

New financing arrangements for Kāinga Ora

November 2022

The current Kāinga Ora funding and financing model:

Q: What is the role of Kāinga Ora?

Kāinga Ora is the largest residential landlord in New Zealand, housing more than 186,000 people in over 69,000 properties across New Zealand. It is the key delivery agency for the Government's social housing commitments.

Q: How does the current Kāinga Ora funding and financing model work?

Under the current funding and financing model of Kāinga Ora the full capital cost to build new social/supported housing and retrofit existing homes is borrowed. Future rental revenue is applied to service interest costs and make principal repayments.

Since 2018, Kāinga Ora has issued debt in private markets as the primary source of borrowing in the name of its subsidiary, Housing New Zealand Limited. The maximum level of private borrowing, which has increased over time, has been approved jointly by the Ministers of Finance and Housing.

Q: What is the Kāinga Ora Sustainable Finance Framework?

The Kāinga Ora Sustainable Finance Framework was developed to align both physical and financial capitals within the organisation with the aim of improving wellbeing outcomes for New Zealanders. The Framework aligns with the International Capital Market Association's Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, and the Treasury's Living Standards Framework. It has been well received by capital markets, with Kāinga Ora seen as a sustainable finance pioneer in New Zealand.

Changes in Kāinga Ora borrowing capacity and source of finance:

Q: What decisions have been made in relation to the financing arrangements of Kāinga Ora?

Two decisions have been made:

1. *Borrowing capacity*: a near-term increase in the borrowing capacity of \$2.75 billion.
2. *Source of financing*: The financing requirements of Kāinga Ora will be met by the Crown via New Zealand Debt Management (NZDM), rather than private markets. NZDM will issue centrally and 'on-lend' to Kāinga Ora.

The increase in borrowing capacity will provide Kāinga Ora with the financing needed to continue its build programme during FY2022/23.

Q: What is the rationale for changing the source of financing to Kāinga Ora?

When Kāinga Ora established its private borrowing programme in 2018, Kāinga Ora considered it provided several benefits to the organisation, most notably financing certainty and flexibility and improved long-term planning. The borrowing programme allowed Kāinga Ora to generate momentum in its capital investment programme. The Government has reviewed the efficiency of current arrangements and considers those benefits can be delivered at lower cost by having Kāinga Ora borrow from the Crown via NZDM.

The cost to Kāinga Ora of private borrowing is at a premium to the borrowing cost of NZDM. This reflects the smaller investor pool and lower liquidity of the private borrowing programme of Kāinga Ora. The change to NZDM will lower borrowing costs, both for Kāinga Ora and at a whole-of-Crown level.

Q: How does this relate to the recent change to the Government's fiscal indicators?

In April 2022, the Government adopted a new net debt indicator as its headline debt measure for fiscal strategy purposes that includes all Crown Entity borrowings, in addition to advances and the NZ Super Fund. Borrowing by Crown Entities has been included in the net debt indicator as it has a similar impact on fiscal sustainability as borrowing by the Crown. Crown Entity borrowing is relevant for the Government's fiscal strategy, including the new debt ceiling (which has been set at 30 per cent of GDP under the new debt measure).

The change in fiscal indicators has been a factor in the Government's decision but has not been determinative: the primary rationale, discussed above, is the view that Kāinga Ora can retain the benefits it receives from its private borrowing programme at lower cost by borrowing from the Crown via NZDM.

Transitional arrangements and operational considerations:

Q: When will these new arrangements come into effect?

These arrangements are to take effect immediately. Ministers have agreed to increase borrowing capacity for Kāinga Ora by \$2.75 billion for 2022/23 and for this financing to be borrowed from NZDM rather than private markets.

Q: Will the change in financing source affect delivery of new housing by Kāinga Ora?

No, the delivery of the Government's commitments under the Public Housing Plan will not be impacted by the change in source of financing. Kāinga Ora remains committed to delivering warm, dry homes to New Zealanders in need.

Q: What will happen to the existing private borrowings of Kāinga Ora?

The Government has approved the refinancing of the \$300 million of Housing New Zealand Limited bonds maturing in June 2023. Work will be undertaken in 2023 to address the refinancing of Kāinga Ora/Housing New Zealand Limited Wellbeing Bonds that are maturing in subsequent budget years.

Q: Will Kāinga Ora continue to maintain a credit rating to support current debt on issue?

Yes. Kāinga Ora will continue to maintain at least one credit rating to support current debt on issue and will meet all existing reporting requirements.

Q: Will Kāinga Ora expenditure now be included in the Sovereign Green Bond Programme?

This decision is consistent with Government's commitment to financing projects that contribute to climate change and environment objectives. The Treasury and Kāinga Ora are currently working together to ensure that eligible Kāinga Ora expenditure will be included in New Zealand's Sovereign Green Bond programme in 2023 to ensure that high-quality Government projects with robust environmental outcomes are financed, delivered, monitored and reported on.

Kāinga Ora will fulfil its allocation obligations for its outstanding Wellbeing Bonds prior to the inclusion of any eligible expenditures in the Sovereign Green Bond Programme.

Q: Will this change affect NZDM's borrowing programme?

Everything else being equal, a higher core Crown borrowing programme will be required to fund future Kāinga Ora lending and the refinancing of existing Kāinga Ora borrowings as they mature. Any resulting changes to forecast funding requirements will be incorporated in the updated forecast core Crown borrowing programme, alongside the Half Year Economic and Fiscal Update in December 2022.

Q: When will decisions be made about the Kāinga Ora borrowing programme from FY2024 and beyond?

The Treasury and Ministry of Housing and Urban Development are working with Kāinga Ora on longer-term arrangements. That work will include consideration of a multi-year Crown borrowing programme or multi-year appropriations for Kāinga Ora, including any new borrowing to meet existing commitments and refinancing of existing borrowings for 2024 and subsequent years. Decisions in relation to the Kāinga Ora borrowing programme will reflect the Government's social housing and urban development ambitions, as well as its Budget and fiscal strategy.