

OIA 20240366

Information for release

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From: Max Christie [TSY]
Sent: Friday, 1 March 2024 11:16:56 AM
To: Bronwyn Lauten; Bill English; Ceinwen McNeil (Guest); ^EXT: Simon Allen; Brian Donnelly; Helen O'Sullivan; ^EXT: Andrew Body; Talosaga Talosaga [TSY]; Liam Hanley; Emily Pearse [TSY]
Cc: Glen Thomson [TSY]; Dax Dullabh
Subject: RE: KO Review - follow up from yesterday

[IN-CONFIDENCE]

Thanks Bronwyn, just recapping the key points from the first half of yesterday's discussion that don't seem to have landed in the 'whiteboard' notes.

Attachment has been withheld in full under s9(2)(f)(iv)

Interactions between KO Review, Budget 24, and Gov's priority for immediate savings:

1. The HYEPU numbers are the baseline to which any "savings" should be compared. These numbers can be found [here](#). I'm happy to discuss this baseline more if helpful.
2. The KO Review should include information and recommendations that push for immediate savings. These can sit alongside the wider system considerations without conflating or confusing. Immediate savings means two things:
 - a. the BEFU 2024 submission, due 11 April 2024, shows a lower OBEGAL impact than HYEPU 2023 with a sufficient explanation of how these savings directly relate to the areas identified in the review (below)
 - b. The HYEPU 2024 submission, due in October 2024, shows a lower OBEGAL impact than BEFU 2024 with a sufficient explanation of how these savings directly relate to the areas identified in the review (below)
3. Preliminary approach is to recommend
 - a. a top-down savings expectation
 - b. direction on specific areas we expect those savings to come from (without going into too much detail)
 - c. specific levers that would hold KO to account for realising the forecast savings
4. Next steps this week are:
 - a. I will come up with a preferred option for the top-down savings expectation
 - b. I will expand narrative around the specific areas we discussed (build volume, ceasing or scaling functions, efficiencies) and identify levers to hold KO to account
 - c. I will build a model with example scenarios that the panel can "play" with to see the impacts
 - d. We will meet and discuss the above next Thursday

Feel free to call or come in to Treasury (Pastoral House) to discuss any of the above prior to the Thursday meeting as needed.

Ngā mihi,
Max

Max Christie (He/Him) | Kaitātari | Agile Team

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From: Bronwyn Lauten <Bronwyn.Lauten@hud.govt.nz>
Sent: Friday, March 1, 2024 10:10 AM
To: Bill English <s9(2)(a)>; Ceinwen McNeil (Guest) <s9(2)(a)>; ^EXT: Simon Allen <s9(2)(a)>; Brian Donnelly <s9(2)(a)>; Helen O'Sullivan <s9(2)(a)>; ^EXT: Andrew Body <s9(2)(a)>; Max Christie [TSY] <Max.Christie@treasury.govt.nz>; Talosaga Talosaga [TSY] <Talosaga.Talosaga@treasury.govt.nz>; Liam Hanley <Liam.Hanley@hud.govt.nz>; Emily Pearse [TSY] <Emily.Pearse@treasury.govt.nz>
Cc: Glen Thomson [TSY] <Glen.Thomson@treasury.govt.nz>; Dax Dullabh <dax.dullabh@hud.govt.nz>
Subject: KO Review - follow up from yesterday

Kia ora koutou

Thank you again to everyone for your time yesterday. Our next discussion is pencilled in for 8am-12pm on Thursday 7 March pending confirmation of the Reviewers' availability.

Please find attached the 'whiteboard' notes updated with the proposed recommendations discussed yesterday. I have also attached the other two sets of proposed recs from some of the advisors to the review and secretariat, in case this is useful reference.

Please let me know by Wednesday next week if you have any other thoughts you would like to capture ahead of our discussion on Thursday.

Have a good weekend.
Bronwyn

Bronwyn Lauten ([she/her/ia](#))

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He kāinga ora, he hāpori ora - our purpose is thriving communities where everyone has a place to call home.

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[IN-CONFIDENCE:RELEASE EXTERNAL]

From: Bill English
Sent: Wednesday, 13 March 2024 8:16:56 AM
To: ^EXT: Andrew Body;^EXT: Simon Allen;Ceinwen McNeil;Brian Donnelly;Helen O'Sullivan
Cc: ^HUD: Bronwyn Lauten;Max Christie [TSY]
Subject: Re: Austrian pre-cuts and an independent condition report

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We need to get that description into the report
I think KO will need an independent report now. Then set up the systems to replicate that process internally. Then decide whether to do it again later.

+s9(2)(a)

From: Andrew Body <s9(2)(a)>
Sent: Wednesday, March 13, 2024 7:55:24 AM
To: Bill English <s9(2)(a)>; Simon Allen (s9(2)(a)>; Ceinwen McNeil <s9(2)(a)>; Brian Donnelly <s9(2)(a)>; Helen O'Sullivan <s9(2)(a)>
Cc: Bronwyn Lauten <Bronwyn.Lauten@hud.govt.nz>; Max Christie [TSY] <Max.Christie@treasury.govt.nz>
Subject: Austrian pre-cuts and an independent condition report

Hi there

One of the things that concerns me about the monitoring of KO is that it appears that there is no objective and quantified measure of condition of the stock and maintenance/condition profiles (pairs).

Without this directors and the shareholder can't independently assess the cashflows of the business going forward and determine real profitability and viability. As I said on Monday planned maintenance becomes an output in forecasting, not an input, the life and value of the stock is not managed and things get confusing from a governance perspective really quickly. This appears to be one of the things happening now. It goes to Simon's point of the absence of real economic activity-based measurement at KO and the difficulty that everyone has in connecting costs to outputs. The Asset Management Plan becomes more of a story than a critical piece of analysis for running the business.

My favourite example of what I am talking about is the Austrian pre-cuts.
<https://www.titahibay.org.nz/our-place/history/our-austrian-heritage/>

I don't know if there are any left in the KO portfolio but the story (which I have never verified) is that the timber wasn't treated (presumably Austria is a lot drier than NZ). As they aged their maintenance cost became a real problem because they rotted. It might have been better to have replaced them much earlier to avoid the maintenance cost. The other aspect of that story is that KO sold some of them and the new owners found it economic to maintain them!

The Panel could recommend that KO regularly commissions (say every 3 or 4 years) an independent condition report of the portfolio that amongst other things assesses the maintenance/condition pairs for the stock.

Brian and Helen might have a view about this.

Regards

Andrew Body

s9(2)(a)

From: Bill English
Sent: Saturday, 16 March 2024 6:25:09 PM
To: Max Christie [TSY];Ceinwen McNeil (Guest);^EXT: Simon Allen
Cc: Talosaga Talosaga [TSY];^HUD: Bronwyn Lauten;Liam Hanley;^EXT: Andrew Body;Brian Donnelly; s9(2)(a)
Subject: Re: Report Structure - Materials to Support the Discussion on Monday

Some people who received this message don't often get email from bill@efo.co.nz. [Learn why this is important](#)

Comments

Process improvements

- I agree with Andrew that we won't wait until Friday to see a full draft. It will be too late to change the logic and tone. This is report of the panel, not an officials report. I want to see drafts at an agreed time say 4pm and require the Panel to respond with comment earlyish the next day. I dont think we need lets try Monday wednesday and thursday

In particular I want to see a draft on Monday incorporating the recommendations as the panel has already agreed. The draft section doesn't seem use those recs

We also need early clarity about which Panel conclusions have sound proof points and which are weaker - so the Monday draft should include for each section the data for a conclusion or the assertions and assumptions that lead to the conclusion so we can test our comfort with the argument.

Tone

I like the conversational tone the but let's not brush over rational analysis and oversimplify.

Content

This is commentary rather than redrafting

The report will reflect a wider view of the housing support system. The recommendations matter but so does the narrative as part of a necessary process of changing the way politicians officials and the interested public understand govt housing support and therefore adopt change and fiscal constraint. - so we want to refer to broader context from the start.

This next few paragraphs isn't quite the right tone but captures our logic

"Housing affordability has deteriorated, so the government offers a range of costly supports to make housing more affordable for lower income and complex needs households. The cost to Government of housing support over the next three years will average \$8b up from \$2.6B in 2018. KO spend accounts for 60% of the funding for about 25% of households supported. . KO have considerable autonomy underpinned by easy access to government debt which funds all new builds and financial losses. In recent years the organisation has been challenged by growing fast, rapidly rising building costs, restrictive policies on asset and tenancy management and wide range of complex requirements from government. Weak governance, easy access to capital and low levels of accountability have led to KO growing annual losses to \$700m by 2027 and fast growing debt. KO is financially unsustainable. Community concerns about KO developments and tenancy issues are eroding their reputation and effectiveness.

At the same time govt has almost no measurement of whether the funding distributed through KO results in the most cost-effective housing support for different types of households or reaching as many households as possible with current funding.

Our report makes recommendations aimed to improve the government social housing system with a stronger focus on customers, demonstrable outcomes and innovation and to turn around KO effectiveness and financial viability”

Comment on the draft section on KO viability

I don't agree with jumping straight into conclusions about internal cost structures and management. We must caveat anything we say here by referring to the lack of transparency. Because the losses have been fully underwritten by the Crown KO have not needed to understand their costs. At best we can say informal benchmarking and anecdotal evidence indicate the costs can be materially reduced.

For instance we say that maintenance costs are growing more than we would expect. In fact, KO and its predecessors have carried out carry out too small a volume of maintenance but at too high a price. That's why the stock is on average in poor condition..

The tools for improving KOs performance will be

1. The purchaser will apply the CHP contract to KO so KO will be subject to a difficult bilateral negotiation contesting KOs views of appropriate revenue and costs. If KO don't come to agreement or improve their performance, the purchaser can allocate IRRS elsewhere. The Crown knows how to purchase against clear standards standard pricing in a contestable process because its purchased bundled property and services in early childhood and aged care for 30 years. The purchaser doesn't need to get into detailed judgement about KOs internal management and cost structure.
2. The activities the Funder doesn't pay for under that contract, will shut down or be transferred, according to government policy and disappear out of the P&L
3. Then the board will be better understand its core function, see transparent revenue for that function, and be forced to bring it costs into line as required by the purchasers contract and eliminate losses as required by the owner.

So our focus should be as much on the totality of institutional arrangements which will lift performance as on our particular views about prices/volumes for housing assets that we don't understand

s9(2)(g)(i)

We can check this out next week but I'm guessing we should draft for the second option.

The section on contestable provision looks okay I think we should mention specialised providers not just place based on the context of diversity. Taylor Fry work and Impactlab work shows that there are large gains to be made from housing properly assessed high complexity customers (not the current register processes) with specialised management and wraparound services. A purchaser would expect a number of the specialised providers to emerge who already operate with complex populations outside the IRR world and expand in about 10% of the IRR market.

Pathway ONE and TWO

We need to work in a clearer logic for these pathways

1. Tenants and community issues are best deal with individually and locally because knowledge of the local housing market and individual whanau preferences and needs will lead to better solutions

2. Well constructed contestability will enable the purchaser to lift performance across the sector
3. We saw more evidence of problems than benefits of KO national scale
4. KO appears to crowd out rather than encourage innovation in housing solutions and support services.

Active purchaser

Working on this Most of the bits there but can be reorganised into a compelling positive narrative. The govt wants us to use the term "social investment"

That will do for now

Bill

s9(2)(a)

From: Max Christie [TSY] <Max.Christie@treasury.govt.nz>

Sent: Friday, March 15, 2024 5:31:35 PM

To: Bill English <s9(2)(a)>; Ceinwen McNeil (Guest) <s9(2)(a)>; ^EXT: Simon Allen <s9(2)(a)>

Cc: Talosaga Talosaga [TSY] <Talosaga.Talosaga@treasury.govt.nz>; ^HUD: Bronwyn Lauten <Bronwyn.Lauten@hud.govt.nz>; Liam Hanley <Liam.Hanley@hud.govt.nz>; ^EXT: Andrew Body <s9(2)(a)>; Brian Donnelly <s9(2)(a)>

Subject: Report Structure - Materials to Support the Discussion on Monday

[IN-CONFIDENCE]

Attachments have been refused under 18(d) as the final report is publicly available
<https://www.beehive.govt.nz/sites/default/files/2024-05/Independent%20Review%20of%20Kainga%20Ora.pdf>

Hi all,

Some good discussions earlier in the week. We agreed to flesh out the system elements of the structure so that the Reviewers can discuss and agree on Monday, then the officials can finalise a first full draft by Thursday COP.

We thought it would be useful for Monday's discussion to see the structure with one layer more of detail that gives the key points/story and recommendations (and omits a lot of detail). This is [attached](#). It mostly aligns with the structure Ceinwen emailed on Tuesday (per our discussion). Adding the next layer of detail has helped clarify some ordering and where headers are better suited to be incorporated into other sections. This structure aligns well with the narrative that Sir Bill shared on the 6th. It'll not hit the right tone because it's abridged, but the aim is that it covers most of the key points and gives a clearer sense of how the structure lends to the reader understanding the entire report.

The proposed high level structure for discussion is:

- Foreword (1-2 pages)
- Executive Summary and Recommendations (1-2 pages)
- Introduction (1-2 pages)
 - Context
 - Methodology
 - Structure of Report
- Kāinga Ora's Performance and Financial Viability (10-15 pages)
 - Construction

- Asset Management
 - Tenancy Management
 - Non-Core Functions
 - Governance, Leadership, and Culture
 - Funding Arrangements
 - Shifting to Contestable, Diverse, and Locally-Driven Social Housing Provision (6-8 pages)
 - Competitive Neutrality in the Market for the Provision of Social Housing
 - Pathway One: Using CHPs more
 - Pathway Two: Establishing Local and Crown-Owned Organisations
 - The Government's Role (6-8 pages)
 - Active Purchaser
 - Measuring, Monitoring, and Improving Tenant Outcomes
 - Accountability
 - Transition Arrangements (1-2 pages)
 - Conclusion (1 page)
 - Appendices/Modelling
- (27-40 pages total, excluding appendices and title page)

Given we are aiming for a full draft on Thursday, it would also be useful to test some drafting. See [attached](#) a draft section we're keen for initial reactions on. In particular, we're interested in a steer on 1) length, 2) tone, 3) level of detail. I suggest we hold off on comments about the content itself until a full draft is ready (though do note if the content is significantly off target).

Happy to discuss.

Ngā mihi,
Max

Max Christie (He/Him) | Kaitātari | Agile Team

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