structure and poor financial discipline. Its financial performance has deteriorated, and its ability to maintain and renew its assets is at risk.

Financial Performance and sustainability

19 A previous review commissioned in 2023, undertaken by the Treasury and HUD, found that Kāinga Ora was spending more to procure than private developers, and that property management and tenancy support costs and headcount have grown rapidly

since 2017. It also found that Kāinga Ora's forecasts were not underpinned by rigorous decision making or evidence, relying on assumptions and substantive year-to-year changes.

20 The reviewers say that it has become clear through the previous review and this review that the board is presented forecast financial information which is based off high level assumptions which do not have Ministerial approval or tangible plans to execute, effectively banking on future Government funding to bridge the gap.

21 Specifically, on Kainga Ora's finances, the review finds that:

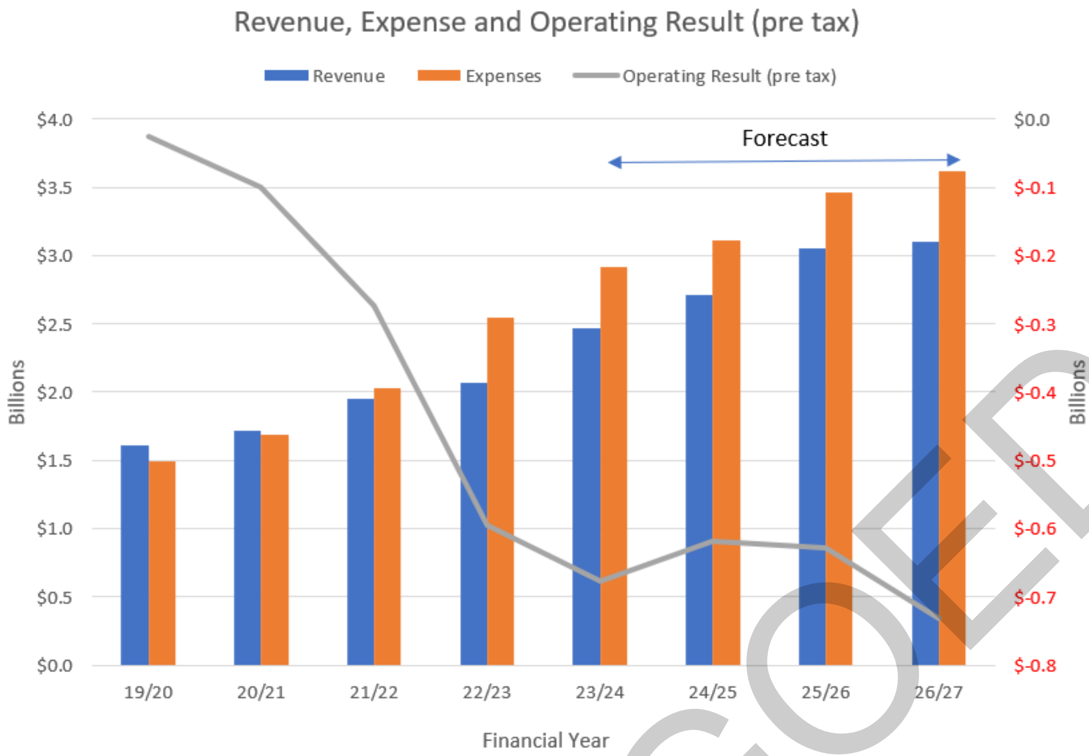
21.1 Kāinga Ora has had the advantages of considerable autonomy underpinned by easy access to debt compared to other providers which funds all new builds and financial losses, and access to 83% of Income Related Rent Subsidies (IRRS). Despite this, insufficient focus on fiscal discipline, and low levels of accountability have led to growing annual losses by Kāinga Ora.

21.2 Kāinga Ora has been reporting operating deficits before tax over the last 4 years. These deficits are forecast to grow to $700 million 2026/27, with debt forecast to increase to $23 billion.

21.3 Kāinga Ora's forecast cash requirement from the Crown is $21.4 billion over the next four years. This is equivalent to every New Zealander paying about $4,000 for this activity.

21.4 Kāinga Ora project that over a 60-year period that it is not able to maintain the condition, amenity and suitability of its stock at current levels of IRRS funding. The cost of replacing the ageing assets will be significant over the coming decades, which will require successive Governments to have confidence in the procurement and maintenance of housing assets is undertaken efficiently, effectively and represents value for money compared to other social investments.

21.5 Somewhat perversely the ownership relationship of Kāinga Ora to the Crown plays a big part in hiding the real cost of delivering social housing and enabling the Crown to offer stock in poor condition to tenants.



Governance

22 On governance, the review notes that Kāinga Ora was established as a Crown Agent, a type of Crown entity. Crown Agents are required to give effect to Government policy directions and operate relatedly closely to Ministers. However, Public Service Commission guidance on Crown entities emphasises the importance of maintaining clear roles and responsibilities between responsible Ministers, the Monitor and the entity board.

23 The panel's view is that that this arrangement has not delivered the expected benefits, in large part due to a breakdown of the different roles of Ministers, the Monitor, board and management.

24 The panel notes evidence that there has not been a clear separation between the board's governance role and operational management. They say they saw evidence that the board has been acting more as an advisory function rather than governing.

25 The panel also notes that "similarly, the roles of responsible Ministers and the board have become blurred. Frequent contact between Kāinga Ora management and responsible Ministers has undermined the separation between the responsible Ministers' role and operational management."

26 The panel finds that that internal budget board packs were lacking in information and led to the board signing off on budgets that were not realistic. Budgets provided to the board are not sufficiently clear or detailed. For example, in the May 2023 board budget pack, there was no Statement of Financial Position, the budget assumes that new lending of several billion dollars from the Government will be approved, the build pipeline includes a line entitled "Zero Net Growth" describing disposals of an

indeterminate kind of over 3,000 homes per year, and does not provide a budget scenario where Kāinga Ora is limited to the funding agreed by the Government.

Asset Procurement and Management

27 The review finds that the breadth of Kāinga Ora activities, and challenges with opaque apportionment of costs and revenue within their internal systems, makes it difficult to identify the underlying drivers of financial results.

28 Despite the increase in developer-led acquisitions, Kāinga Ora is struggling to meet its delivery targets. In the absence of acquisitions, their build programme would not be meeting its annual targets. Over the last five years, it built on average 2,400 gross homes each year, growing the stock by on average 1,600 net homes each year. Kāinga Ora forecasts procuring on average 4,600 new build homes each year and are already not meeting this plan.

29 The review notes stakeholders provided anecdotal examples that Kāinga Ora has paid above market value for land. This is said to often result from uncertainty about the potential yield of those land purchases, which Kāinga Ora does not price in the same way as other participants. The consequence is that Kāinga Ora may own land parcels that are not financially viable to develop. The cost of holding this land is not adequately factored into decision-making by Kāinga Ora because the Kāinga Ora Land Programme provided operating funding to compensate Kāinga Ora for holding costs.

30 The review finds that asset management costs are forecast to become unsustainable. Kainga Ora has an aged portfolio, and the review notes that with the current property assessment and past investment in these properties, it is reasonable to expect that over time the revenue stream (market rent) will not keep pace with the increased maintenance costs associated with older house. Further, inflation of build and maintenance costs has been significant over this period and various supply chain issues have been well documented. However, it also finds that the level of growth in maintenance and FTE costs seen over these two years is well above what could be reasonably expected to be driven by the factors above.

31 Kāinga Ora's own independent review of maintenance activity highlighted limited whole of asset planning in assessing maintenance needs, limited management oversight of maintenance partner activity with delegations set too low, and incomplete data of asset condition and data mostly held by independent contractors.

32 The review notes that "based on our discussions with the board, we consider that there is also scope to reduce costs through more flexible management of stock and landholdings. We understand that the bar for divestment of property is currently prohibitively high. If it is not economically sensible for Kāinga Ora to develop due to the quality of the land or inability to fully utilise plan-enabled capacity, then consideration should be given to divesting it to enable private development to take place. A similar principle would apply to situations where the market value of individual properties outweighs the benefits of redeveloping them into new social housing. In both cases, the proceeds from any individual house sales can be reinvested into more cost-effective provision of social housing."

Institutional remit

33 The review finds that the remit of Kāinga Ora is broad and has increased since its establishment – often with large new funding streams attached, as with the Kāinga Ora Land Programme and Large-Scale Projects. Its legislation, Ministerial letters of expectation and Government Policy Statement on Housing and Urban Development make for a complex web of overlapping and possibly contradictory expectations. The review finds it does not appear that this expansion has not been accompanied by a focus on value for money, or on connections back to the organisation's overall impact.

Recommendations

34 The panel makes seven recommendations that propose significant change to both Kāinga Ora and the social housing system:

34.1 **Recommendation 1:** To strengthen government accountability for social housing outcomes, Cabinet considers consolidating government funding for housing outcomes under the Minister of Housing, who will be supported by the Ministry of Housing and Urban Development (HUD) to administer that funding on behalf of the Crown, together with expectations of formal reporting of outcomes by a third party.

34.2 **Recommendation 2:** To prioritise tenant outcomes and cost-effective provision of housing support and supply, the Minister of Housing directs HUD to become an active purchaser that takes a social investment approach to cost-effectively improving housing outcomes.

34.3 **Recommendation 3:** To better enable tenants and local communities to meet their diverse housing needs and aspirations, government policy and investment builds on the advancements made in place based and specialised approaches to increase local decision making regarding the management and ownership of housing.

34.4 **Recommendation 4:** To increase choice, diversity, and innovation, Government enables more providers to participate in the provision of social housing by:

a) the purchaser contracting with Kāinga Ora in a similar manner that it does with Community Housing Providers (CHPs)

b) addressing barriers in order to increase provision of social housing by CHPs, Iwi and Māori, and other providers

c) ensuring the funding model incentivises delivery where needed and is responsive to the different needs of tenants

d) implementing alternative delivery models based on local decision-making and specific tenant needs, with pathways for communities to manage Kāinga Ora housing stock.

34.5 **Recommendation 5:** To ensure that Kāinga Ora has the leadership and mandate to effectively implement the recommendations of this Review, responsible Ministers:

a) refresh the Kāinga Ora board with a focus on the skills to implement the recommendations of this Review

b) issue simplified government expectations and direction to Kāinga Ora

c) report back to Cabinet with options to narrow the scope of Kāinga Ora activities to social housing and ensure it has the leadership and governance expertise to deliver effectively, including repealing the Kāinga Ora – Homes and Communities Act 2019 and designating Kāinga Ora as a Crown Company under Schedule 4A of the Public Finance Act 1989 with social and financial objectives.

34.6 **Recommendation 6:** Responsible Ministers set an expectation that the board will develop a credible and detailed plan to improve financial performance with the goal of eliminating losses. The board should be held accountable for implementing this plan through regular reporting to Ministers, supported by on-going engagement between the Kāinga Ora board, Kāinga Ora management and HUD.

34.7 **Recommendation 7:** To generate momentum toward the recommendations above, the Panel recommends the following timeframe for key milestones.

Within 3-6 months

- Strengthen Kāinga Ora governance by refreshing the board.
- Cabinet decisions on any necessary changes to Kāinga Ora legislation and entity form.
- Set new Ministerial expectations with HUD and Kāinga Ora.
- HUD and Kāinga Ora to agree a refreshed contract.
- Cabinet make decisions on consolidation of Crown funds to inform Budget 25.

In 12-18 months

- Implementation of any change to Kāinga Ora legal entity.
- Active purchaser role of HUD developed and being implemented
- Place-based solutions in four locations being implemented, together with plans to establish Community Housing Associations.
- Funding and delivery settings in place to support contestability and better outcomes for tenants.

in 2-3 years

- Nationwide social housing investment strategy developed.
- Supported by place-based housing strategies and delivery plans for all tenures.
- Kāinga Ora no longer making operating losses.

Approach to recommendations in the Report

35 The review makes recommendations about both Kāinga Ora and the wider social housing system because the review panel considered the performance of Kāinga Ora is significantly impacted by the performance of the wider system. Taken together, the

recommendations propose significant change to both Kāinga Ora and the social housing system.

36 The recommendations set a clear direction of travel for the social housing system, but many details around implementation are left for responsible Ministers and the Government to decide.

37 Given the scale of change recommended and the potential for significant fiscal impacts, we propose taking time to fully consider the recommended changes.

38 This will include considering alignment of, and sequencing with, broader Government priorities, including targets to reduce emergency housing use by 75%, implementation of the Going for Housing Growth plan, and reform of the Resource Management Act.

39 In addition, we will soon take a paper to Cabinet proposing a "first principles" review of current government housing funds, with a view to improving value for money, and establishing clarity about what the government is attempting to achieve with its large number of (expensive) housing programmes.

40 However, there is an immediate need to take action to address Kāinga Ora performance and its fiscal impact. We must make changes now to improve its governance and financial sustainability. We consider that the review makes strong recommendations in this area that we should accept and progress as soon as possible:

40.1 Recommendation 4(a): Aligning contractual arrangements across Kāinga Ora and CHPs

40.2 Recommendation 5(a): Refreshing the Kāinga Ora Board

40.3 Recommendation 5(b): Issue Simplified Direction to Kāinga Ora

40.4 Recommendation 6: that Ministers set an expectation that the Kāinga Ora Board will develop a credible and detailed plan to improve financial performance with the goal of eliminating losses

41 We therefore propose responding to the report in two steps:

41.1 Immediate actions on the accepted recommendations, which includes refreshing the Board, sending a new letter of expectations, and beginning work in a new delivery contract with Kāinga Ora.

41.2 A report back to Cabinet in August 2024 by the Minister of Housing which includes consideration of whether to accept the remaining recommendations, and proposed approached and a staged programme over the short and medium term.

42 The Minister of Housing also intends to report back to Cabinet in late 2024 on progress implementing actions agreed to in the August 2024 Cabinet paper.

Immediate actions

43 We propose to accept the recommendations outlined above in paragraph 24, and progress the corresponding actions immediately:

Action	Next step
Establish a social housing contract with Kāinga Ora: Placing consistent contractual requirements on social housing providers will allow Kāinga Ora performance to be benchmarked against CHPs, enable Ministers to become more active purchasers, and provide additional levers with which to hold Kāinga Ora to account for delivery.	We have directed HUD to develop a contract and initiative negotiations with Kāinga Ora.
Appoint new directors to the Board: There is an immediate need to bring the Board to at least the minimum membership requirements by appointing two Directors including the Chair. Selecting high-quality candidates will be critical to the long-term performance of Kāinga Ora, particularly for the Board Chair, which will take time particularly given the significance of the Independent Reviews findings.	We are already in discussions with potential candidates for the roles.
Send a new letter of expectations to the Board: Over the past few years, Kāinga Ora has been issued numerous letters of expectations as new functions have been established and have in some instances left interpretation of the extent of activity to Kāinga Ora. Simplified directions will enable the Board to govern more effectively. Ministers can provide clarity and simplified direction about the scale and standard of the functions that Ministers expect Kāinga Ora to perform within the existing legislative expectations. This would support the refreshed Board to meet expectations.	We have directed HUD to draft a new letter.
Request a plan from the Board: We need a way out of the current financial position. The refreshed Board will be best placed to drive this, so we will request that they develop a credible and detailed plan by November 2024 to improve financial performance with the goal of eliminating losses as quickly as possible. The plan should cover investment scenarios, approach to Treasury and liquidity management practices, detailed implementation plans.	We will communicate this request to the Board in the new letter of expectations.

Other immediate actions

44 We also recommend that Cabinet agree to bring Kāinga Ora back in line with Cabinet Office Circular 23(09), by reducing the delegation to the Board for individual investment decisions to $35 million (from $50 million, transferred over under the now defunct Investor Confidence Rating system).

45 We will also progress the following, related, actions that HUD and Treasury officials have recommended:

45.1 Ministers set revised purchasing intentions for delivery in 2024/25, strengthening regional delivery purchasing expectations and setting thresholds for Ministerial consultation on changes.

45.2 Implementing changes to the debt facility agreement between the Treasury and Kāinga Ora to enhance reporting obligations as agreed by Joint Ministers.

46 In addition, we have requested that HUD, in consultation with the Treasury, provide advice on additional measures required to ensure the November 2024 plan meets Ministers' expectations. This could include additional monitoring, a variation to the facility agreement between Kāinga Ora and the Treasury, and leveraging the new social housing contract with Kāinga Ora.

Approach to remaining recommendations

47 The panel indicated in recommendation 7 that the time horizon for their proposed changes is over a few years given the nature and size of the system change required to achieve the end state.

48 It is proposed that additional advice is brought to Cabinet in August 2024 before formally responding to the remaining recommendations.

49 At this stage, we expect that this will involve consideration of:

49.1 Principles to approach a consolidation of housing funding

49.2 Approaches for HUD to take a more active purchaser role

49.3 Approaches to taking increasing placed-based social housing delivery

49.4 Approaches to address barriers to greater delivery by CHPs, Iwi, Māori and other providers

49.5 A high level plan to undertake the policy work on funding settings and scope of Kāinga Ora.

Cost-of-living Implications

50 Reducing housing costs is critical to reducing the cost of living. Deteriorating housing affordability is putting pressure on household and government finances. The actions proposed in this paper intend to improve the performance of Kāinga Ora in providing services to kiwis struggling with the cost of living.

Financial Implications

51 There are no direct financial implications as a result of this paper. The immediate actions are expected to result in substantial improvements to the financial performance of Kāinga Ora and, in turn, the fiscal position over the coming years. We will consider the fiscal implications of the approach to the remaining recommendations when we report back in August 2024. Depending on the proposed approach, these could be significant.

Legislative Implications

52 There are no direct legislative implications as a result of this paper. However, there may be legislative implications of the response to the recommendations that we are still considering.

Population Implications

53 There are no direct population implications of this paper. However, housing is a critical element of a productive and inclusive society. It is an enabler of a range of other outcomes for tenants and communities, both socially and economically. This is evidenced through a broad range of longitudinal research and data. Kāinga Ora is a key part of delivering these outcomes. It manages over 72,000 properties providing homes to about 185,000 people.

Population group	How the proposal may affect this group
Māori (individuals and whanau)	Proposals in this paper aim to improve outcomes for social housing tenants. Social housing customers who identify as Māori make up 35% of the customer base. The disproportionate representation of Māori experiencing housing need and demand has increased, 52% of Housing Register applicants are Māori.
Children	Proposals in this paper aim to improve outcomes for social housing tenants. Approximately half of the population in Kāinga Ora public housing are children. Sole-parent families are the largest cohort. Helping parents and caregivers live well will have intergenerational benefits and reduce the cycle of disadvantage.
Disabled people	Proposals in this paper aim to improve outcomes for social housing tenants. Between March 2022 and April 2023 approximately 70% of Kāinga Ora customers were suffering, at one point in time or another, with a form of disability, and that mobility concerns were most prevalent.

Human Rights

54 There are no inconsistencies with International Human Rights law or the Bill of Rights Act 1990 from this paper.

Use of external resources

55 The report of the Independent Review of Kāinga Ora was the only external resource used in the preparation of this paper.

Consultation

56 The Kāinga Ora Board provided feedback on the interim report to the panel on 15 April 2024. Ministers received this feedback from the Acting Chair of Kāinga Ora on the same day. While the Board is broadly comfortable with the review recommendations, they did provide detailed feedback on the contents of the report.

57 The independent panel has assessed the Board's feedback and made changes to the interim report in response to this feedback. HUD and Treasury, as secretariat to the Review, supported the Panel in making these changes.

58 The Department of Prime Minister and Cabinet and Public Service Commission have been informed.

59 The Housing Ministerial Group, made up of the Minister of Housing, Minister of Finance, Associate Minister of Housing, Minister for Social Development, Minister for Building and Construction, and the Parliamentary Under-Secretary for RMA Reform, met on 10 April to discuss the interim report's findings, and the Government's initial response.

Communications

60 We intend to announce the Government's response on 20 May 2024.

Proactive Release

61 We intend to proactively release this Cabinet paper and the final report of the review in full on 20 May 2024, subject to Cabinet approval.

62 We also intend to proactively release a package of advice supporting documents related to Kāinga Ora and the review on 20 May 2024.

Recommendations

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

1 **note** that in December 2023, as part of its 100-day plan, the Government announced an independent review of Kāinga Ora [100-23-MIN-0011 refers]

2 **note** that the final report of the Independent Review of Kāinga Ora has been delivered

3 **agree** that the Government's response to the Independent Review occur in two steps:

3.1 Immediate actions on four of the recommendations, including refreshing the Board, sending a new letter of expectations, and beginning work on a new delivery contract with Kāinga Ora.

3.2 A report back to Cabinet in August 2024 by the Minister of housing which includes consideration of whether to accept the remaining recommendations, and proposed approaches and a staged programme over the short and medium term.

4 **note** that the Minister of Housing intends to report back to Cabinet in late 2024 on progress implementing actions agreed to in the August 2024 Cabinet paper.

5 **accept**, as part of the first phase of the response, the following Independent Review recommendations:

5.1 Recommendation 4(a) to change the Kainga Ora contract to align with expectations with Community Housing Providers

5.2 Recommendation 5(a) to refresh the Kāinga Ora Board

5.3 Recommendation 5(b) to issue simplified direction to Kāinga Ora

5.4 Recommendation 6 that Ministers set an expectation that the Kāinga Ora Board will develop a credible and detailed plan to improve financial performance with the goal of eliminating losses

6 **note** that the Minister of Housing will direct the Ministry of Housing and Urban Development to progress work to align contractual arrangements between Kāinga Ora and CHPs;

7 **note** that the Minister of Finance and Minister of Housing will refresh the Board of Kāinga Ora by at least appointing a new Chair and two new directors;

8 **note** that the Minister of Finance and Minister of Housing will issue a new letter of expectations to the new Chair, simplifying direction and expectations, and requesting the Board deliver a credible and detailed plan to improve financial performance by November 2024;

9 **invite** the Minister of Housing to report back to Cabinet in August 2024 on the response to the remaining review recommendations, including consideration of:

9.1 Principles to approach a consolidation of housing funding with final recommendations in November 2024

9.2 Approaches for HUD to take a more active purchaser role

9.3 Approaches to taking placed based approaches to social housing delivery

9.4 Approaches to address barriers to greater delivery by CHPs, Iwi, Māori and other providers

9.5 A high level plan to undertake the policy work and factors to be considered for further advice in late 2024 on funding settings and scope of Kāinga Ora

9.6 changes to the debt facility agreement between the Treasury and Kāinga Ora.

10 **agree** to reduce the delegation to the Board for individual investment decisions to $35 million, in line with Cabinet Office Circular 23(09) (from $50 million, transferred over under the now discontinued Investor Confidence Rating system), superseding any previous Cabinet decisions on the level of delegation to the Board

11 **approve** the release on 20 May 2024 of:

11.1 the Final Report of the Independent Review of Kāinga Ora

11.2 this Cabinet paper.

12 **note** that we intend to proactively release a package of advice and supporting documents related to Kāinga Ora and the Independent Review of Kāinga Ora on 20 May 2024.

Hon Chris Bishop
Minister for Housing

Hon Nicola Willis
Minister of Finance