

Budget Sensitive

Office of the Minister of Housing

Chair, Cabinet Business Committee

KĀINGA ORA – APPROVAL OF NEW NON-DEPARTMENTAL CAPITAL APPROPRIATION TO FACILITATE A \$1.0 BILLION STANDBY CROWN CREDIT FACILITY

Proposal

1. This paper seeks approval for a new non-departmental capital expenditure appropriation to facilitate a \$1.0 billion standby Crown credit facility for Kāinga Ora. 
 s 9(2)(ba)(i)  Following consultation with the Minister of Housing, the Minister of Finance approved this credit facility on 9 March 2020. Cabinet approval is now required for the new appropriation.

Relation to government priorities

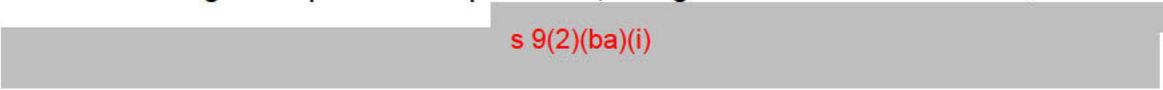
2. The standby credit facility will facilitate prudent financial management by Kāinga Ora. The organisation's operations are key to the Government's priority of ensuring that everyone has a warm, dry home.

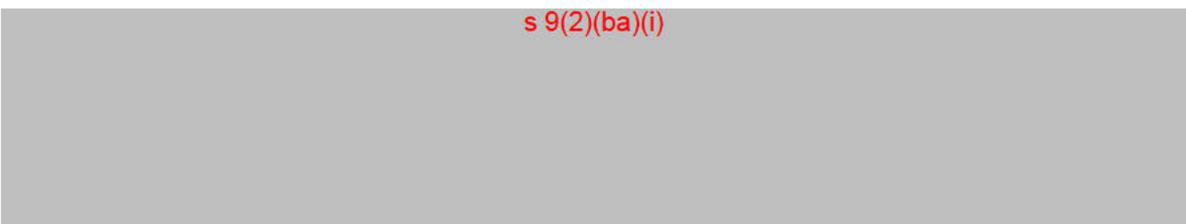
Background

3. In late 2019 Kāinga Ora approached the Treasury for a standby credit facility to assist with its short-term liquidity requirements in exceptional and temporary circumstances. Kāinga Ora proposed that this facility should only be for the purpose of accessing finance to meet short-term obligations if extraordinary circumstances were to prevent Kāinga Ora from raising finance in capital markets over a period of several months (e.g. a major banking crisis, natural disaster).

Relation to the COVID-19 Economic and Financial Impacts

4. Kāinga Ora sought this facility some time before the start of the COVID-19 pandemic. Notwithstanding the impacts of the pandemic, Kāinga Ora has advised that a \$1.0 billion

 s 9(2)(ba)(i)

5.  s 9(2)(ba)(i)

6. 

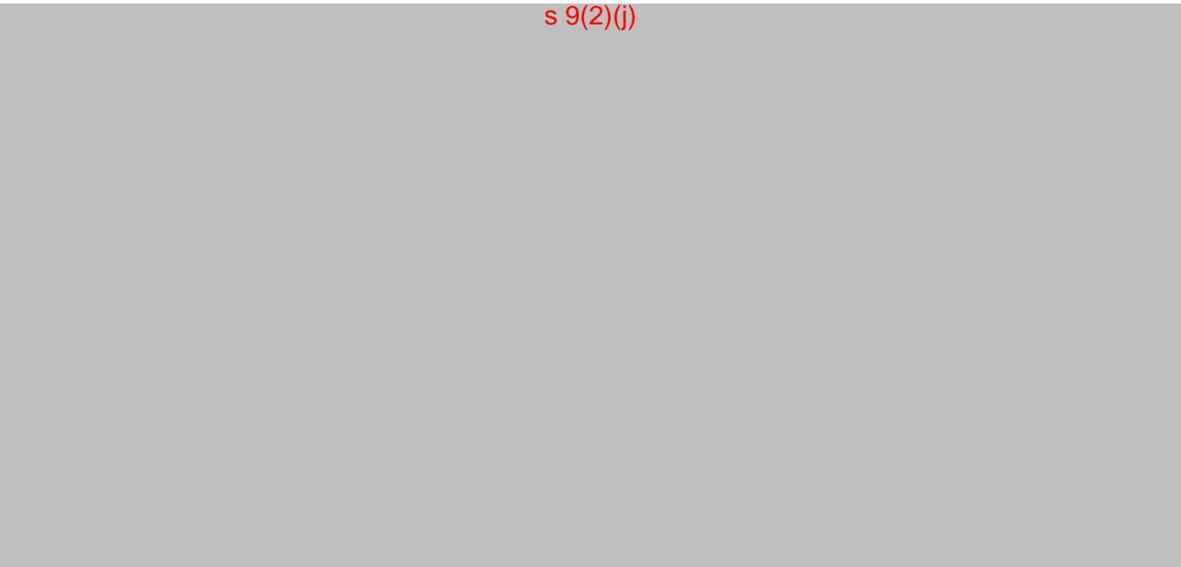
Analysis

The Features of the Standby Facility

- 7. A standby credit facility is normal practice for large businesses of the nature and size of Kāinga Ora.
- 8. This standby facility will effectively be a loan that would remain undrawn for most of the time. The standby facility would be drawn down if for some reason Kāinga Ora were unable to raise wholesale funding through either commercial paper or bond markets.

9. s 9(2)(j)

10.



Why does Kāinga Ora need this facility now?

11. s 9(2)(ba)(i)

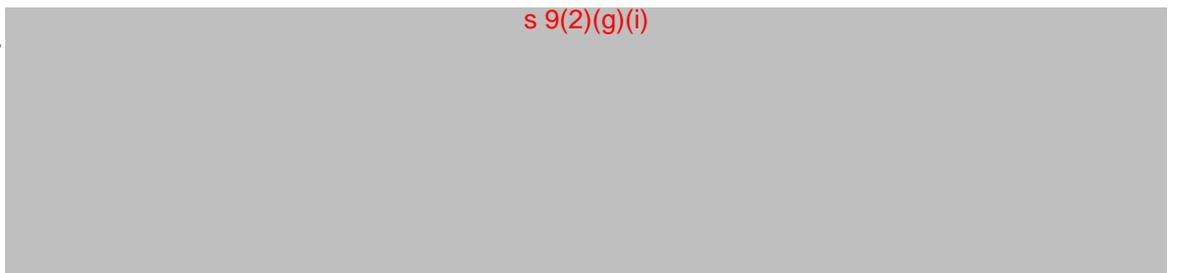


Relationship to Existing Borrowing Approvals for Kāinga Ora

- 12. On 19 December 2019, the Minister of Finance and the Minister of Housing approved an increase in the debt protocol limit of Kāinga Ora to \$7.1 billion. This standby facility will not allow Kāinga Ora to borrow amounts additional to this limit.

The Rationale for Crown Provision for the Facility

13. s 9(2)(g)(i)



The Approval of the Standby Facility by the Minister of Finance

14. Under section 65L of the Public Finance Act 1989, the Minister of Finance may, on behalf of the Crown, lend money, if it appears to the Minister to be necessary or expedient in the public interest to do so. The Treasury advised the Minister of Finance that it considered that the giving of the loans under the standby facility was “expedient in the public interest”, and therefore it met the alternate test in section 65L. The Treasury therefore recommended that the Minister of Finance agree to approve, under section 65L, the standby facility for Kāinga Ora, in the name of Kāinga Ora’s wholly-owned subsidiary Housing New Zealand Limited, which holds all of Kāinga Ora’s commercial arrangements such as the external borrowing programme, including existing standby facilities. The Treasury advised the Minister of Finance that one of the key considerations when determining whether an arrangement is in the “public interest” is whether it safeguards the public assets of New Zealand. Other considerations can include whether the loan:
- a. allows public scrutiny of the Government’s expenditure or its management of Crown owned assets;
 - b. provides appropriate financial management incentives;
 - c. is an effective and efficient use of public resources; and
 - d. demonstrates responsible fiscal management.
15. On 9 March 2020, in consultation with the Minister of Housing, the Minister of Finance approved the standby facility.

Financial Implications

16. Any loans that are drawn down from the standby credit facility would be fiscally neutral due to the short-term nature of drawings, and therefore will not need to be managed against budget allowances.

Consultation

17. The Department of the Prime Minister and Cabinet, the Treasury, and Kāinga Ora were consulted.

Communications

18. No specific public announcement is required.

Proactive Release

19. I propose to proactively release this paper within 30 business days of decisions by Cabinet. The released paper will be subject to redaction as appropriate under the Official Information Act 1982.

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Recommendations

20. The Minister of Housing recommends that the Committee:

1. **Note** that on 9 March 2020, the Minister of Finance, in consultation with the Minister of Housing approved a \$1.0 billion stand-by credit facility from the Crown pursuant to section 67 of the Public Finance Act;
2. **Note** that the standby facility will only be drawn if for some reason Kāinga Ora is not able to raise wholesale funding through either commercial paper or bond markets;
3. **Note** that a new \$1.0 billion non-departmental capital expenditure appropriation under Vote Housing and Urban Development is required to give effect to the standby facility;
4. **Note** that any loans that are drawn down from the standby facility will be fiscally neutral due to the short-term nature of drawings, and will not need to be managed against budget allowances;
5. **Agree** to establish the following new multi-year appropriation, to run from 1 May 2020 to 30 June 2024:

Vote	Appropriation Minister	Title	Type	Scope
Housing and Urban Development	Minister of Housing	Kāinga Ora – Homes and Communities Standby Credit Facility	Non Departmental Capital Expenditure	This appropriation is limited to financing of a credit facility to assist with short-term liquidity requirements in exceptional and temporary circumstances for Kāinga Ora – Homes and Communities.

6. **Approve** the following change to appropriations to give effect to the decision in recommendation 1 above, with a corresponding impact upon drawdown on debt:

	\$m – increase/(decrease)	
	2019/20 to 2023/24	2024/25 & outyears
Vote Housing and Urban Development Minister of Housing		
Non Departmental Capital Expenditure: Kāinga Ora – Homes and Communities Standby Credit Facility	1,000.000	-

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7. **note** that the indicative spending profile is dependent on the need to drawdown the facility; and
8. **agree** that the proposed change to appropriations above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Authorised for lodgement

Hon Dr Megan Woods
Minister of Housing

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