



# Aide-memoire

<b>Kāinga Ora – Request for a \$1.0 billion Standby Credit Facility</b>			
<b>Date:</b>	25 February 2020	<b>Security level:</b>	In Confidence
<b>Priority:</b>	Medium	<b>Report number:</b>	AMI19/20020261

<b>Information for Minister</b>	
Hon Dr Megan Woods <b>Minister of Housing</b>	<b>Note</b> that the Treasury will shortly submit a report to you and the Minister of Finance, seeking approval of a \$1.0 billion standby credit facility for Kāinga Ora.

<b>Contact for discussion</b>			
Name	Position	Telephone	1 <sup>st</sup> contact
Brad Ward	Deputy Chief Executive, Place-based Policy and Programmes	s 9(2)(a)	✓
Steve Rylands	Principal Advisor, Place-based Policy and Programmes		

<b>Other agencies consulted</b>
The Treasury, Kāinga Ora

## Minister's office to complete

- Noted
- Seen
- See Minister's notes
- Needs change
- Overtaken by events
- Declined
- Referred to (specify)

### Comments

Date returned to MHUD:



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## Kāinga Ora – Request for a \$1.0 billion Standby Credit Facility

**For:** Hon Dr Megan Woods, Minister of Housing

**Date:** 25 February 2020

**Security level:** In Confidence

**Priority:** Medium

**Report number:** AMI19/20020261

### Purpose

1. This aide memoir provides background about forthcoming advice that the Treasury will submit to you and the Minister of Finance:
  - That advice will seek agreement from you and the Minister of Finance to a new \$1 billion standby credit facility from the Crown to Kāinga Ora to provide short-term liquidity due to its increased capital expenditure program.
  - If you and the Minister of Finance agree to the facility, the Minister of Finance would be required to approve the facility under section 56L of the Public Finance Act.
  - Also, a \$1 billion capital appropriation would be required, and you have some options to seek approval of this.

### Background

2. In late 2019 Kāinga Ora approached the Treasury for a standby facility to assist with its short-term liquidity requirements in exceptional and temporary circumstances:
  - This facility would not allow Kāinga Ora to raise long-term debt additional to the \$7.1 billion debt protocol limit that you and the Minister of Finance approved in December 2019.
  - Rather it would 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).
  - The facility would be netted off to zero as soon as practicable when normal financial market operations resumed.
  - Access to the facility would be on commercial terms negotiated between Treasury and Kāinga Ora.
3. s 9(2)(ba)(i)
4. We agree with the need for a standby credit facility for Kāinga Ora. s 9(2)(f)(iv)
5. If you agree with the Treasury advice to establish the facility, the next decision you will need to make is how to seek approval for the \$1 billion capital appropriation.

## Approval Processes for the Facility

6. The Minister of Finance is required to approve the credit facility under 65L of the Public Finance Act 1989.
7. If the Minister of Finance were to approve the facility it would require a \$1.0 billion capital appropriation. This appropriation is fiscally neutral because it is short-term in nature if drawn and does not need to be managed against budget allowances. The appropriation would require the approval of Cabinet. We understand that the Treasury will recommend that you take a paper to Cabinet seeking approval of the \$1.0 billion capital appropriation.
8. We have discussed with the Treasury an alternative approach to obtain approval of the required capital appropriation. This would involve obtaining Cabinet approval as part of the 2020 Budget package, by including the required financial recommendations as part of the other financial recommendations required to give effect to the 2020 Budget.
9. The Treasury has advised us that they do not favour this option. s 9(2)(g)(i)

and it is solely his prerogative. We understand that the Treasury will include this option in its forthcoming advice to you and the Minister of Finance.

## An Alternative to a Standby Facility from the Crown

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

## Recap on the Options

11. To recap, there are two options available to you and the Minister of Finance, should you *agree* to provide the facility:
  - i. The Minister of Finance approves the facility under s65L of the Public Finance Act 1989, following which you would seek Cabinet approval of a fiscally neutral \$1.0 billion capital appropriation (a standalone Cabinet paper); or
  - ii. The Minister of Finance approves the facility under s65L of the Public Finance Act 1989, following which Cabinet's approval of a fiscally neutral \$1.0 billion capital appropriation would be obtained as part of the financial recommendations that will give effect to the 2020 Budget.
12. If you and the Minister of Finance *decline* to provide the facility, Kāinga Ora would seek alternative solutions from the private sector to increase liquidity, likely at a higher net cost to the Crown.

## Next Steps

13. We understand that the Treasury Report seeking agreement to the facility, and its approval by the Minister of Finance will be submitted to you and the Minister of Finance in the next few days.