



Briefing

Update to Current Funding and Financing Arrangements for Kāinga Ora – Homes and Communities			
Date:	6 May 2021	Security level:	Budget - Sensitive
Priority:	Medium	Report number:	BRF20/21040921

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to an increase in the private debt facility for Kāinga Ora by \$1.2 billion (to \$8.3 billion) to enable the organisation to deliver on current commitments to 30 June 2022. Or Agree to seeking Cabinet approval to provide Kāinga Ora with the equivalent amount of DMO debt after the Budget moratorium has expired.	Decisions on the Kāinga Ora borrowing could be communicated in conjunction with the Budget 2021 announcements.
Hon Dr Megan Woods Minister of Housing		

Contact for discussion			
Name	Position	Telephone	1st contact
Brad Ward	Deputy Chief Executive, Place-based Policy and Programmes	s 9(2)(a)	
Glenn Phillips	Principal Advisor, Strategic Finance		✓

Other agencies consulted
Kāinga Ora; The Treasury

Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify) <hr/>
--

<p>Comments</p>
--

Date returned to HUD:



Briefing

Update to Current Funding and Financing Arrangements for Kāinga Ora- Homes and Communities

For: Hon Grant Robertson, Minister of Finance
Hon Dr Megan Woods, Minister of Housing

Date: 6 May 2021 **Security level:** Budget - Sensitive

Priority: Medium **Report number:** BRF20/21040921

Purpose

1. To seek the agreement of the Minister of Finance and the Minister of Housing to **either** raise the private debt limit for Kāinga Ora – Homes and Communities (Kāinga Ora) **or** to agree to provide Debt Management Office (DMO) debt for Kāinga Ora, for the organisation to be able to maintain momentum in their capital build programme.

Executive summary

2. The Government has a number of commitments related to housing, totalling 18,000 new public and transitional housing by June 2024, with Kāinga Ora playing a large part in delivering these commitments.
3. The Kāinga Ora capital build programme continues to work towards delivering the Budget 2018 and Budget 2020 commitments that will help with the supply side of the housing affordability issues that New Zealand is experiencing.
4. As part of Budget 2020, it was signalled that an additional \$5 billion of financing would be required to deliver on these commitments. This briefing seeks to access the first instalment of this financing.
5. To date, annual decisions have been sought to increase borrowing amounts to continue the delivery against Government commitments with the last approval in November 2019 for expected capital investment to June 2021 of a borrowing limit of \$7.1 billion.
6. The borrowing requirement for the year to June 2022 requires a Ministerial decision confirming the source of borrowing as well as the quantum expected to be borrowed.
7. The expected level of capital investment for the year to 30 June 2022 is \$2.9 billion which will be met by utilising short-term deposits built up during the past financial year by the continuation of the previously agreed borrowing programme in 2020/21 and obtaining \$1.2 billion of additional financing.
8. The \$2.9 billion represents broad investment of
 - a. Public Homes Build Programme of \$1.8 billion
 - b. Transitional Housing Build Programme of around \$750 million
 - c. Retrofit programme of around \$470 million
 - d. Strategic Land Purchases of \$250 million.

9. The potential sources of financing for Ministers consideration are:
 - a. Raising through private borrowing (Kāinga Ora Board and HUD preferred option) requiring an increase to the current protocol to \$8.3 billion (a net change of \$1.2 billion due to headroom in the existing approved limit due to COVID-19 delays)
 - b. Financed from New Zealand Debt Management Office (DMO) debt through a pre-commitment against the multi-year capital allowance (Treasury preferred option)
 - i. Providing a lower cost option of financing costs (\$6 million per annum of additional interest relating to the increased borrowing for 30 June 2022),
 - ii. Preserves the Government's ability to prioritise and make investment decisions across different portfolios,
 - iii. Provides better financing certainty for the Crown, and
 - iv. Ensures that the Government's housing objectives can be delivered sustainably and transparently.
10. If debt is raised privately, the annual private debt issuance that can be sustainably accommodated by the market is considered to be between \$2-\$3 billion, which this request is within these parameters.
11. Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) as the monitoring agency is comfortable with the level of borrowing increase having assessed the robustness of the forecasted spend and the associated delivery of commitments. There is a need to improve debt governance and transparency of the spend and we will continue to work with Kāinga Ora in increasing reporting and assessment of value for money across significant investments irrespective of the financing source.
12. Given the approach of private sector borrowing is in line with market expectations and work is underway to move the focus to a medium-term financing approach, HUD is supportive of continuing the current approach for financing through private borrowing to June 2022.
13. To progress this, work is currently underway with Kāinga Ora, Treasury and HUD to validate medium-term requirements with a report back expected later this year with a focus on ensuring decision making and monitoring processes are fit for purpose to balance delivery pace with value for money considerations.

Recommended actions

14. It is recommended that you:
 1. **Note** that Kāinga Ora has inherited Housing New Zealand's funding and financing model, made up of:
 - 1.1 Operating funding (including the Income Related Rents Subsidy and other appropriated funding sources);
 - 1.2 Selling surplus land; and
 - 1.3 Borrowing (from both the private sector and the Crown). *Noted*
 2. **Note** that the Kāinga Ora build programme is progressing and as planned now seeks the private borrowing limit to be increased to finance the next stage in their build programme out to June 2022. *Noted*
 3. **Note** that in November 2019 the Kāinga Ora private borrowing limit was raised to \$7.1 billion with the understanding that more would be sought later to finance future needs. *Noted*
 4. **Note** that Treasury have been consulted. *Noted*

- | | |
|---|----------------------------|
| 5. Note that pursuant to section 160(1)(b) of the Crown Entities Act 2004 the approval for an increase in the debt protocol can be given jointly by the Minister of Finance and the Minister responsible for the portfolio. | <i>Noted</i> |
| 6. Agree to increase the private borrowing limit for Kāinga Ora by \$1.2 billion (to \$8.3 billion) to enable Kāinga Ora to deliver on commitments and maintain momentum in the build programme. AND | <i>Agree / Disagree</i> |
| 7. Agree to approve – pursuant to section 160(1)(b) of the Crown Entities Act 2004 – the Kāinga Ora Borrowing and Derivates Protocol, including an external borrowing limit of \$8,300 million. AND | <i>Agree / Disagree</i> |
| 8. Sign the attached letter to the Kāinga Ora Board Chair. OR | <i>Agree / Disagree</i> |
| | Minister of Housing |
| 9. Agree to seek Cabinet approval after the Budget moratorium has expired to provide Kāinga Ora with \$1.2 billion of direct Crown/DMO debt to enable Kāinga Ora to deliver on commitments and maintain momentum in the build programme which will be a pre-commitment against the multi-year capital allowance. | <i>Agree / Disagree</i> |
| 10. Note that approval for individual investment decisions will continue to be made through appropriate business case processes including report backs associated with Budget 2021 funding and in line with Cabinet Office Circular CO (19) 6. | <i>Noted</i> |
| 11. Note that any increase in Kāinga Ora’s approval to borrow must be publicly notified via the Gazette, in accordance with section 160(3) of the Crown Entities Act 2004. | <i>Noted</i> |

Brad Ward
**Deputy Chief Executive Placed-based
Policy and Programmes**

...6.. / ..05.. / ..2021

Hon Grant Robertson
Minister of Finance

..... / /

Hon Dr Megan Woods
Minister of Housing

..... / /

Background

15. Kāinga Ora plays a substantive role in delivering the manifesto commitment of 18,000 additional houses including 70% of the Budget 2018 Crown commitments to deliver 6,400 houses by June 2022, and will be a significant contributor to the Budget 2020 Crown commitments to deliver a further 8,000 houses (across Transitional and Public Housing) by 2024.
16. Kāinga Ora also has an active role in urban development functions, including undertaking large scale projects.
17. To help finance the work programme of Kāinga Ora, Ministers have approved a number of annual increases to their private borrowing limit, with the latest increase to \$7.1 billion, which was forecasted to provide enough to finance the investment programme to June 2021.
18. The investment programme covers:
 - Public and Transitional Housing Build Programme
 - Refugee housing
 - Retrofit programme
 - Market and Affordable homes.
19. The Kāinga Ora capital investment programme includes a continuous need for more financing, until such time as the pace of building reduces, or the operational surpluses increase, enough for Kāinga Ora to finance their own cash requirements and pay back their debt.
20. For Kāinga Ora to continue their agreed capital investment programme to 30 June 2022 the current forecasts show that Kāinga Ora will need \$2.2 billion of cash in FY2021/22. Due to a forecasted headroom by 30 June 2021 of \$0.995 billion Kāinga Ora needs additional financing approval of \$1.2 billion.
21. Although there have been delays in some delivery to date due to COVID-19, Kāinga Ora expects to be back on track by June 2022 reducing the current financial asset reserves to fund this catch up activity.
22. The largest component of Budget 2020 deliverables occurs post June 2022, which will require a further uplift in borrowing to deliver. HUD, Kāinga Ora and the Treasury are currently working through an approach over the medium-term which will be reported back to Ministers later in 2021.

Previous forecasts and current situation

Kāinga Ora projections as at November 2019 and delivery to date

23. In BRF19/20110505 Kāinga Ora gave these projections of key cumulative deliverables for the five financial years starting from FY2018/19:

		FY19+20 Option 1	FY21 Option 2	FY22	FY23 Option 3
Private debt required for Budget Intentions	\$b	\$3.228	\$4.978	\$6.842	\$8.701
Key cumulative deliverables we get for that debt					
Contribution to 4,480 more IRRS homes	#	2,342	3,462	4,480	
More homes for refugees	#	75	150	255	360
Gross homes built by Kāinga Ora	#	3,239	5,064	6,914	8,699
Home retrofitted	#	300-400	800-1,200	1,500-2,200	3,000-3,700
Market/affordable homes enabled	#	1,073	1,774	3,069	3,153
Compliance with new Healthy Homes legislation					Yes
Private debt required for Other Activities	\$b	\$0.760	\$1.500	\$1.923	\$1.913
Key cumulative deliverables we get for that debt					
New transitional homes through PERM	#	~700	~1,700	~2,900	
New land for development	#	tbc	tbc	tbc	tbc
Provisions for forward contractual commitments	\$b	\$0.566	\$0.588	\$0.490	\$0.000
Private debt required in total	\$b	\$4.554	\$7.066	\$9.255	\$10.614

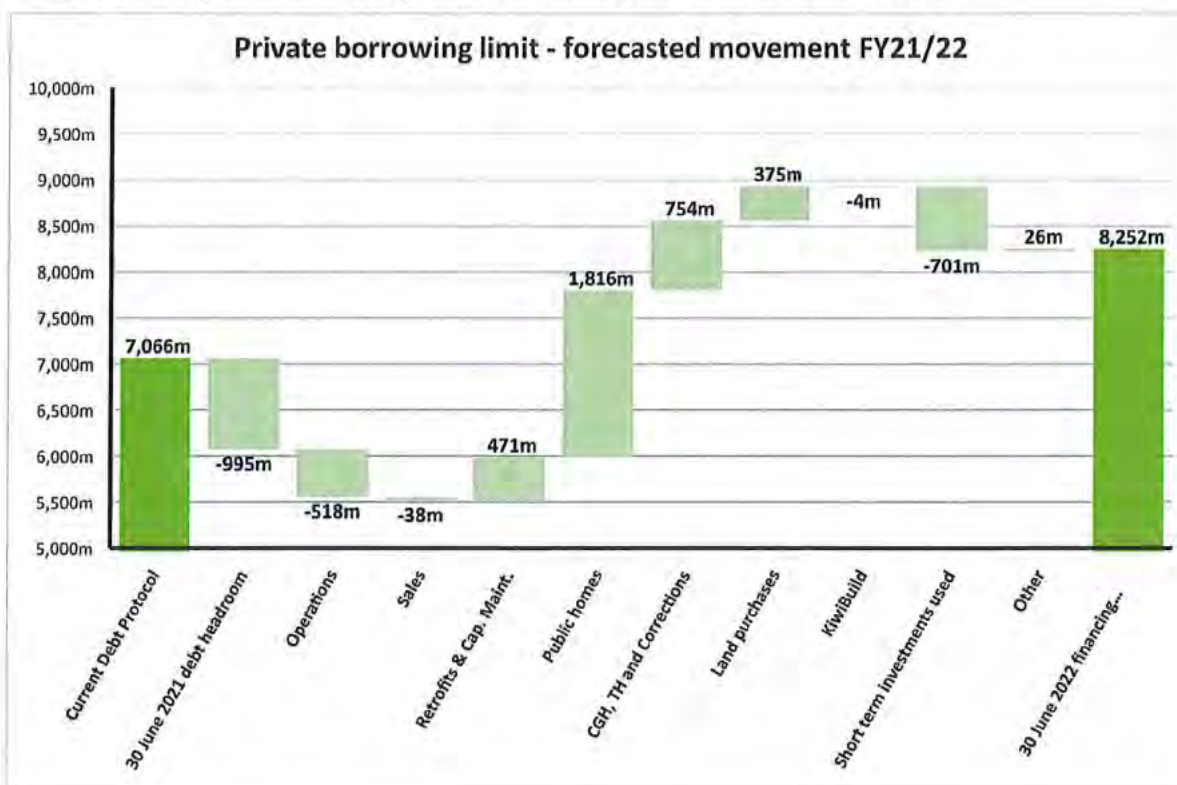
24. This led to the agreement of a private borrowing limit of \$7.1 billion which covered expected delivery to June 2021, with private borrowing expected to be \$4.6 billion at 30 June 2020 (the recently completed year-end) and with a projected borrowing requirement of \$9.3 billion in June 2022.
25. As per December 2020, delays experienced during lockdowns are gradually been caught up through increased pace of delivery, with the expectation that delivery will be back in line to pre COVID-19 expectations by June 2022.
26. Some of the areas that are currently forecasted to be behind estimated spend and delivery by 30 June 2021 (compared to the November 2019 estimate) include:
 - a. Construction of Income Related Rents Subsidy (IRRS) homes (\$416M short of spend and 294 less houses completed).
 - b. Construction of transitional homes (\$614M short of spend and 524 less houses completed).
 - c. The Tāmaki regeneration programme is expected to be behind and to have incurred \$235M less.
 - d. The retrofit programme is expected to be behind and to have incurred \$120M less.
 - e. Strategic land purchases was slowed down during COVID-19 and is expected to be behind by \$125M in incurred costs.
 - f. Points a to e above total reduction of cash out to 30 June 2021 from being behind is expected to impact around \$1.5 billion.
 - g. Due to movements in other areas the net reduction on the debt utilisation by 30 June 2021, compared to the original estimate in November 2019 is \$1 billion, which means that the estimated market borrowing by 30 June 2021 is now \$6.1 billion.
27. To ensure cash was available through the uncertain times of the early months of COVID-19, Kāinga Ora continued to issue private debt in the second half of 2019/20 at the pace previously communicated to the financial markets. This has resulted in a short-term investment asset build-up, which is partly financing the increased pace of build in 2020/21 and 2021/22.

Updated forecasts and linking to Budget 2021 bids

Kāinga Ora forecasts to 30 June 2022

28. Kāinga Ora is planning to deliver their share of the Budget 2018 commitments 6,400 net new IRRS homes by 30 June 2022.
29. Kāinga Ora forecasts that a total of \$2.2 billion will be required in FY2021/22 to deliver the forecasted capital programme, utilising short-term cash investments of \$995 million, with the remainder requiring additional financing.
30. Kāinga Ora includes within the overall borrowing requirement prudent levels of liquidity protection. With the increased planned capital programme this reserve has also increased compared to previous assumptions in Long-Term Investment Plans (LTIP).
31. This will result in a reserve of around \$750 million, for Kāinga Ora to ensure they at all times adhere to their liquidity policy of a minimum of four months. The reserve will hold the estimated cash necessary to continue investments for up to five months without access to increased borrowing. In the extreme cases where market liquidity is severely impacted, Kāinga Ora has an agreed stand-by credit facility with NZDMO for \$1 billion.
32. The overall result is a forecasted financing requirement until June 2022 of \$8.3 billion, an increase of \$1.2 billion on the current \$7.1 billion level.

33. The capital programme which generates this requirement is shown below:



34. Overall, of the \$1.5 billion listed in paragraph 26, Kāinga Ora expects to catch up to the November 2019 estimate in total \$570 million, but will still be \$937M behind the November 2019 estimate. Half of this relates to transitional homes (\$432M).

35. In total the Kāinga Ora required borrowing to June 2022 is forecasted to be \$1 billion lower than the estimate included in the November 2019 approval.

36. The difference is mainly due to:

- s 9(2)(f)(iv)
- Transitional Housing projections were pre Budget 2020 decisions and have been refined to align to the portion Kāinga Ora will deliver.
- Unused contingencies have been removed; offset by
- Additional borrowing for the Kāinga Ora Land Programme component of the Housing Acceleration Fund.

37. Further details on the changes since the previous borrowing increase in November 2019 are attached in **Annex A** (30 June 2021 variances) and **Annex B** (30 June 2022 variances).

Financial sustainability

38. In BRF19/20110505 Kāinga Ora noted that the forecast at the time indicated a total debt to assets ratio would peak at \$17 billion, which includes the \$2 billion of DMO debt currently on the Kāinga Ora balance sheet. This peak debt would deliver a build programme that exceeds current budget commitments.

39. BRF19/20110505 showed a peak debt to assets ratio of 34 percent, which is a limit that Kāinga Ora is comfortable with, as this is still within the limit where Kāinga Ora would be considered sustainable from a stand-alone perspective.

- 30 June 2020 Kāinga Ora debt to assets ratio was 20 percent.
- 30 June 2022 Kāinga Ora debt to assets ratio is forecasted to be 26 percent.

40. Kāinga Ora is currently working on updating their long-term financial forecasts. At this time their forecasts indicate a full delivery of current Government commitments by 30 June 2024 and at that time the total debt is forecasted to be \$15.6 billion (of which \$2 billion is DMO debt). s 9(2)(j)
41. Not included in the \$15.6 billion is the future requirements for financing the Strategic Land Acquisition initiative, which could increase debt further by up to \$0.6 billion from 1 July 2024 to 30 June 2027. The final impact on debt levels depends on future Government decisions on public house builds. If no further Government commitments will be made beyond the new homes announced as part of Budget 2018 and Budget 2020 the impact on overall debt levels may be reduced as Kāinga Ora may be able to finance some or all of the expenses from their operational profits.
42. Kāinga Ora and HUD will work together to firm up the longer-term view, where Kāinga Ora expects to continue their build programme for at least another 10 years beyond the Government commitments, and what that would mean to their peak debt amount and timing. The longer-term outlook and related build programme would be subject to Crown approval, but Kāinga Ora long-term forecasts will present the possible outlook. A continuation of the Retrofit Programme will also have an impact on future financing needs, but the actual impact on debt depends on future Government decisions on public house and transitional homes builds beyond current commitments.
43. In the short-term there are no indications that the financial sustainability of Kāinga Ora is under pressure, however, any uplift in costs flowing through the investment programme are likely to place pressure on Crown funding (either directly for large scale projects or through IRRS for Public Housing).
44. Kāinga Ora's Long-Term Investment Plan shows that future operational cash surpluses are more than adequate to finance repayments of debts, including principal and interest components. As long as borrowing is only used for future cash-generating assets and the overarching Crown appropriations where relevant are funded through Budget processes, and adequate funding is provided for non-cash generating investments, this view will not change.

Sources of financing and controls of spend

Considering whether to finance through private borrowing or DMO debt

45. The financing requirements of Kāinga Ora can be met either by increasing the private borrowing limit or through DMO debt.
46. Kāinga Ora and Treasury have different views of what the best approach is and they will be presented in the coming sections.
47. The main focus of HUD is to ensure that Kāinga Ora:
- Remains financially sustainable, meaning it is capable of servicing interest costs and debt repayments through established revenue streams.
 - Invests through the Kāinga Ora Investment Principles ensuring debt is only used for assets that generate future revenue and decision making is in accordance with Cabinet Circular CO (19) 6 on Investment Management and Asset Performance in the State Services.
 - Delivers on Government budget commitments on time and to the expected quality and level of cost.
48. The main tools for HUD to ensure that Kāinga Ora achieves the above aims is for HUD to have effective monitoring and reporting by Kāinga Ora.
49. On balance, given the approach that private sector borrowing is in line with market expectations and work is underway to move the focus to a medium-term financing approach,

HUD is supportive of continuing the current approach for financing through private borrowing to June 2022.

50. The medium-term work is fundamental as it will provide certainty to both Kāinga Ora and markets (either through Kāinga Ora or New Zealand DMO) of the intended financing requirements aligned to previous policy announcements while ensuring that Ministers interests are protected through assessment of delivery and value of money.

The Kāinga Ora view on options for the sourcing of borrowing

51. The current approach is for Kāinga Ora to access the required finances by issuing private debt in the market.
52. Kāinga Ora considers that the market will be able to absorb up to \$3.0 billion of net new NZD market debt in any 12-month period, and will not be able to get much above \$2.0 billion several years in a row. This is fairly consistent with non-sovereign domestic issuers (e.g. Local Government Funding Agency and Auckland Council).
53. The sensitivity of investors to volume was tested in January 2020 when Kāinga Ora announced a borrowing programme of \$2.5 billion in calendar year 2020. The announcement raised concerns with both investors and banks around whether this volume would be possible without relying on financing in a foreign currency, and resulted in a significant widening of spreads to New Zealand Government Bonds. With a long enough lead time Kāinga Ora believes these concerns would be less, though only as long as most years retain a net new market debt raised closer to \$2.0 billion.
54. To address this speed limit, Kāinga Ora could consider either financing in foreign currency (which is generally more expensive than NZD financing) or through Crown loans, the mechanism for which has already been established for the \$2.0 billion of Crown loans currently on its balance sheet.
55. The general advantages and disadvantages of the different financing options, from the viewpoint of Kāinga Ora, are outlined below:

	Advantages	Disadvantages
NZD bonds only	<ul style="list-style-type: none"> • Commitments made less directly linked to annual Budget process • Improves NZD market liquidity • Simple and proven approach 	<ul style="list-style-type: none"> • Limited pool of investors
NZD bonds + foreign currency bonds	<ul style="list-style-type: none"> • Commitments made less directly linked to annual Budget process • Diversified pool of investors • Flexible issuance approach 	<ul style="list-style-type: none"> • Higher cost of financing (~0.3%) depending on market • Reduced liquidity in NZD market
NZD bonds + Crown loans	<ul style="list-style-type: none"> • Predictable bond programmes • Marginally lower cost 	<ul style="list-style-type: none"> • Limited pool of investors • Increased complexity • Reduced flexibility • Reduced ability to make long term commitments

56. Kāinga Ora believes that there is a larger degree of flexibility by utilising the private market for financing rather than going through the DMO.
57. Kāinga Ora also believes that by solely using private borrowing it instils in Kāinga Ora a higher sense of commercial discipline in the organisation that may be reduced by relying on DMO debt instead.

58. The Kāinga Ora preference is to finance its capital programme through the issuance of NZD bonds in its own name, reflecting the nature of its asset-driven capital expenditure profile, fungible asset base and strong free cash flows. They anticipate financing requirements are likely to continue to grow, and would like the protocol framework to reflect that reality as it will improve their ability to work with investors. They would also note that the pool of investors who would be interested in Crown-issued NZD debt will also be available to Kāinga Ora.

The Treasury view on options for the sourcing of borrowing

59. Decisions on the sourcing of Kāinga Ora’s borrowing need to be considered in light of their fiscal management implications. Furthermore, Kāinga Ora borrowing comes at a margin over government bond rates, so is more costly than core Crown borrowing. To this end, the Treasury does not support further increases to Kāinga Ora borrowings outside of the Crown. Providing funding through a capital appropriation or tagged contingency (funded by NZDM borrowings) preserves the Government’s ability to prioritise and make investment decisions across different portfolios, provides better financing certainty for the Crown, and ensures that the Government’s housing objectives can be delivered sustainably and transparently.

60. The borrowing programme necessary to support Kāinga Ora’s current investment plans is significant. Over the last two years, Kāinga Ora has borrowed at a margin over government bonds of between 30 and 60 basis points, equivalent to \$3 million to \$6 million per annum for each \$1 billion borrowed (Kāinga Ora borrowing from the Crown is at a margin of 15 basis points over the Crown’s cost of borrowing, but this is “Crown to Crown” i.e. the net cost is zero). The scale and term of Kāinga Ora’s borrowing magnifies this cost significantly.

61. As highlighted above (paragraph 40), Kāinga Ora’s market borrowing is expected to approach \$14 billion dollars by June 2024, based on current commitments and excluding any borrowing under the Kāinga Ora Land Acquisition Programme. The table below shows the incremental net present cost of Kāinga Ora borrowing this amount from private markets. While the annual impost is low, the cumulative impact approaches that of a major urban development, or one of the newly established housing funds.

Incremental net present cost of borrowing \$14 billion (\$million)

Margin (bp)	Time to repayment (years)					
	5	10	15	20	25	30
30	182	324	436	523	592	646
40	242	432	581	698	789	861
50	303	541	727	872	987	1076
60	364	649	872	1047	1184	1291

62. Borrowing from the Crown can provide the same funding certainty that Kāinga Ora believes it achieves through the borrowing protocol. A multi-year appropriation can provide parliamentary approval for Treasury to incur the associated capital expenditure for up to five years. Once the appropriation is set up, any drawdown matters (amounts, timing, etc.) can be agreed by joint Ministers as is currently done under the borrowing protocol. The Budget process would only be required if there was a need for additional funding. For the avoidance of doubt the borrowing would impact on core Crown net debt unless the loans are repaid within 10 years, in which case they would be considered fiscally neutral for Fiscal Management Approach purposes.

63. Kāinga Ora have cited greater commercial discipline in the organisation as a benefit of market borrowing. While lenders are a potential source of scrutiny on a borrower’s financial performance, it is likely that in this case lenders are looking to the close relationship between

the Crown and Kāinga Ora in making their lending decisions, rather than the organisation's investment processes and underlying financial position.

64. If an entity is not subject to strong commercial drivers, then an ability to borrow may act to loosen the discipline on it to operate efficiently. Greater autonomy means it can address cost overruns or delivery issues by tapping the capital markets for more funding, with the political economy around Kāinga Ora's work meaning it can likely find some way of addressing those cost issues through future budget rounds.

Current and future state of reporting and monitoring on the private borrowing

65. As of 30 June 2020, Kāinga Ora expanded their regular monthly reporting to the Kāinga Ora Board to also report quarterly on their debt protocol to HUD, showing the debt position and selected capital spend that utilises the financing provided by debt.
66. The December 2020 quarterly report had already some improvements implemented and HUD will continue to work with Kāinga Ora to ensure that going forward both Kāinga Ora Board and HUD can accurately and consistently monitor significant investment decisions (funded by debt), track deliverables/outputs against Statement of Performance Expectations and Public Housing Plans and other forecast commitments, and track debt profiles against projections. The end goal is provide greater transparency and analysis at appropriate levels which may for significant investments include project or programme level analysis.
67. Both Kāinga Ora and HUD are committed to enhancing the reporting for the borrowing increase. This will enable Ministers, HUD and Kāinga Ora Board to adequately monitor outputs/delivery against targets/commitments/projections, track debt movements and debt profiles; and capture significant investment decisions (funded by debt).
68. Included in the improved reporting will be the ability to report back on value for money and to track the deliverables that the borrowing requirements help finance.
69. Based on the ability of HUD to monitor Kāinga Ora spend and delivery going forward, HUD recommends that Ministers support the requested financing to Kāinga Ora to 30 June 2022, whether by increasing the private borrowing limit or by providing DMO debt through a Cabinet decision.

Risks and mitigations

70. There are both some general risks with the capital investment programme of Kāinga Ora, and also specific risks linked to the question of securing financing through private borrowing or DMO debt. Both categories of risks are included in this section.
71. If the private market debt limit is not raised as Kāinga Ora build programme continues, progress will be severely reduced, unless the Government instead provides DMO debt to finance the shortfall.
72. As the private debt market requires time to plan, Kāinga Ora should ideally have knowledge of future private market debt limits up to a year before they hit their current ceiling. Currently it is forecasted that the limit will be reached midway through FY21/22. A decision in conjunction with the release of Budget 2021 would be early enough for the private market.
73. Kāinga Ora pays between 30 and 60 basis points (0.3-0.6%) extra on their private borrowing compared to what they would pay through direct Crown borrowing through the DMO. That means that for every \$1 billion in debt an annual \$3-6 million of extra interest will be incurred.
74. Depending on how long Kāinga Ora continues to build houses at current levels this could average out over the course of the next 30-50 years (which is what Kāinga Ora currently projects it will take to repay all debt) to \$50-100 million per year. In this case the total amount of extra interest costs would be significant, but in any given year it would not change the overall sustainability of Kāinga Ora, as long as debt financing is used for revenue gathering investments.

75. The annual premium is likely to increase if Kāinga Ora has to increase their private borrowing by significantly more than \$2 billion per year.
76. These additional borrowing costs are recouped through higher IRRS payments and ultimately have an impact on the level of funding available within these appropriations which at some stage will require additional funding from Budget processes.
77. Overall there are some risks that are considered and mitigated:

Risk	Likelihood	Impact	Mitigation
Debt protocol limit is raised incorporating investment activities that may be deprioritised as part of Budget 2021	Low The debt protocol is for activities delivering Budget 2018 and 2020 commitments.	Low There is no requirement for Kāinga Ora to draw down the debt if not needed.	<ul style="list-style-type: none"> Agreement of the debt protocol limit is not the mechanism to approve investment spend or priority. All decisions to draw down on debt will be underpinned by a relevant business case as per the new investment approval pathway approach being developed.
Protocol limit is insufficient to cover current and new activities	High Budget 2020 commitments are forecasted to require an increase for financial years beyond FY2021/22.	Moderate There is time to review and adjust the limit as needed.	<ul style="list-style-type: none"> HUD will work with Kāinga Ora to establish a longer view following the Kāinga Ora LTIP and Forecasts model review scheduled in April-May 2021. We recommend to have the limit set for the investment plan to the end of June 2022 until the longer view is established.
Investments included in the current financing requirement calculations are not budgeted adequately	Low The current request for financing only covers to 30 June 2022. The scope of work included is far enough ahead in planning to have some surety of costs.	Low Kāinga Ora would have to request additional financing, but with the amount requested and the cash reserves being held there is time for that.	<ul style="list-style-type: none"> The quarterly reporting of the borrowing utilisation will enable HUD to both track updated forecasts of financing requirements and delivery of outcomes.
The financing required to implement the investment plan is not put in place	Low Kāinga Ora Treasury function has mechanisms in place.	High Kāinga Ora would have to stop planned activities.	<ul style="list-style-type: none"> There is a clear strategy around current funding decisions. HUD will monitor the cash and debt levels of Kāinga Ora and report back should there be a need for intervention.
KO Budget 2021 bids are not granted and/or incurred cost are not included in granted funds resulting in a larger requirement of cash	Moderate Some reductions compared to the recommended options could happen, which could result in an impact on the debt profile.	Moderate Depending on the quantum it could either be managed within the new limit, require a higher limit, or require a mixed model with some DMO debt.	<ul style="list-style-type: none"> The debt limit required is depending on whether budget bids are approved as recommended. Kāinga Ora would have enough headroom initially so the required extra amount would be included in the updated briefing paper to be provided later this year.
Kāinga Ora new private borrowing in a given year is high enough that the market requires a higher premium than the general 30-40 basis points	Moderate The risk is low in FY2021/22 but increases in the years following that.	Moderate Interest expenses higher than expected above DMO levels will reduce Kāinga Ora and the Crown's ability to deliver on housing outcomes, but Kāinga Ora would still achieve their overall Government targets.	<ul style="list-style-type: none"> For FY2021/22 the amount of extra borrowing required is low enough for the interests to be kept low, especially in the current market. Should the updated view later in 2021 show an increased need for large amounts of borrowing the Government would have the opportunity to allocate DMO debt to Kāinga Ora in future years.
Funds are not spent as intended requiring more financing than intended	Low Kāinga Ora has an established work programme that overall is linked to Government outcomes so only minor spend should take place out of scope.	Moderate Some minor spend will not significantly change the borrowing requirements. If a slow increase of general spend and overheads increase it can reduce spend on Government outcomes over the longer run.	<ul style="list-style-type: none"> Investment decisions will have to go through approval stages and the investment approval pathway approach being developed should stop significant investments. The reporting and monitoring of the borrowing of Kāinga Ora will expose significant spend outside of Government priorities.

Significant investment decisions and deliveries to 30 June 2022

What investment decisions related to the debt limit you are expected to make and what deliveries funded by debt will be completed from now until 30 June 2022

78. Currently within the increased borrowing requirement there are some individual investments which will require consultation with Ministers including:
- The decision on the full rollout of the Retrofit Programme. The pilot is planned to end by 30 June 2021 and you will be approached concerning the full rollout as per the new investment approval pathway approach that is currently being developed.
 - Any other projects that fit within the investment approval pathway approach that is currently being developed by Kāinga Ora in line with Cabinet Office Circular CO (19) 6.

Consultation

79. Attached as **Annex C** to this briefing is the formal request from the Kāinga Ora Board to increase the borrowing requirement following a discussion at Board level.
80. Treasury has been consulted on this briefing paper.

Next steps

81. Kāinga Ora will provide communication to the market following the decision and if timing aligns could form part of the Budget 2021 releases.
82. Should you choose to seek direct Crown debt, officials will draft a Cabinet paper seeking this as a pre-commitment against the multi-year capital allowance.
83. A briefing paper seeking a longer-term view of the debt protocol will be presented to Ministers by the end of the year. This briefing paper will provide greater assurance on the future spend, reporting and monitoring of the debt utilisation and associated deliverables and will incorporate the updated financial information from the Kāinga Ora strategic view and LTIP model, that are due to be updated in April/May 2021.
84. To implement the revised Protocol, please sign the attached letter in **Annex D** to the Kāinga Ora Board Chair which communicates the change in the revised Protocol in **Annex E**.
85. HUD will arrange for the new approval to be publicly notified by Gazette notice once your Office has notified us that the letter has been sent.

Annexes

Annex A: 30 June 2021 updated view and comparison of spend (reconciliation) between updated forecast and the table provided in BRF19/20110505 (paragraph 48).

Annex B: 30 June 2022 updated view and comparison of spend and borrowing position between previous estimate and updated forecast.

Annex C: Letter from Kāinga Ora Board Chair formally requesting an increase to the borrowing requirements

Annex D: Draft letter the Kāinga Ora Board Chair

Annex E: Updated Borrowing and Derivatives Protocol

Annex A: 30 June 2021 updated view of spend and private borrowing compared to BRF19/20110505

- In BRF19/20110505 an estimated cost overview to June 2021 was presented, showing the costs and revenues resulting in the projected movement from the opening position of private borrowing at the time to the private borrowing position of \$7,066.2 million by 30 June 2021.
- The current forecast to 30 June 2021 compared to the forecast as at November 2019 is shown here:

Forecast to 30 June 2021	Deliverables as per November 2019 forecast for FY2019/20 and 2020/21 combined (major areas explained)	Financing Requested (\$ million) as per Nov 2019	Total Forecast (\$ million) as per Apr 2021	Variance	Explanation for significant changes
Operations					
Opening Private Debt 1 July 2019		\$1,550.0	\$1,550.0	\$0.0	
Revenues (excl unit and land sales)		-\$3,243.0	-\$3,098.7	-\$144.3	
Expenses		\$2,134.6	\$2,311.9	-\$177.4	
Tax paid		\$92.7	\$191.5	-\$98.8	
Interest		\$359.7	\$242.9	\$116.7	
Total Operations		-\$656.1	-\$352.4	-\$303.7	
Investments					
Unit sales		-\$84.2	-\$62.4	-\$21.8	
Land sales		-\$10.0	-\$9.7	-\$0.3	
Capitalised Maintenance	Homes well maintained, healthy homes compliance and block remediation	\$341.2	\$328.2	\$13.0	
Retrofit	437 homes retrofitted (compared to 500-800 target)	\$291.9	\$171.8	\$120.1	Behind target due to a timing deferral. Expecting to reach 30 June 2022 target
IRRS homes	3,168 net new homes completed (compared to 3,462 target)	\$2,766.5	\$2,350.3	\$416.2	Includes a contingency amount of \$428.5m in Nov 2019 forecast
Corrections		\$0.0	\$24.3	-\$24.3	
CGH homes		\$44.0	\$37.2	\$6.8	
Transitional homes	1,176 new transitional homes through PERM forecasted (compared to November 2019 estimate of 1,700)	\$1,479.0	\$864.8	\$614.2	Includes a contingency amount
Land purchases	New land for urban development	\$250.0	\$125.0	\$125.0	Timing issue of land purchases - will be finalised in FY21/22 instead
s 9(2)(f)(iv)					
KiwiBuild (net)		\$0.0	\$15.6	-\$15.6	
Corporata Capital		\$46.6	\$71.7	-\$25.1	
Total Investments		\$5,673.7	\$3,596.6	\$2,077.1	
Other movements					
Cash contingency movement		\$587.6	\$484.8	\$102.8	KO Liquidity Policy replacing the need for the provision to meet forward contract commitments.
Crown contributions		-\$89.0	-\$6.0	-\$83.0	
Other balance sheet movements		\$0.0	\$3.2	-\$3.2	
Timing - debt raised and put as short term investments		\$0.0	\$795.0	-\$795.0	Short term cash to part-finance FY2021/22 Investments
Total other movements		\$498.6	\$1,277.0	-\$778.3	
Net financing requirements		\$5,516.2	\$4,521.2	\$995.0	
Closing Private Debt 30 June 2021		\$7,066.2	\$6,071.2	\$995.0	

- Overall Kāinga Ora is forecasting a headroom on their current private borrowing limit by 30 June 2021 of \$0.995 billion.
- The forecasted financials by 30 June 2021 shows that the reduced delivery of IRRS and transitional homes results in a similar reduced spend.
- BRF19/20110505 had a contingency amount specified for the period to 30 June 2021. It is not possible to completely align the actual spend by projects to the overall estimated contingency amount, but overall analysis indicate that of the \$731.2 million included as contingencies up to \$500 million was used on various IRRS and transitional home construction projects, and the remaining amount is unspent and thereby partly explaining the headroom in the private borrowing limit.

6. Some of these contingencies are possibly not going to be triggered at a later date either and thus constitute a permanent reduction in projected debt.
7. While FY2020/21 will partly recover some of the backlog experienced due to the COVID-19 delays, most of the recovery will only be completed in FY2021/22.
8. Overall, the level of spending on individual investments is in line with progress made to date with further work and analysis currently being undertaken to improve transparency and understanding at a more granular level.

Annex B: 30 June 2022 updated view of spend and private borrowing compared to BRF19/20110505 numbers

1. Financial year 2021/22 Kāinga Ora is therefore forecasting to complete the Budget 2018 commitments related to new IRRS homes by 30 June 2022. This is reflected also in the updated forecasted spend for 30 June 2022, which is as follows:

Forecast to 30 June 2022	November 2019 forecast for FY2019/20, 2020/21 and 2021/22 combined and new forecast	Financing Projected (\$ million) as per Nov 2019	Total Forecast (\$ million) as per Nov 2020	Variance	Explanation for significant changes
Operations					
Opening Private Debt 1 July 2019		\$1,550.0	\$1,550.0	\$0.0	
Revenues (excl unit and land sales)		-\$4,951.5	-\$4,818.8	-\$132.7	
Expenses		\$3,257.8	\$3,495.8	-\$238.1	
Tax paid		\$133.5	\$264.1	-\$130.7	
Interest		\$617.6	\$411.5	\$206.1	
Total Operations		-\$942.7	-\$647.4	-\$295.3	
Investments					
Unit sales		-\$125.8	-\$99.7	-\$26.1	
Land sales		-\$10.0	-\$10.7	\$0.7	
Capitalised Maintenance	Homes well maintained, healthy homes compliance and block remediation	\$562.1	\$598.2	-\$36.1	
Retrofit	1,632 homes forecasted (target 1500-2200)	\$537.0	\$372.9	\$164.1	
IRRS homes	4,624 net new IRRS homes completed (4,480 target and Budget 2018 commitment)	\$4,304.9	\$4,165.8	\$139.1	
Corrections		\$0.0	\$56.4	-\$56.4	
CGH homes		\$44.0	\$41.5	\$2.5	
Transitional homes	2,093 new transitional homes through PERM accumulated (2,900 target)	\$2,014.5	\$1,582.6	\$431.8	
Land purchases	New land for urban development	\$250.0	\$250.0	\$0.0	
Affordable Housing Land (new appropriation)		\$0.0	\$250.0	-\$250.0	
Capital Appropriations		\$0.0	\$0.0	\$0.0	
s 9(2)(f)(iv)					
Sustainable funding as per budget					
KiwiBuild (net)		\$0.0	\$11.6	-\$11.6	bid included in Operations
Corporate Capital		\$62.8	\$91.7	-\$28.9	
Total Investments		\$8,317.3	\$6,926.7	\$1,390.7	
Other movements				\$0.0	
Cash contingency movement		\$458.2	\$419.0	\$39.2	
Crown contributions		-\$128.0	-\$6.0	-\$122.0	
Other balance sheet movements		\$0.0	\$9.2	-\$9.2	
Total other movements		\$330.2	\$422.2	-\$92.0	
Net financing requirements		\$7,704.9	\$6,701.5	\$1,003.4	
Closing Private Debt 30 June 2022		\$9,254.9	\$8,251.5	\$1,003.4	

2. Kāinga Ora expects to catch up on the IRRS delivery to 30 June 2022 and thus the only savings remaining by then are the contingencies not expected to be utilised.
3. The Retrofit Programme is expected to be still somewhat behind by 30 June 2022, but may be caught up in future years.
4. Transitional homes are proving difficult to build in the numbers that were estimated in November 2019 so will be behind this estimate. Kāinga Ora still forecasts to achieve the Government commitments, but the November 2019 programme estimated an even higher number and this will not be met.

5. s 9(2)(f)(iv)

Annex C: Letter from Kāinga Ora Board Chair formally requesting an increase to the borrowing requirements

3 May 2021

Minister of Finance / Minister of Housing
C/O Ministry of Housing and Urban Development

Dear Ministers

I am writing to you on behalf of the Kāinga Ora Board regarding the need for an amended borrowing protocol to enable Kāinga Ora to continue our progress in meeting expectations held of us.

The Board recently convened a special meeting to discuss this topic and in particular, consider the options available, as well as the draft briefing to the Minister prepared in conjunction with the Ministry of Housing and Urban Development.

The Board had a wide-ranging discussion on the topic of the borrowing protocol uplift and how it can better facilitate a longer term facility to ensure that Kāinga Ora can operate as efficiently as possible without the variations that a Government budget cycle process imposes.

The discussion traversed:

- the ongoing effects of over a decade of under-investment in renewal of state homes;
- the scale of activity that Kāinga Ora is required to deliver and;
- how this could most appropriately be achieved based on the borrowing options available.

The Board was very clear in its expectation that the briefing paper be amended to reflect the feedback provided, particularly regarding the preference for Market Debt.

The logic for the benefits of market debt includes

- a) **Certainty** – Having longer term funding certainty that is separate from core crown debt processes enables Kāinga Ora to better formulate long term plans for our required outcomes, and build organisational capability to generate efficiencies with its Alliance/partnership arrangements. We can enter multi year agreements/commitments with certainty, and our partners can gear up their investments to enable them to deliver. The stop/start nature of government budget process is seen as a risk against this.
- b) **Stewardship** - Kāinga Ora should be responsible for all aspects of operating its business – With over 80% of houses reaching end of life over the next 10 years, we need to be comfortable we have a long term approach that enables us to manage through this period of investment.
- c) **Flexibility** to source financing when we require to ensure the organisation remains liquid and can take advantage of acquisition opportunities with speed, if required, providing housing for people more quickly than alternatives.
- d) **Commercial discipline** through sophisticated investors monitoring our business, over and above monitoring agencies. This was the original rationale given in 2016 and is observable in practice.

- e) **Sustainability** – Investors are particularly interested as we issue into global capital markets under a “Wellbeing and Sustainable Finance” framework that is world leading. We are the only part of the various Crown funding arms to do so. This has become increasingly important as investors put the ESG lens over both the Countries and companies that they invest in. This approach helps promote what we are doing, the technologies we are using and support the change in the sector we are driving hard to make.
- f) **Standard Practice** – It is highly common globally, for entities with similar relationships to the Government to borrow in financial markets.
- g) **Broader NZ capital market benefits** of having a high-grade choice for international investors in New Zealand which has a strong credit rating and a sustainability focus.

We note that the Ministry has made minor amendments to the briefing which did not fully reflect the feedback provided.

s 9(2)(g)(i)

Our preference would be that the borrowing protocol is uplifted with a longer term perspective, reflecting the public statements already made by Ministers around the expectations for Kāinga Ora to issue debt. Namely, the \$5 billion reference in late 2020 to support public housing commitments and the recently announced expectation of \$2 billion for the Strategic Land Purchase fund to enable Kāinga Ora to plan and deliver on the Urban Development intentions for the organisation. This would increase the protocol to circa \$14.1 billion and would provide certainty regarding the availability of long term financing capacity to effectively plan and deliver on our commitments.

We note the Ministry has taken a staged approach, proposing an uplift of \$1.2 billion to support financing needs to June 22, then a second review process commencing immediately thereafter. Although we have engaged on the basis of that approach, this does seem an unnecessary two-step process, given the public statements made.

Given timings, the Board is not looking to relitigate this approach, rather it will continue in its engagements with the Ministry to complete this process for a further uplift in the borrowing protocol.

In summation, the Board was unanimous in supporting the debt protocol uplift, noting

- The Boards expected approach is market borrowing, rather than via the NZDM. We believe this approach best supports Kāinga Ora’s ability to deliver on our objectives. This approach we understand is consistent with the preferred direction of other Crown agencies due to the certainty that the market approach brings to long term investment planning.
- The Board expects to move towards a debt protocol approach that is focused on the medium term financing requirements, enabling the flexibility to manage shifting requirements without necessarily needing to revisit the administrative requirement of a borrowing protocol change. We believe the focus should be on the approvals processes for investment decisions. This is the

effective point of control and influence, which is more clearly focused on the outcomes we are seeking. We will continue with all required consultations and approvals, and will engage with monitoring processes required across our significant investments.

- This uplift request is to enable financing based on projections to June 22, based on our current understanding of commitments. This assumes a range of outcomes from the Government Budget. If any of these assumptions change, we expect these will form part of the considerations in the next refresh of the protocol.

Given the above, the Board would like to formally request the uplift of the Borrowing Protocol for market debt by \$1.2 Billion to \$8.3 Billion.

Nga mihi



Vui Mark Gosche
Chair Kāinga Ora Board

Annex D: Draft letter the Kāinga Ora Board Chair

Vui Mark Gosche
Chair, Kāinga Ora - Homes and Communities
PO Box 2628
WELLINGTON 6140

Tēnā koe Vui

UPDATED BORROWING AND DERIVATIVES PROTOCOL

I am writing to advise you that, pursuant to section 160(1)(b) of the Crown Entities Act 2004, the Minister of Finance and I have approved a revised Kāinga Ora Borrowing and Derivatives Protocol (attached).

The revised Protocol will take effect from 1 July 2021. The limit on Kāinga Ora's external borrowing is increased to \$8,300 million in order to allow Kāinga Ora to deliver the increased level of redevelopment activity required to meet the Government's housing and urban development goals.

I have asked Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development, as your lead monitoring agency, to work with you to ensure that Kāinga Ora provides adequate transparency on how the capital is being utilised and the outputs, outcomes and value for money being achieved. The specific conditions attached to the increased borrowing capacity are outlined in the updated Protocol.

It is important that the Board is aware of – and follows – the investment management expectations and protocols outlined by Cabinet and Treasury set out in Cabinet Office Circular CO (19) 6. The objective of the investment management system is to optimise value from new and existing investments and assets for current and future generations of New Zealanders.

The Cabinet Circular outlines the roles and expectations of different parties involved in the system, including Crown entity boards. I would like to draw your attention to the consultation and approval requirements for investment proposals by Crown entities (as summarised in Table 2 in Annex 1) and clause 29 which states that Cabinet has decision rights on all Crown entity investment proposals where the investment requires new Crown funding or support.

I look forward to continuing to engage with the Kāinga Ora board over the coming year, and to receiving more detailed advice on Kāinga Ora's medium-term funding and financing options later this year.

Yours sincerely

Hon Dr Megan Woods
Minister of Housing

cc: Mr Andrew McKenzie, Chief Executive, Kāinga Ora – Homes and Communities

Kāinga Ora – Homes and Communities: Borrowing and Derivatives Protocol

Coverage

1. This Protocol sets out the joint approval of the Minister of Finance and the Minister Responsible for Kāinga Ora – Homes and Communities (“Joint Ministers”) under section 160 of the Crown Entities Act 2004 (the “Act”), for Kāinga Ora – Homes and Communities (“Kāinga Ora”) to:
 - (a) borrow or raise money (by way of loan, overdraft, issue of debt securities, or otherwise) (together “borrowing”); and
 - (b) enter into derivatives (as defined in the Act).
2. This Protocol covers Kāinga Ora and all its subsidiaries, and references in this protocol to Kāinga Ora include all of its subsidiaries. All Kāinga Ora borrowing and entry into derivatives must be made in accordance with this protocol and all relevant law.
3. This Protocol replaces the former Housing New Zealand Corporation borrowing and derivatives protocol of December 2019, which was carried over to Kāinga Ora by clause 4 of Schedule 1 of the Kāinga Ora – Home and Communities Act 2019. Any borrowing obtained, or derivatives entered into by Housing New Zealand Corporation or Kāinga Ora, before the date that this Protocol comes into force must be treated as if they had been entered into in accordance with this Protocol.

Definitions

4. **Primary borrowing** means raising debt capital in order to perform any of the Kāinga Ora functions set out in the Kāinga Ora – Homes and Communities Act 2019 and includes borrowing by way of loan or overdraft, and issuing bonds, notes and commercial paper.
5. For clarification, primary borrowing excludes the purchase of goods or services or the obtaining of an advance through the use of a credit card or by a supplier supplying credit for the purchase of goods or services, for a period of 90 days or less from the date the credit card is used or the credit is supplied.
6. Primary borrowing also excludes borrowing between Kāinga Ora and its wholly-owned subsidiaries and between the wholly-owned subsidiaries that does not increase the level of indebtedness of Kāinga Ora, including all of its wholly-owned subsidiaries.
7. Other borrowing means all borrowing except primary borrowing.

Policies and Procedures

8. Kāinga Ora is responsible for managing its borrowing and must have board/committee approved treasury policies and procedures in place for this purpose, including policies and procedures for derivatives.

Process

9. Primary borrowing entered into by Kāinga Ora on or after the date this Protocol comes into force must be obtained from the New Zealand Treasury (the Treasury) except that a principal amount up to NZD\$8,300 million may be obtained from other sources at the discretion of Kāinga Ora.
10. The Treasury will lend to Kāinga Ora in accordance with the:
 - i. terms and conditions set out in agreements entered into from time to time between the Treasury and Kāinga Ora; and
 - ii. amounts appropriated from time to time by Parliament.

11. Kāinga Ora may enter into derivatives for the purpose of managing treasury risk on borrowing, whether primary or other, on or after the date this Protocol comes into force. Treasury risks include, but are not limited to, credit, liquidity, interest rate, and foreign exchange risks.
12. Kāinga Ora must endeavour to ensure that all derivatives are sourced from the Treasury, where it has the capacity to provide such derivatives.
13. Any derivatives that are not sourced from the Treasury may be sourced from another entity providing that it has a minimum long-term credit rating of A or above from Standard & Poor's and/or Moodys Investor Service.

Other Borrowing

14. Kāinga Ora may enter into other borrowing other than primary borrowing provided that such other borrowing is not inconsistent with the Kāinga Ora business plan and Statement of Intent, or any subsequent Cabinet-approved initiatives.

Monitoring

15. Borrowing and derivative transactions in accordance with this Protocol are subject to quarterly reporting by Kāinga Ora. The reporting requirement has been enhanced to support this increase and with continuous improvement planned. The reporting aims to:
 - i. Provide visibility to Kāinga Ora investment decision making that is consistent with the Government's expectations
 - ii. ensure Kāinga Ora's performance delivery funded by debt demonstrates value for money
 - iii. monitor balance sheet risk and financial sustainability, that the usage and debt level is predictable, sustainable and transparent
 - iv. support Ministerial decisions and oversight on Kāinga Ora's medium-term debt limit and profile.
16. The following outlines detailed reporting that has been agreed between Kāinga Ora and HUD:

Assurance on investment decision making (transparency of decisions)

17. The following requirements are to ensure Ministers have a meaningful opportunity to engage in strategic investment decisions; visibility over how decisions fit into Kāinga Ora gateway process; and ensure sufficient lead-in time for review/decisions; avoid investment decisions being made outside of the Ministerial guidelines.
18. Board attesting all spends for the past quarter are within proper investment decision making rights (including Cabinet Committee Circular CO (19) 6 and Kāinga Ora investment gateway process).
19. Reporting pipeline and status of investment decisions requiring ministerial involvement covering:
 - i. gross investment, revenue/income, key financial metrics, ie. IROI or NPV, and completion date
 - ii. project attributes, ie. number of units, location, type of project, value/budget, RAG status
 - iii. engagement category – approve, consult, inform, and
 - v. commentary/key risks/issues.

Assurance on performance delivery against targets/milestones

20. The following requirements are to ensure Kāinga Ora performance delivery funded by debt demonstrates value for money; identify any under-delivery against Government's expectations or cost escalation that will have flow-on implications; improve future Budget bids costing and delivery information on delivery and value for money.

21. Track quarter delivery actual for the last three years (eg. Units completed, retrofit progress made, LSP progress, strategic land purchase) against targets/milestones/forecasts for FY; show in comparison actual v budget for the previous FY; show forecast deliverables going out over four years.
22. Unit cost information, which could include a number of costing metrics, for example, taking into account land cost, remediation cost, demolition, build cost, and typology. This will enable Ministers to make trade-off decisions.
23. Indicate whether delivery/output is on track against SPE targets, over or under and any variation is clearly reported; if under, provide mitigating narratives and actions.
24. For LSPs, itemise each LSP with progress against key milestones, variance against forecast, over and underspend. There is need for LSP reporting to be updated/enhanced following Budget 21 decisions.

Assurance on Board managing balance sheet risk, financing risk and long-term financial sustainability

25. The following requirements are for the Monitors to understand that the Board fulfils its stewardship role in managing balance sheet risk and financial sustainability ensure that the usage and debt level is predictable, sustainable and transparent; support Ministerial decisions and oversight on Kāinga Ora medium-term debt limit and profile.
26. Graph showing forecast peak debt level projection, current and historical Crown and market debt level (actual against debt limit) going back to 2018 (or initial debt protocol); headroom against debt limit.
27. Historical CAPEX forecasts vs actual CAPEX spend; 3/4/6 month liquidity requirements.
28. Report balance sheet impact indicators including: EBITDA to total income, debt to IBITDA ratio, interest coverage ratio; debt to equity ratio; debt to asset ratio against Board approved tolerance level.
29. Report cash levels against Board approved liquidity position and any headroom for spend over and above the liquidity position.
30. Report all current debt issuance showing maturity profile (and maturity in next 12 months within policy), volume, rate, investor distribution (local vs. offshore); and duration within Kāinga Ora interest risk management policy, liquid asset cover within liquidity risk policy.
31. Report scheduled market debt issuance in the next 12 months, and forecast debt issuance intentions/plan for the following year.
32. Provide key messages highlighting any key market developments and associated risks (this is in another part of quarterly reporting, could be incorporated here).

Review

33. This Protocol may be reviewed annually at the same time as the draft Statement of Performance Expectations, or as circumstances require.

Disputes

34. If a dispute arises between Kāinga Ora and the Treasury or the Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development over the operation of this Protocol, either party will notify the other of the dispute. Both parties will attempt to resolve the dispute within 15 working days of notice and must meet within five working days of the notice. If the dispute cannot be resolved within 15 working days of the notice, the parties will prepare a submission to Joint Ministers for a decision.

Amendments

35. This Protocol can be amended at any time by Joint Ministers on written notice to Kāinga Ora. Joint Ministers will consult with Kāinga Ora prior to making any changes.

Term

36. This Protocol will take effect on 1 July 2021 and, subject to clause 18, will continue in force until it is terminated or replaced by written notice by Joint Ministers. Joint Ministers will take Kāinga Ora borrowing requirements into account in replacing this Protocol.