Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

HUD2024-004634

s 9(2)(a)

Tēnā koe s 9(2)(a)

Thank you for your email of 29 May 2024 requesting the following information under the Official Information Act 1982 (the Act):

> *Would you please provide me with the supplementary document provided to the Minister of Housing and Minister of Finance that is referenced in paragraph six, page three of [Initial Government response to the Independent Review of Kāinga Ora 19 April 2024 T2024/1095 HUD2024-004314]?*

The document referenced is a letter from Sir Bill English, lead reviewer of the independent review, to Responsible Ministers providing the final report and a summary of the panel's response to Kāinga Ora Board's comments. This is attached in full.

You have the right to seek an investigation and review of my response by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found on the Ombudsman's website at: www.ombudsman.parliament.nz.

As part of our ongoing commitment to openness and transparency, the Ministry proactively releases information and documents that may be of interest to the public. As such, this response, with your personal details removed, may be published on our website.

Nāku noa, nā

Glenn Phillips
Head of Crown Entity Monitoring
Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development

19 April 2024

Hon Nicola Willis
Nicola.Willis@parliament.govt.nz

Hon Chris Bishop
Chris.Bishop@parliament.govt.nz

Dear Ministers

On behalf of the independent reviewers (the Panel), please find attached the final report (the Report) from the Panel.

The final report contains a small number of amendments in response to feedback received from the Kāinga Ora Board. A summary of the panel's response to the Board's comments is attached for your information.

Yours sincerely

Bill English

Sir Bill English
Lead Reviewer

Analysis of Board Feedback

Feedback:	**Review Response**
There was relatively limited engagement with our organisation, leading to some review conclusions appearing to be based on analysis informed by anecdotes, rather than independently considering the performance of the organisation.	The review panel met with the full Board and individual Board members and spent time with the Board Chair, Deputy Chair and Chief Executive after reviewing collateral provided by the organisation, and the findings of the spending, funding and financing review undertaken by HUD and the Treasury (which were jointly signed off with Kāinga Ora senior management). The panel invitation to the Board was open to all Board members.
In taking a view of the wider social housing system, the report appears to conflate concerns about the performance of the social housing system with Kāinga Ora performance. The review should accurately identify the system changes that are required so that those that sit outside the Kāinga Ora mandate can be addressed by the correct system player. In taking this wider view, the review also seems to have missed the opportunity to identify improvements that will enhance value for money across the system and for Kāinga Ora	The review highlights in numerous places that the social housing system is not working well, and a majority of the recommendations are targeted towards system change. However, the panel believes that the approach undertaken by Kāinga Ora has contributed to the continued fragmentation of the sector, using the access to Crown funding and financing and significant land holdings to crowd out other participants without understanding that partnership is not a contractual relationship.
The Board believes that Kāinga Ora has been performing against the direction set for it by the previous government. This is clearly demonstrated by our achievement against the multiple legislative, LOE and SPE targets the organisation has been set.	The panel acknowledges within the report that Kāinga Ora has significantly increased delivery as directed by the previous government. However, a limited focus on value for money and setting financial parameters around pursuing broader objectives (e.g. Homestar, off site manufacturing, trialling new build techniques) has contributed to the costs incurred by Kāinga Ora. The drivers of the forecast deficits have been incorrectly attributed to the increased build activity by the Board, however the major driver of the deficits has been maintenance costs and increased staffing levels.

Feedback:	Review Response
	It is the panel's understanding that sufficient funding has been set aside in the appropriation to cover the full cost stack of new build activity. In addition, one of the recommendations of the report is to look at the funding settings of market rent and operating supplement which should address Kāinga Ora accessing this from an operational perspective. The Kāinga Ora commissioned review of maintenance spending highlighted how limited management oversight of spend and limited whole of life asset planning were major contributors to the rapid upward trajectory of maintenance spend. This aligned with conversations the panel had with third parties.
The Board believes that the organisation is financially viable, with action taken over the last three years resetting the organisation key financial drivers - particularly construction and maintenance costs. This is shown in the medium-term financial plans provided to the Treasury, the Ministry of Housing and Urban Development, and the Reviewers.	The review clearly articulates through the recommendations that system level changes are required to make the sector operate efficiently and effectively. The forecasts presented in the Board pack in December contained deficits of around $500 million per annum (after taking into account savings targets), meaning that without additional investment (for replacing stock or supplementing market rents) the organisation will not be financially viable. The critical point missing in discussions with the Board was an acknowledgement that the Crown financing (through debt or equity) has the same impact on the Government forecasts and therefore a level of confidence in Kāinga Ora ability to deliver at a reasonable cost is required, which currently does not exist. In discussions with the Kāinga Ora team leading the savings exercises across both construction (HDS) and maintenance activities, the panel were not convinced that there was a high degree of certainty around the ability of Kāinga Ora to control or influence savings over and above streamlining internal processes.
The review correctly collects and considers information from various individual and organisational views on Kāinga Ora. The Board feels it is important to balance and validate those views against both Kāinga Ora's	The report has been adjusted to remove facts and figures which were directly quoted to the review but were not independently verified and a disclaimer has

Feedback:	Review Response
operational context, and the performance and activity of the organisation. We are not sure this has been done with sufficient rigour by the review group. We do not therefore believe it is appropriate to include Appendix E in the report, which includes errors and misconception of Kāinga Ora's role within the housing system.	been added to the annex acknowledging this is what the reviewers were told to form overall themes rather than statements of fact.
Recommendations	
The Board were broadly comfortable with the report system recommendations and raised two points around ongoing opportunities for collaboration which need to be fostered and long-term certainty of pipeline impacting the asset stewardship role.	The panel was comfortable that these points were already covered in the report.
Comment on Report	
Financial Viability Concluding Kāinga Ora is not financially sustainable fails to recognise that we retain a strong balance sheet, with fungible assets and very strong current and projected rental flows. Our longer-term financial modelling demonstrates the situation improves dramatically.	The majority of the feedback provides commentary on how the system works which is well understood by the panel and is covered by the recommendation around reviewing funding settings. The Board feedback takes a view of Kāinga Ora as a standalone entity without acknowledging that merely changing the financing settings from debt to equity would have no impact on the whole of Crown position, just transferring the interest burden to the NZDMO and rental growth to cover an inefficient cost base impacts the Government forecasts. The critical point is without explicit Government decisions on funding and financing settings, the assumptions used in the medium-term model will not result in a financially viable organisation and alternative delivery models may present better value for money for the Government.

Feedback:	Review Response
Asset Procurement and Management	
The comments on land holding costs not being factored into decision-making for Kāinga Ora Land Programme purchases is incorrect.	The panel is comfortable that the wording in the report that the Land Programme is funded for interest costs, presenting an uneven advantage over the private sector which incurs costs from the date of purchase and are incentivised to make the development progress at pace.
Page 19 asserts that costs could be reduced from interest costs on work in progress (WIP). This is simply not the case. Growing WIP is a reflection on the growing number of homes in construction – for context we have 4-5 times as many homes in construction today as we did in 2018. Homes take time to build before they are able to generate revenue. We can of course reduce holding costs by building homes more quickly, and this is a focus for the organisation through the introduction of HDS.	The panel is comfortable with the wording in the report, which the Board comments actually reflect, which is the speed from demolition to redevelopment drives holding costs. The DPMC Implementation Unit report highlighted that Kāinga Ora does not have strong information on what is impacting the pace of delivery and the maintenance review highlighted a whole of life approach is not taken by Kāinga Ora, which are all drivers of prolonged work in progress.
We are interested in understanding whether those factors have been considered and in seeing the analysis that supports the conclusions reached [that cost increases are over when could reasonably be expected].	The panel is comfortable with the wording in the report, as the Aurecon report into maintenance clearly highlights the deficiencies in the current approach and the fact that significant savings are touted from this review supports the point.
The review incorrectly suggests that acquisitions are not part of the Kāinga Ora build programme (p18). For the vast majority of developer-led projects, we identify and work with the developers from an early stage, fully commissioning the build of a project.	The panel is comfortable with the wording of the report as it states that "In the absence of acquisitions, their build programme would not be meeting its annual targets".
Tenancy Management It is not clear how the conclusion that tenancy management is not delivering value for money has been arrived at, based on the evidence provided.	The final report has added more context around the MSD analysis and also reflects that social housing could be better targeted and lower cost options could exist in line with the recommendation to progress the active purchaser approach.

Feedback:	Review Response
	The review had used staffing numbers contained the spending, funding and financing review, but has been updated with numbers from more recent documents provided by Kāinga Ora to the panel.
Remit and Performance	
Kāinga Ora has a core statutory role in urban development, that is not addressed in the report.	The panel is clear that it is not a core function, and therefore the government should consider where it best sits and then fund it appropriately. It was not appropriate for the panel to venture into design within the timeframes and terms of reference.
The report does make a number of comments about the role of the Board and its performance. We believe these comments are inaccurate and lack supporting evidence.	The panel through interactions with individual Board members, the meeting with the Chair, Deputy Chair and Chief Executive and reviewing the Board papers are of the opinion that although there are numerous committees and subcommittees, the focus of these groups was not on the critical issues and seemed to be focused towards investment approvals with limited monitoring of delivery at a level sufficient to identify risks and mitigations. The secretariat informed the panel that the driver for improved reporting was through requests from Monitoring departments on critical projects and was reiterated through both the Gateway review of Large-Scale Projects and the DPMC implementation unit review of the Kāinga Ora build programme. The report has the following words inserted to acknowledge that the Board responds to the direction set for it by the government: *"We acknowledge that the board followed directives from the previous government to rapidly increase the number of additional social houses. The new government has directed Kāinga Ora to focus more on value for money and fiscal sustainability. The board has subsequently provided a savings plan, and it remains to be seen how effectively Kāinga Ora adapts to this new direction."*

Feedback:	Review Response
Factual Errors	
Presentation of financial information	The report has been updated to articulate the total impact on the Government forecasts is via the cash outlay to Kāinga Ora which incorporates capital requirements.
Easy access to debt	The report has been updated to articulate that relative to CHPs and other providers, Kāinga Ora has easy access to debt.
Budget packs	The Board comments highlight that it does assume additional debt for the renewal programme (which also has assumptions around significant sales programmes to offset) and that there is no balance sheet incorporated. The budget pack did contain a series of graphs over 60 years, but critically it lacks any tangible action plans related to the four-year budget period which did not rely on getting new funding or financing.
AS and IRRS	The report has had minor amendments to the text to reflect some of the Board comments.