

**IN CONFIDENCE**

Office of the Minister of Housing  
Chair, Cabinet Economic Policy Committee

**Reducing barriers for Community Housing Providers**

**Proposal**

1. This paper:
  - 1.1 informs Cabinet of my intention to make announcements on our objectives for the social housing system and our work programme to improve it;
  - 1.2 seeks agreement to front-load existing social housing funding to address access to equity barriers for Community Housing Providers (CHPs); and
  - 1.3 seeks Cabinet approval to invite me to report back on options to ensure CHPs have improved access to long-term debt financing at lower cost and on more flexible terms.
2. This paper fits into the Government's wider work programme on improving both the social housing system and housing support tools.

**Relation to government priorities**

3. Delivering better social housing was a key commitment in the National Party manifesto. We want to work more closely with CHPs to deliver the social housing that our communities need, and to end large scale, long-term use of emergency housing.
4. Changes to support the more effective delivery of social housing will also support achievement of Government Target 8: 75% fewer people in emergency housing.

**Background**

5. The social housing system and housing support costs the Crown billions each year and yet it continues to underperform, leading to poor outcomes for people in need at a premium cost to taxpayers. The social housing waitlist, which measures how many people need social housing, grew from 7,329 in 2017 to 21,957 as at September 2024, an increase of 200%.
6. As Cabinet has been advised previously, Kāinga Ora was under considerable financial pressure when we came into Government. The entity was projected to run a \$700 million operating deficit in 2026/27 and were also forecasting the sale of over 10,000 state houses over the next four years just to balance their books.
7. To address these issues, we are delivering a comprehensive package of work, as outlined overleaf. My overall aim is to ensure the Government is more efficient and effective about how it supports people in housing need – enabling improved outcomes, to more people, for better value for money.

*Getting Kāinga Ora to financial stability*

8. As part of the 100-day plan, the Government commissioned the Independent Review of Kāinga Ora [100-23-MIN-0011], which found that the entity was underperforming and not financially viable without significant savings. Cabinet agreed to initial steps to respond to the Kāinga Ora Review in May 2024, which included a refreshed Board, tasked with developing a credible 'Turnaround Plan' for the organisation [CBC-24-MIN-0032].
9. I intend to return to Cabinet in December 2024 with the Minister of Finance, to seek agreement to settings that will put Kāinga Ora on stable financial footing, based on the Independent Kāinga Ora Review as well as the new Board's Turnaround Plan.
10. The Kāinga Ora Review also recommended the Government increase choice, diversity, and innovation in the provision of social housing, including by addressing barriers faced by CHPs.

*Resetting Government Investment in Housing*

11. Currently, the housing funding system is confused, opaque, duplicative, and expensive. It is not delivering for taxpayers nor for those in housing need. The Kāinga Ora Review highlighted this issue and recommended that the Minister of Housing directs HUD to become an *active purchaser* that cost-effectively improves housing outcomes.
12. In July 2024, Cabinet agreed that Ministers should undertake a value for money review of the Government's housing funds and programmes [ECO-24-MIN-0121]. The purpose of this review was to deliver enduring improvements to the Government's operating balance, improve value for money in public spending, and support meaningful improvement in housing outcomes.

13. s 9(2)(f)(iv) [Redacted text]

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

14. s 9(2)(f)(iv) [Redacted text]

*Supporting CHPs*

15. The Government has committed to growing the CHP sector by ensuring that CHPs and Kāinga Ora are on a 'level playing field'. This means enabling CHPs to more readily compete for funding for social housing places. In Budget 2024, we allocated \$140 million of new funding for 1,500 new social housing places in 2025/26 and 2026/27 to be operated by CHPs (not Kāinga Ora).

16. The Ministry of Housing and Urban Development (HUD) is also trialling new long-term strategic partnerships with a selection of large CHPs to support the delivery of many of these places. This will ensure ongoing improved performance from the CHP sector, and support building capability in the sector.
17. The paper aligns with our overall work programme in the housing system, and seeks to further support the CHPs by reducing the barriers they face to delivering housing.

**Current barriers for Community Housing Providers**

18. I have heard from CHPs, major banks, investors, and intermediaries about the key issues and barriers facing CHPs. This includes access to financing (equity and debt), aspects of funding contracts that are not attractive to financiers, and pipeline certainty. The Commerce Commission’s market study into personal banking also recommended that the Reserve Bank place more emphasis on competition in decisions to reduce risk weights on lending to CHPs.
19. These barriers hinder CHPs from participating on a level playing field with Kāinga Ora, meaning delivery of social housing services does not face the competition it needs to drive efficiency.
20. I am proposing to announce a package of initiatives at the Community Housing Aotearoa Conference on 26 November 2024. Some of these initiatives are already in train, and two new proposals are outlined in this paper.
21. s 9(2)(f)(iv)  
[Redacted text]

**Objective of work programme in the Social Housing space**

22. At the core of my ambition is the creation of a level playing field between CHPs and Kāinga Ora. Though CHPs and Kāinga Ora receive the same type of funding, the social housing system does not provide for:
  - 22.1 Competitive neutrality in relation to financing. Kāinga Ora can borrow from New Zealand Debt Management at a small margin above the Crown’s cost of financing, while CHPs access financing in the private markets on less favourable terms.
  - 22.2 Contestability between Kāinga Ora and CHPs for social housing places.
23. At a more detailed level, I am seeking to:
  - 23.1 Support a focus on the importance of place – one size does not fit all, and different solutions may be needed in different communities.
  - 23.2 Provide for a strong focus on value for money, ownership neutrality, and leveraging private-sector capital.

- 23.3 Enable CHPs to play to their strengths by differentiating CHPs with demonstrated capability to develop/build at scale from CHPs whose strength is primarily as a social landlord.
  - 23.4 Encourage collaboration between CHPs, developers, and other players.
  - 23.5 Continue to focus funding for new Income Related Rent Subsidy (IRRS) social housing places primarily on new builds, to maximise additional supply and avoid displacing other households.
  - 23.6 Increase social licence and support tenant transitions, ensuring that settings support mixed tenure developments.
24. HUD are contracting for CHPs to deliver the 1,500 new social housing places we funded at Budget 2024, utilising the strategic partnership approach in key locations.
25. I have also directed HUD to progress the following operational changes:
- 25.1 Targeted changes to IRRS contracts for new housing supply, to make the IRRS revenue stream more attractive for financiers.
  - 25.2 Increased use of leasing to provide social housing, where leasing meets value for money requirements.
26. I also note that the Reserve Bank are considering process options to undertake expedited work on standardised risk weights. Their intention is for this to be reviewed over the next 18 months as part of consultation on core standards under the Deposit Takers Act. The Minister of Finance plans to set the expectation that the Reserve Bank prioritises its work in addressing lending for CHPs within its work programme.

**New proposal 1: Front-loading social housing funding to help CHPs raise equity**

27. The 1,500 new social housing places will be provided by CHPs over the next few years. However, some CHPs may struggle to raise the equity required to raise debt finance, particularly in regional locations where banks may require more equity.
28. To improve confidence around the delivery of the 1,500 places, I propose to make \$70 million of Operating Supplement (OS) available upfront (that would otherwise be paid to CHPs over time). § 9(2)(b)(ii) [redacted] However, this upfront funding would only be used where needed, not a default setting, and any unused amount could be rolled over for future places.
29. The upfront payment provides the initial equity required for CHPs to raise finance. This will enable more delivery in the regions, support the shift towards a level playing field with Kāinga Ora, and ensure that delivery by private investors can be compared against CHP-led delivery.

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<sup>1</sup> § 9(2)(b)(ii) [redacted]

30. This would normally bring additional costs to the Crown because upfront OS is a capital expense – it has both the initial cash impact on our debt, and an ongoing non-cash impact on the operating balance as we derecognise the asset over 25 years. At the end, the CHP keeps the asset.
31. s 9(2)(f)(iv) I expect to identify capital savings that can be reprioritised. I propose to use these savings to fund the upfront OS and seek delegated authority for the Minister of Finance and I to jointly make decisions by the end of the year to confirm the exact source of the capital savings.
32. The existing funding that would have been paid as OS over time can be reprioritised towards the annual derecognition expense. Because the former is a cash expense and the latter is a non-cash expense, the result is a net improvement to the debt position over the forecast period, and fiscally neutral changes to the operating balance over the forecast period.

### **New proposal 2: Considering options to improve access to suitable debt for Community Housing Providers**

33. In addition to the challenges that CHPs face raising equity, they also face challenges accessing specialist lending that reflects their needs and risk profile.
34. CHPs borrow predominantly from banks. Because of how they source their capital, banks have a preference to provide shorter-term financing. For social housing, financing from banks is therefore appropriate for the ‘development’ phase (i.e. during construction) but is less suited to the ‘operating’ phase. Many CHPs are only able to access short-term loans that arguably over-price risk through the operating phase.<sup>2</sup> Banks may also apply relatively restrictive terms. Current prudential requirements (which result in some banks classifying social housing within corporate lending categories for risk weighting purposes) may be exacerbating this challenge.
35. In other jurisdictions, financing for the operating phase often tends to come from more specialist lenders or financing sources that can be more flexible to meet the needs of the sector, such as capital markets.
36. I believe that this sets CHPs on an uneven playing field. While the work of the RBNZ to consider recategorising the risk of CHPs will go some way, I think more can be done to provide certainty and assurance to CHPs that will encourage growth.
37. A desire for certainty and scale were key drivers behind the creation of a government-guaranteed bond aggregator in Australia, with the government-guarantee providing investors with confidence to invest in a new asset class despite the differing funding and regulatory models in place in each of the Australian states.
38. The social housing sector also has several features that mean a Crown intervention could provide value-for-money without being overly distortionary:

38.1 Capital is allocated in the sector primarily based on Crown funding decisions;

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<sup>2</sup> The market appears to be over-pricing risk of secured CHP debt given the near-guaranteed income streams, regulation, and implicit Crown guarantee of CHP viability.

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- 38.2 The Crown is exposed through its funding to the cost of financing for CHPs, particularly for new builds. It may be possible to structure an intervention to capture part of the reduction in the cost of financing – by potentially reducing the Crown’s funding requirement; and
- 38.3 There is the potential to retain a degree of private sector discipline, as CHPs and other players in the sector remain subject to risk on their equity.
39. I am intending to signal to the sector that I am committed to ensuring CHPs have access to suitable debt. I will consider a range of options to support CHPs access to debt on terms reflective of their real risk profile and circumstance. Those options include providing direct lending or guarantees to CHPs, establishing a Crown intermediary to provide financing efficiencies, or providing lending or guarantees to a private lender.
40. The result will be that they have access to cheaper financing that is not unnecessarily restrictive. This will give them a stronger economic case for investing in building more social houses and goes some way to levelling the playing field with Kāinga Ora.
41. There are many details to work through on the form of any intervention, and this work is in early stages. I have considered high-level options and requested that the Treasury, in consultation with HUD, report back to me in 2025 with a fulsome proposal for consideration as part of Budget 2025.

### **I will announce our work at the Community Housing Aotearoa Conference 2024**

42. The Community Housing Aotearoa Conference is being held on 25 and 26 November, and I have been invited to speak on the 26<sup>th</sup>. I intend to announce the good work we are doing to that I have outlined in this paper.

### **Cost-of-living Implications**

43. Social housing is a fundamental support for thousands of New Zealanders. The proposals outlined in this paper are focused on ensuring the delivery of new social housing places and improving the ability for CHPs to provide places going forward, so that more people in need can get a home.

### **Financial Implications**

44. Paragraphs 27 - 32 describe the proposed reprioritisation to enable the proposal to make \$70 million available up front to CHPs within existing baselines.
45. I request delegated authority to finalise the exact details of this reprioritisation subject to the condition that the financial changes result in no net deterioration to the operating balance nor to net debt over the forecast period.
46. The development of options to support CHPs to access suitable debt will be managed within baselines.

### **Legislative Implications**

47. There are no direct legislative implications in this paper.

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### Impact Analysis

48. A Regulatory Impact Statement is not required for this paper.

### Climate Implications of Policy Assessment

49. A Climate Implications of Policy Assessment (CIPA) is not required for this paper.

### Population Implications

50. Social housing provides stable housing for those who can't access the market. The proposals in this paper target improvements to the sector that supports those in need of stable and affordable housing.

### Human Rights

51. No human rights implications have been identified in this paper.

### Use of external Resources

52. Specialist finance consultants were engaged to provide technical advice on the detail of potential options for the Crown Intermediary that leveraged their experience with similar products in other jurisdictions. Four people were engaged over one week to provide technical notes and engage in discussions with the Treasury.

### Consultation

40. The following agencies were consulted: HUD, the Treasury.

41. As part of their ongoing work programme, HUD has been consulting with major banks, investors, intermediaries, Community Housing Aotearoa, and Te Matapihi.

42. HUD has previously consulted with CHPs and plans to engage further going forward.

### Communications

42. I will announce these proposals and the ongoing work programme at the Community Housing Aotearoa Conference on 26 November 2024.

### Proactive Release

43. I intend to proactively release the Cabinet paper following my announcement on 26 November 2024.

### Recommendations

The Minister for Housing recommends that the Committee:

1. **Note** this paper and its recommendations fit into the Government's wider work programme on improving both the social housing system and housing support tools.
2. **Note** that the strategic direction for the social housing system is focused on levelling the playing field between Community Housing Providers and Kāinga Ora.

IN CONFIDENCE

3. **Note** that as part of the ongoing work programme, the Minister of Housing and the Minister of Finance agreed to progress operational changes to social housing Income Related Rent Subsidy contracts and the use of leasing.
4. **Note** that access to equity and suitable debt are key barriers for Community Housing Providers.

*New proposal 1: Front-loading existing social housing operating supplement to help CHPs raise equity*

5. **Agree in principle** to make \$70 million upfront operating supplement available to Community Housing Providers that will be contracted to deliver the 1,500 homes announced in Budget 2024 where they face challenges accessing equity, subject to this having no adverse impact on the fiscal indicators.

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

7. **Authorise** the Minister of Finance and the Minister of Housing jointly to agree any decisions reasonably necessary to give effect to recommendation 4 above, including any required changes to appropriations, subject to decisions not resulting in a deterioration of the operating balance and net debt across the forecast period.

*New proposal 2: Developing a proposal to improve access to suitable debt for Community Housing Providers*

8. **Note** that the Minister of Housing will consider options for a financing intervention that aims to support Community Housing Providers to access debt at a cost and on terms that are reflective of their real risk profile and circumstance.
9. **Note** that the Minister of Housing has requested that the Treasury, in consultation with the Ministry for Housing and Urban Development, to report back in 2025 with a fulsome proposal for consideration as part of Budget 2025.
10. **Invite** the Minister for Housing to report back to Cabinet in 2025 on the progress of developing options for this financing intervention.

*Announcing progress at the Community Housing Aotearoa Conference 2024*

11. **Note** that the Minister of Housing intends to announce the decisions in this paper, alongside an update on the ongoing work programme, at the Community Housing Aotearoa Conference on 26 November 2024.

Authorised for lodgement

Hon Chris Bishop  
Minister of Housing

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