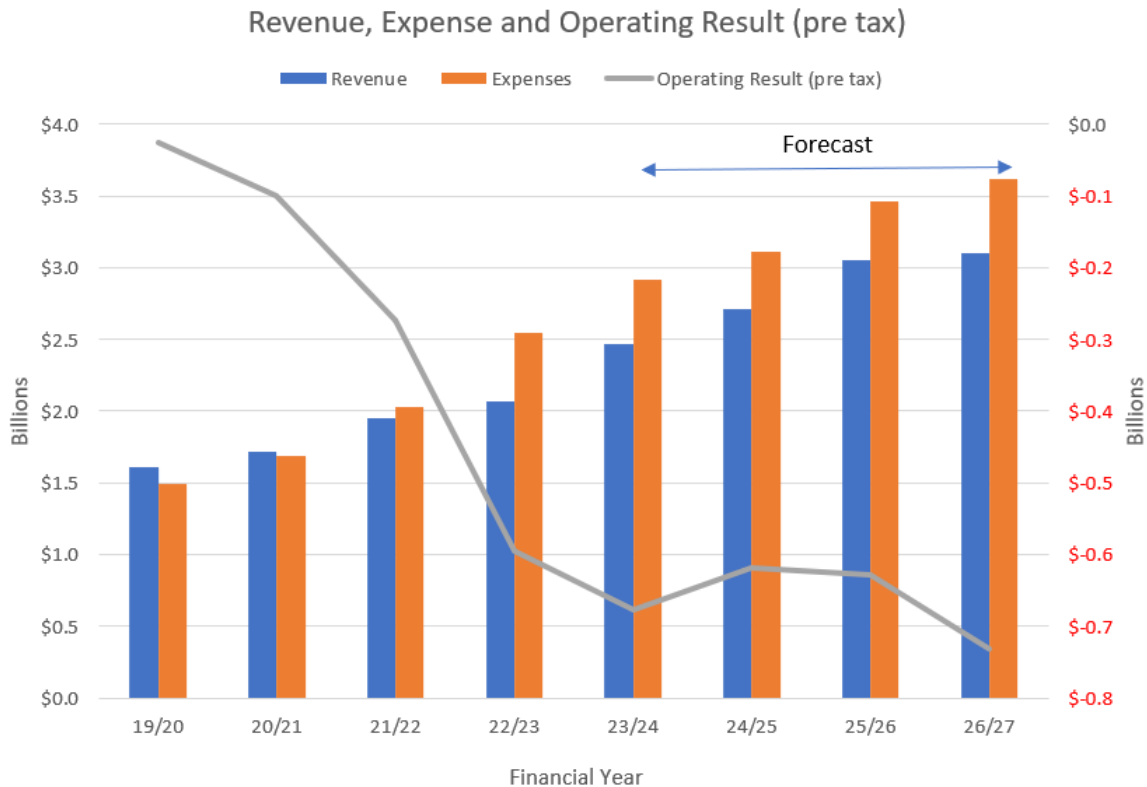


FACT SHEET: Kāinga Ora Review

Commissioning of the Review

Kāinga Ora – Homes and Communities (Kāinga Ora) is a large Crown entity with annual expenditure of \$2.5 billion and total assets of \$45 billion.

Kāinga Ora has been reporting operating deficits before tax over the past four years. The total level of debt is forecast to grow significantly in coming years to reach a level of **\$23 billion by 2028**.



Kāinga Ora houses around 185,000 people in over 72,000 homes across New Zealand. Its operations affect many people: current tenants and their families, those on the Social Housing Register and the communities those people live in.

More indirectly, it affects all New Zealanders. The Treasury reports that Kāinga Ora's cash cost to the Crown is \$21.4 billion over the next four years, or the equivalent of \$4,000 per New Zealander over that period.

The coalition Government agreed to commission an independent review into Kāinga Ora's financial situation, procurement, and asset management as part of its 100-day plan.

The objective of the review was to identify ways to improve Kāinga 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.

Review findings

The review focus is on the financial sustainability of Kāinga Ora within the context of an underperforming social housing system in New Zealand.

The reviewers have found the system is not delivering the best results for tenants relative to its funding.

Kāinga Ora has scaled up in recent years, but it 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.

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. This expansion has not been accompanied by the necessary focus on value for money.

Review recommendations and associated Government actions:

The review makes recommendations about both Kāinga Ora and the wider social housing system. This recognises 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.

A full list of the recommendations and associated actions is provided below.

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 - Te Tūāpapa Kura Kāinga (HUD) to administer that funding on behalf of the Crown, together with expectations of formal reporting of outcomes by a third party.

Government action: *A report back to Cabinet in August 2024 by the Minister of Housing which includes consideration of whether to accept this recommendation, and proposed approaches and a staged programme over the short and medium term.*

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.

Government action: *A report back to Cabinet in August 2024 by the Minister of Housing which includes consideration of whether to accept this recommendation, and proposed approaches and a staged programme over the short and medium term.*

EMBARGOED UNTIL 4PM, 20 MAY 2024

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.

Government action: *A report back to Cabinet in August 2024 by the Minister of Housing which includes consideration of whether to accept this recommendation, and proposed approaches and a staged programme over the short and medium term.*

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.

Government action: *Part A of this recommendation has been accepted immediately and work is underway on this. The Minister of Housing has directed the Ministry of Housing and Urban Development develop a new contract and initiate negotiations with Kāinga Ora to put it on a more level playing field with Community Housing Providers (CHPs)*

A report back will go to Cabinet in August 2024 by the Minister of Housing which will include consideration of whether to accept the remaining points of this recommendation, and proposed approaches and a staged programme over the short and medium term.

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.

EMBARGOED UNTIL 4PM, 20 MAY 2024

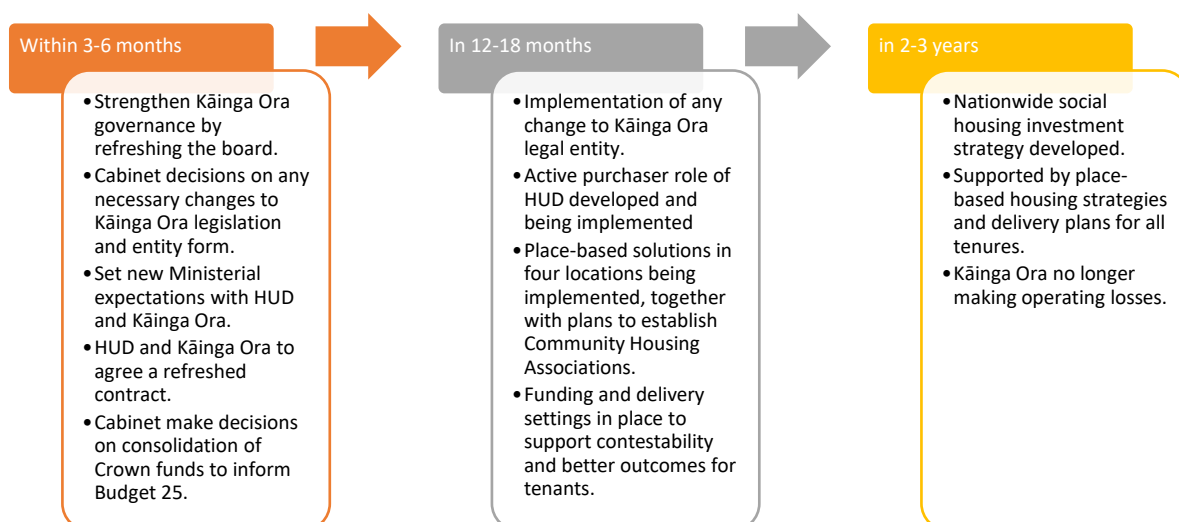
Government action: *Parts A and B of this recommendation have been accepted immediately, and implementation has started, including the appointment of a new Board Chair, and refreshing the Board. A report back will go to Cabinet in August 2024 by the Minister of Housing which will include consideration of whether to accept the remaining point of this recommendation, and proposed approaches and a staged programme over the short and medium term.*

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.

Government action: *This recommendation has been accepted immediately, and implementation has started, including:*

- *an updated Letter of Expectations is being drafted to go to the refreshed Board*
- *a reduction in the delegation to the Board for individual investment decisions to \$35 million (was \$50 million)*
- *the Minister of Housing to request a plan from the Board to develop a credible and detailed plan by November 2024 to improve financial performance with the goal of eliminating losses as quickly as possible and present Ministers with choices around the renewal programme of the aged assets include pace, scale and procurement approaches to deliver the programme.*

Recommendation 7: To generate momentum toward the recommendations above, the Panel recommends the following timeframe for key milestones.



Government response: *This timeline for relevant milestones has been accepted.*

Appendix A: The Independent Reviewers

Rt Hon Sir Bill English

Rt Hon Sir Bill English served as Prime Minister in 2016 and 2017, was Finance Minister from 2008-2016 and was also the Minister Responsible for Housing New Zealand. He has experience in public sector effectiveness, government capital management and led the development of Social Investment, an innovation for large scale social services.

Since leaving Parliament, he has started social sector businesses with his family and works as a commercial and not for profit director in Australia and New Zealand.

Simon Allen

Simon was Chief Executive of investment bank BZW/ABN AMRO in New Zealand for 21 years until 2008. He has advised investors, companies and the Government on strategic and capital investment decisions including the planning and delivery of large-scale infrastructure.

Simon has established several governing entities. He was the inaugural Chair of NZX limited, the Financial Markets Authority, Auckland Council Investments Limited and Crown Fibre Holdings Limited (renamed Crown Infrastructure Partners) and Chair of Channel Infrastructure NZ Limited (formerly The New Zealand Refining Company Limited and St Cuthberts College.

Currently Simon is a Director of both IAG and Ampol in Australia, including Chair of New Zealand subsidiary IAG New Zealand.

Ceinwen McNeil

Ceinwen (pronounced KYNE-WEN) brings 25 years of public and private sector expertise as a leading strategy adviser.

Currently President of ACE NZ and a former Chair of the Diversity Agenda, Ceinwen brings an extensive understanding of the natural and built environment eco-system, especially the role of the construction and professional services sectors. Additionally, she contributes an international perspective on urban development and social housing initiatives to the Review.

Appendix B: Simon Moutter biography

Simon Moutter has extensive change leadership experience. He was the Chief Executive at Powerco, Auckland International Airport, and then Spark NZ, where he won the Deloitte Top200 NZ CEO of the Year in 2017. He oversaw significant transformation in customer experience and business growth at Auckland Airport. He led the change of Telecom to Spark NZ, to respond to the fast-changing world of digital services in which that business now operates.

Mr Moutter is now a company director. He has been a director of the Commonwealth Bank of Australia since 2020. He also chairs two significant privately owned companies – Smart Environmental Group and Les Mills International Ltd – as well as chairing the emerging digital marketplace – Designer Wardrobe Ltd.

His extensive experience in strategy, process effectiveness and in large scale change in complex organisations means he is well-placed to lead the work required to improve the governance and financial sustainability of Kāinga Ora.

Appendix C: The Independent Reviewers

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.

EMBARGOED UNTIL 4PM, 20 MAY 2024

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.