

Hon Chris Bishop

Minister of Housing
Minister for Infrastructure
Minister Responsible for RMA Reform
Minister for Sport and Recreation
Leader of the House
Associate Minister of Finance



21 JUN 2024

Simon Moutter
Chair - Kāinga Ora – Homes and Communities
WELLINGTON 6140

Via email: s 9(2)(a)

Dear Simon

UPDATED LETTER OF EXPECTATIONS FOR KĀINGA ORA – HOMES AND COMMUNITIES

We are writing to you as the Responsible Ministers for Kāinga Ora – Homes and Communities (Kāinga Ora) to outline how your board can support the delivery of the Coalition Government's priorities and set our expectations for Kāinga Ora during FY2024/25.

The incoming Government had significant concerns about the financial performance and governance of Kāinga Ora. These concerns have been borne out by the independent review recently completed.

It is imperative that Kāinga Ora operates efficiently, transparently and with a clear focus on delivering tangible outcomes for the people it serves.

Obligations and responsibilities of the Board

The Board should be aware of its collective and individual statutory obligations. These include but are not limited to:

- giving effect to government policy when directed by the responsible Ministers
- complying with a whole of government direction from the Minister for the Public Service and the Minister of Finance
- ensuring that KO operates in a financially responsible manner.

The Board has the primary responsibility for Kainga Ora performance. It is accountable to us as the responsible Ministers for the delivery of Ministerial and Government priorities, the setting and achievement of meaningful performance indicators, the monitoring of Kāinga Ora performance, high quality performance reporting and for raising significant risks with us early.

We expect the Board to notify us promptly of any significant risks that arise in the development of the turnaround plan or in the day-to-day operations of the business.

Wider context and Government priorities

We expect your board to be conscious of the Government's priorities. In an ongoing challenging fiscal environment, the Government's priorities include:

- Lifting New Zealand's productivity and economic growth to increase opportunities and prosperity for all New Zealanders; and
- Improving the efficiency and effectiveness of the public service and of government-funded services.

Overarching Priorities

The three overarching priorities we expect the Board to focus on are:

- Financial sustainability;
- Ensuring the Kāinga Ora turnaround plan is consistent with wider government objectives and system direction including any approach agreed by Cabinet to the wider review recommendations; and
- Continued delivery with an enhanced focus on doing so in a fiscally responsible way.

Priority 1: Focus on Financial Sustainability

Cabinet has agreed to accept the independent review recommendation that Kāinga Ora must present a credible plan to eliminate losses to Ministers by November 2024. We expect the newly constituted Board to develop this plan directly, in consultation with Kāinga Ora Management, HUD and the Treasury. The plan is expected to materially reduce operating losses and manage within the approved debt appropriations.

The plan should incorporate the following key information:

- Investment scenarios that provide Ministers with choices, consequences and trade-offs around the delivery approach, speed and scale of the asset renewal process (including retrofits), and credible divestment approaches with (at this point in time) no net new growth in Kāinga Ora social housing places from June 2025 aligned with the Budget 2024 decision.

Our expectation is that these scenarios show options around

- a minimum renewal programme to replace houses that are no longer suitable for tenanting and the resulting impact on debt
- renewal programmes that utilise the appropriated debt (up to \$22.1 billion total debt) over various timeframes (2025/26, 2026/27 and 2027/28).
- Greater visibility and transparency of the total capitalised costs that are incurred in the social housing programme.
- The approach to treasury and liquidity management practices so that Kāinga Ora has an effective and efficient treasury management function, aligned to the current debt financing approach. In developing this part of the plan, we expect your review of current practices should include improving engagement and visibility with the Treasury and HUD. You should consider ceasing the

placement of 'substantial deposit' with banks, given the access to Crown lending and the opportunity cost of holding cash. We also expect this review to consider whether the use of financial instruments is efficient, given the cost of maintaining such capacity, and consider governance processes.

- The approach to delivering Crown-funded programmes and statutory obligations within the \$56 million set aside in Budget 2024.

Although the review indicates consideration of the remit of Kāinga Ora, in the intervening period we expect you to retain the capability required to deliver statutory functions and obligations such as activities around urban planning and policy including advancing the two Specified Development Projects and submitting on council Resource Management Act plan changes to support increased density and urban outcomes and administration of housing products for the Crown.

- Detailed implementation plans with tangible actions and measures of the savings proposals incorporated into Budget 2024 over three years to June 2027:
 - personnel savings of \$130 million
 - operating maintenance of \$464 million
 - travel of \$12 million
 - capitalised maintenance of \$126 million
 - retrofit of \$96 million

We expect you to keep us regularly updated on the development of the turnaround plan to ensure it meets our requirements. We also expect you will actively engage with HUD and the Treasury throughout the turnaround plan's development, including providing opportunities to comment on the draft plan at key milestones.

It is our expectation that across all the components of the credible plan, the Board and HUD will continue two-way engagement on any proposed changes to the scope and extent of the remit of Kāinga Ora. This may include any approaches the Board believes could ensure that Kāinga Ora can focus on the organisation's core functions and changes to the delivery model for these services to improve delivery performance and reduce the costs.

Priority 2: Wider Government Objectives

The second priority is to continue to deliver on the Government's investment programmes and contributing to wider Government objectives, including contributing to where necessary advice led by HUD on policy changes following the Independent Review.

Priority 3: Continued Delivery with an enhanced focus on doing so in a fiscally responsible way

We expect Kāinga Ora to continue to deliver on commitments outlined below but with an enhanced focus on value for money and cost to the taxpayer.

Area 1: Delivery of social housing

We expect you to meet your social housing targets for new places for 2023/24 and 2024/25 as agreed in previous Budgets.

Any deviation from the regional delivery targets should be proactively agreed with Ministers, and we expect monthly reporting that will enable Ministers to be assured that progress is being made.

Ministers have previously expressed an expectation that Kāinga Ora undertakes genuine engagement with communities about delivery plans, and we expect regular updates on how this is progressing.

Area 2: Approach to Large Scale Projects

As part of Budget 2024, decisions were made to reduce the Government funding (operating and capital) of the Large Scale Projects programme to a total of \$1.868 billion.

Ministers are expecting a report back in July 2024 to provide choices and options for this programme, including changes to objectives and revenue assumptions.

Our expectation is that the report back is a joint Kāinga Ora, HUD and Treasury product with the refreshed Board using the reset expectations within the LSP paper to set up robust oversight and monitoring of this programme.

Area 3: Approach to Kāinga Ora Land Programme

Given the current fiscal position, Ministers have previously expressed an expectation that we are informed (prior to any decisions being made within your existing delegations) of any new planned investments within the Land Programme.

For your awareness, Ministers have recently informed Kāinga Ora that the Treasury and HUD have been asked for further advice on options around the future of Ferncliffe Farms by the end of June 2024.

We expect the refreshed Board to use this completed report back as supporting information to build into the credible plan and future direction of the Land Programme.

In this regard, it is our expectation that the Board provides an update by 30 September 2024 on the remaining land holdings within the programme, including future choices for progressing these projects, for consultation with Ministers, as this

programme is covered by the consolidation of funding recommendation of the review.

Area 4: Focus on core functions

We expect Kāinga Ora to focus on core tenancy management functions, in particular:

- strengthening management of disruptive tenants
- actively managing rental arrears
- reducing the volume of vacant properties.

Progress in these areas should form part of the monthly reporting to Ministers and monitoring agencies.

General Matters

There are some general matters that we expect the Board to monitor during the year.

Approach to Administering the Infrastructure Acceleration Fund

As Kāinga Ora administers the IAF on behalf of Ministers we expect to be appropriately informed of progress across the programme in a timely manner. Any variation of funding agreements including the housing outcomes remains a Ministerial decision.

Supporting the Tāmaki Regeneration Programme

Kāinga Ora is supporting the Tāmaki Regeneration Programme through being the Master developer for Tāmaki Regeneration Limited, as well as delivering enabling infrastructure through the Large Scale Project in the area.

Our expectation is that both organisations are working collectively to ensure that the work programmes are aligned and value for money is being achieved through the various Government funding and financing streams.

Consultation on significant investments

Kāinga Ora must comply with the Cabinet Office circular CO(23) 9. The Board is responsible for the performance of Kāinga Ora investments and assets.

Due to the concerns raised in the review, Cabinet has agreed to reduce the delegation to the Board for significant investments to \$35 million whole of life costs, in line with the standard delegation under CO(23) 9 that other Crown entities operate within.

We expect that as significant investments that meet the thresholds outlined in CO (23) 9 are being considered at the Board, that early engagement with Ministers and monitoring agencies is undertaken, including on realistic choices and options within the strategic business case.

Reporting to Monitoring Agencies

We expect that HUD as the monitoring department, will receive monthly investment and financial reporting from Kāinga Ora and will be notified promptly of any

significant issues that arise outside of these reports. HUD will also be the primary communication point for any subsequent policy decisions taken by Cabinet.

We expect that the Treasury, as the Government's chief fiscal and economic advisor, will receive the detailed information necessary under the Public Finance Act to undertake its forecasting and Controller functions including expected and actual performance of investments to inform all-of-government processes such as the Government's fiscal strategy, reviews of the affordability of current policies and the value of service delivery options.

We would also expect that Kāinga Ora will provide the Treasury with quarterly investment reporting as outlined in Cabinet Office Circular CO (23) 9, and any other information requested that is necessary for the Treasury to provide advice to Ministers.

New Agreements

We have directed HUD to assess the current contract for the delivery of social housing with Kāinga Ora to provide consistency with the Community Housing sector.

In addition, we have directed the Treasury to negotiate a new lending facility agreement between the Treasury and Kāinga Ora to support better transparency and accountability for the use of Crown debt.

We expect that Kāinga Ora will work with HUD and the Treasury to finalise these agreements to deliver the optimal outcomes for the Crown.

We trust these expectations will help you to focus the Board's governance work over the next year. We look forward to discussing your progress.

Yours sincerely



Hon Nicola Willis
Minister of Finance



Hon Chris Bishop
Minister of Housing

cc Andrew McKenzie, Chief Executive Officer, Kāinga Ora