



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

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

**Action sought**

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

**Contact for telephone discussion (if required)**

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

**Minister's Office actions (if required)**

**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

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

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## Executive Summary

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

1. The report put forward seven key recommendations, which vary in levels of complexity, and the time required for implementation. Taken together, the recommendations propose significant change to both Kāinga Ora and the social housing system as a whole.
2. At this stage, given the significant Kāinga Ora financial losses, there is an immediate need to take action to improve its governance and financial sustainability. We recommend that you accept and take action on the following recommendations:
  - 4A: Aligning contractual arrangements between Kainga Ora and CHPs
  - 5A: Refreshing the Kainga Ora Board
  - 5B: Issuing simplified direction to Kāinga Ora
  - 6: Requesting a plan to improve financial performance
3. The other recommendations relate to significant changes or reforms. Given the scale of change and potential for significant fiscal impacts, we recommend you receive further advice before accepting the following recommendations:
  - 1: Consolidating Crown funding for social housing
  - 2: Becoming a more active purchaser
  - 3: Increasing local management and ownership of social housing
  - 4B: Addressing barriers to other social housing providers
  - 4C: Ensuring the funding model incentivises delivery and responds to needs
  - 5C: Considering options to narrow the scope of Kāinga Ora
  - 7: Phasing the response over the next 2-3 years
4. In light of this, we recommend taking a multi-phase approach to the response including:

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

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

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

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

## **Recommended Action**

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We recommend that you:

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

### ***Immediate Actions***

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

9. **Agree** to advance conversations with potential candidates for vacant positions including the Chair and that sufficient time is taken to find high-quality candidates.
10. **Agree** to send letters to existing Board members to inform them of your intent to consider the composition of the Board.
11. **Direct** HUD to provide advice on new appointments to the Board.
12. **Accept** recommendation 5B to issue simplified direction to Kāinga Ora.
13. **Accept** recommendation 6 to request the Kāinga Ora Board develop a credible and detailed plan by November 2024 to improve financial performance with the goal of eliminating losses.
14. **Agree** to seek Cabinet agreement in June to reduce the investment decision making rights of Kāinga Ora to the standard delegations in Cabinet Office Circular 23(09) reflecting that the previous delegation granted under the Investor Confidence Rating scheme does not align with the findings of the review.
15. **Direct** HUD, in consultation with the Treasury, to provide advice on additional measures required to ensure the November 2024 plan meets Ministers' expectations, including considering additional monitoring, a variation to the facility agreement between Kāinga Ora and the Treasury, and transferring Kāinga Ora's debt appropriation to a tagged contingency.
16. **Note** that HUD, in consultation with Treasury, will monitor the progress developing this plan and keep Ministers informed as needed.
17. **Direct** HUD to draft a new letter of expectation for Kāinga Ora that outlines:
  - a) The scale and standard of the functions Ministers expect Kāinga Ora to perform
  - b) Budget 2024 outcomes
  - c) A request for Kāinga Ora to develop and present to Ministers a plan to improve financial performance by November 2024.
  - d) Reiterating value for money and progress towards savings targets is a Ministerial priority
  - e) Establishing a clear Board monitoring framework to hold management to account for performance
18. **Note** the Treasury is beginning work on tighter debt reporting controls as agreed by Joint Ministers (T2024/197 refers).

#### ***Cabinet consideration in June 2024***

19. **Note** HUD will provide you with advice in June on:
  - a) Principles to approach a consolidation of housing funding (Review Recommendation 1)
  - b) Approaches for HUD to take a more active purchaser role (Review Recommendation 2)
  - c) Approaches to taking placed based approaches to social housing delivery (Review Recommendation 3 and 4D).
  - d) Approaches to address barriers to greater delivery by CHPs, Iwi, Māori and other providers (Review Recommendation 4B).

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

*Release of Independent Report*

- 20. **Agree** to a Cabinet paper being drafted covering the critical themes, recommendations and approaches outlined in this briefing for lodging with Cabinet Committee on 2 May, with a proposed release date of 13 May subject to Cabinet approval.
- 21. **Agree** to proactively release materials covering all briefings leading up to the review and relevant documents associated with the review at the same time as releasing the Independent Review.
- 22. **Direct** HUD and Treasury to provide Ministers with the proactive release material by 1 May for consideration.
- 23. **Discuss** the Review report and the proposed Government response with officials from HUD and Treasury.



Geraldine Treacher  
**Acting Director,  
Financing Infrastructure  
and Urban Development**

19 April 2024

Hon Nicola Willis  
**Minister of Finance**  
..... / ..... / .....



Brad Ward  
**DCE Organisational  
Performance**

19 April 2024

Hon Chris Bishop  
**Minister of Housing**  
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## **Joint Report: Initial Government response to the Independent Review of Kāinga Ora**

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### **Purpose of Report**

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

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

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

### **Approach to Recommendations in the Report**

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

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

## Immediate Recommended Actions

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

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

### ***Recommendation 5A: Refreshing the Kāinga Ora Board***

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

19. Option Two would enable Ministers to make discrete decisions on members' tenure after understanding relative skillsets, and the contribution they can make to lifting Board performance.
20. On balance, HUD's recommendation is Option Two. As part of this, we recommend engaging with individual members, s 9(2)(f)(iv) [REDACTED]
21. Selecting high-quality candidates will be critical to the long-term performance of Kāinga Ora, particularly for the Board Chair, which will take time particularly given the significance of the Independent Reviews findings.
22. The appointment process may need to be done in phases to balance the need for finding high quality candidates and reducing uncertainty for the Board and Kāinga Ora.

**Recommendation 5B: Issue Simplified Direction to Kāinga Ora**

23. We recommend that Ministers accept the recommendation to issue simplified direction to Kāinga Ora.
24. Over the past few years, Kāinga Ora has been issued numerous letters of expectations as new functions have been established and have in some instances left interpretation of the extent of activity to Kāinga Ora to benchmark. Simplified directions will enable the Board to govern more effectively.
25. There is a limit to the amount that the expectations can be simplified without Cabinet decisions (and any necessary legislative change) to narrow the scope of Kāinga Ora activities. Decisions about this can be considered in phase 2.
26. However, at this stage Ministers can provide clarity and simplified direction about the scale and standard of the functions that Ministers expect Kāinga Ora to perform within the existing legislative expectations. This would support the refreshed Board to meet your expectations.
27. This can be communicated through a letter of expectations (see below).

**Recommendation 6: Approach to improving Kāinga Ora financial performance**

28. We recommend that Ministers request the Board to develop a credible and detailed plan by November 2024 to improve financial performance with the goal of eliminating losses.
29. We propose that the plan covers:
  - a. Investment scenarios (with Ministerial defined financial parameters) which provide Ministers with choices around the delivery approach, speed and scale of the asset renewal process (including retrofits), and credible divestment approaches where relevant
  - b. The approach to treasury and liquidity management practices, aligned to the current debt financing approach.
  - c. Detailed implementation plans with tangible actions and measures of the savings proposals incorporated into Budget 2024 including interdependencies and major risks to achieving these savings.
  - d. Additional savings identified as part of developing the Plan.
30. While setting expectations that the Board develop a credible plan is an important first step, additional measures will likely be needed to ensure the Board deliver a plan that meets your expectations.

31. These could include additional and more frequent monitoring, s 9(2)(f)(iv)
32. HUD, in consultation with Treasury, will provide advice on these options in June.

**Other immediate actions**

33. We also recommend:
- a. that Ministers set revised purchasing intentions for delivery in 2024/25, strengthening regional delivery purchasing expectations and setting thresholds for Ministerial consultation on changes.
  - b. Seeking Cabinet agreement, in line with Cabinet Office Circular 23(09), to reduce the delegation to the Board for individual investment decisions to \$35 million (from \$50 million, transferred over under the now defunct Investor Confidence Rating system) through the Cabinet paper in June 2024, and
  - c. Implementing changes to the debt financing agreement between the New Zealand Debt Management Office and Kāinga Ora to enhance reporting obligations as agreed by Joint Ministers (T2024/197 refers).

**A new letter of expectations**

34. Several of the actions require setting new expectations with the Board. We propose that a letter of expectation is sent to the new Board chair once in place covering:
- a. The scale and standard of the functions that Ministers expect Kāinga Ora to perform, covering at least:
    - i The social housing growth and renewals (including sales) programme
    - ii Urban development functions
    - iii Statutory functions
  - b. Budget 2024 outcomes including approach to delivery in 2025/26
  - c. Request for a credible plan to eliminate losses by November 2024
  - d. Reiterating value for money and progress towards savings targets is a Ministerial priority
  - e. Specific metrics to hold management to account for performance.
35. HUD will draft a new letter of expectations to be received by the new Chair immediately after they are appointed.

**Approach to Remaining Recommendations**

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36. Further work will be required to determine how to respond to the remaining recommendations, and understand the financial implications associated with each proposal.
37. The Independent Review Panel indicated in recommendation 7 that the time horizon for their proposed changes is over a few years given the nature and size of the system change required to achieve the end state.
38. It is proposed that additional advice is given to Ministers in June 2024 before formally responding to the remaining recommendations.
39. The first tranche of advice in June would cover:
- a. Principles to approach a consolidation of housing funding with final recommendations in November 2024 (Review Recommendation 1)

- b. Advice on approaches for HUD to take a more active purchaser role (Review Recommendation 2)
- c. Advice on approaches to taking placed based approaches to social housing delivery (Review Recommendation 3 and 4D).
- d. Advice on approaches to address barriers to greater delivery by CHPs, Iwi, Māori and other providers (Review Recommendation 4B).
- e. A high level plan to undertake the policy work and factors to be considered for further advice in November on funding settings and scope of Kāinga Ora (Review Recommendations 4C and 5)

## Approach to Releasing Report

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- 40. HUD officials are currently drafting a Cabinet paper covering the critical themes, recommendations and approaches outlined in this briefing for lodging with Cabinet Committee on 2 May, with a proposed release date of 13 May subject to Cabinet approval.
- 41. Given the volume of Official Information Act requests received by both the Treasury and HUD to date, we will provide Ministers with a proactive release package on 1 May for consideration for proactive release alongside the review.
- 42. This release will cover previous advice provided to Ministers from the funding and financing work undertaken by the Treasury and HUD prior to the review and any documents relating to the establishment of the review.

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

### **Recommendation 1:**

To strengthen government accountability for social housing outcomes, Cabinet considers consolidating government funding for housing outcomes under the Minister of Housing, who will be supported by the Ministry of Housing and Urban Development to administer that funding on behalf of the Crown, together with expectations of formal reporting of outcomes by a third party.

### **Recommendation 2:**

To prioritise tenant outcomes and cost-effective provision of housing support and supply, the Minister of Housing directs the Ministry of Housing and Urban Development to become an active purchaser that takes a social investment approach to cost-effectively improving housing outcomes.

### **Recommendation 3:**

To better enable tenants and local communities to meet their diverse housing needs and aspirations, government policy and investment leverages the advancements made in place based and specialised approaches to increase local decision making regarding the management and ownership of housing .

### **Recommendation 4:**

To increase choice, diversity, and innovation, Government enables more providers to participate in the provision of social housing by:

- a) the purchaser contracting with Kāinga Ora in a similar manner that it does with CHPs
- b) addressing barriers to greater provision of social housing by CHPs, Iwi and Māori, and other providers
- c) ensuring the funding model incentivises delivery where needed and is responsive to the different needs of tenants
- d)

### **Recommendation 5:**

To ensure that Kāinga Ora has the leadership and mandate to effectively implement the recommendations of this Review, responsible Ministers:

- a) refresh the Board with a focus on the skills to implement the recommendations of this Review
- b) issue simplified government expectations and direction to Kāinga Ora
- c) report back to Cabinet with options to narrow the scope of Kāinga Ora activities to social housing and ensure it has the leadership and governance expertise to deliver effectively, including simplifying the Kāinga Ora Act and considering more commercially focussed organisational forms such as company under Schedule 4A of the Public Finance Act 1989.
- d)

### **Recommendation 6:**

Responsible Ministers set an expectation that the board will develop a credible and detailed plan to improve financial performance with the goal of eliminating losses. The board should be held accountable for implementing this plan through regular reporting to Ministers, supported by on-going engagement between Kāinga Ora management, the Kāinga Ora board and the Monitor.

### **Recommendation 7:**

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

Within 3-6months

- Strengthen Kāinga Ora governance by refreshing the Board including Cabinet decisions on any necessary changes to Kāinga Ora legislation and entity form.
- Set new Ministerial expectations with HUD and Kāinga Ora.
- HUD and Kāinga Ora to agree a refreshed contract.
- Cabinet make decisions on consolidation of Crown funds to inform Budget 25.

In 12-18 months

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

In 2-3 years

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