



1 April 2025

HUD2025-006403

s 9(2)(a)

Tēnā koe s 9(2)(a)

Thank you for your email of 11 February 2025 to Te Tūāpapa Kura Kāinga – the Ministry of Housing and Urban Development (the Ministry) requesting the following information under the Official Information Act 1982 (the Act):

Advice and documents regarding the Turnaround Plan held by the Treasury, the Ministry of Housing and Urban Development, the Ministry of Social Development.

Of particular interest is advice/documents/assumptions regarding the impact of the decision to accept the turnaround plan on:

- Funding (including payments for the supply of accommodation) of community housing providers;*
- Accommodation allowances and subsidies (however described) to landlords;*

The impact of the limitation on Kainga Ora's future building and replacement programme on:

- Shortfall if any on the availability of housing;*
- If there is a projected shortfall, who is expected to meet that shortfall;*
- The impact on the Government's homelessness targets.*

Eight documents have been found to be within scope of your request. Two of these documents have been published on the Ministry's website and therefore are refused under section 18(d) of the Act, on the grounds that the information requested is publicly available.

One document is withheld in full as it remains subject to active consideration. The remaining five documents are released to you with some information withheld under the following sections:

Section of Act	Reason to withhold
9(2)(a)	To protect the privacy of natural persons.
9(2)(b)(ii)	To protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.
9(2)(f)(iv)	To maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.
9(2)(g)(i)	To maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or employees of the Ministry.
18(d)	That the information requested is or will soon be publicly available.

The documents are detailed in the attached document schedule.

In terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the decision to withhold information under section 9 of the Act is not outweighed by other considerations that render it desirable to make the information available in the public interest.

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

A handwritten signature in black ink, appearing to read 'Glenn Phillips'.

Glenn Phillips

Head of Crown Entity Monitoring

Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development

Annex A: Document schedule

Documents in scope – HUD2025-006403			
	Date	Document	Section of the Act applied
1	23 April 2024	HUD2024-003791: Initial Response to the Independent Review of Kāinga Ora (available at www.hud.govt.nz/assets/Uploads/Documents/Kainga-Ora-Review/13-Response-to-the-Independent-Review-of-Kainga-Ora.pdf)	Refused under section 18(d)
2	15 October 2024	HUD2024-005175: Meeting with Chair of Kāinga Ora 19 August 2024	9(2)(a) 9(2)(f)(iv)
3	3 October 2024	HUD2024-005235: Meeting with Chair of Kāinga Ora 8 October 2024	9(2)(a) 9(2)(f)(iv) 9(2)(g)(i)
4	20 November 2024	RE: Kāinga Ora Reset Plan	9(2)(f)(iv)
5	21 November 2024	HUD2024-005739: Kāinga Ora Turnaround Plan	9(2)(a) 9(2)(b)(ii) 9(2)(f)(iv) 9(2)(g)(i)
6	21 November 2024	HUD2024-004404: Response to the Independent Review of Kāinga Ora: Turnaround Plan (available at www.hud.govt.nz/assets/Uploads/Documents/Response-to-the-Independent-Review-of-Kainga-Ora-Turnaround-Plan-REDACTED.pdf)	Refused under section 18(d)
7	18 December 2024	HUD2024-005851: Meeting with Matt Crockett 20 December 2024	9(2)(f)(iv)
8	4 February 2025	HUD2025-006206: Kāinga Ora Homes and Communities Act Amendment Bill: Timeframes and policy approach	Withheld under section 9(2)(f)(iv)



Aide mémoire

MEETING WITH CHAIR OF KĀINGA ORA 19 AUGUST 2024			
To Minister	Hon Nicola Willis	Portfolio	Finance
To Minister	Hon Chris Bishop	Portfolio	Housing
Date	15 August July 2024	Priority	Routine
Tracking number	HUD2024-005175		
CONTACT FOR DISCUSSION			
Name	Position	Telephone	1st contact
Carla Wellington	Manager, Crown Entity Monitoring and Appointments	s 9(2)(a)	✓
Murray Costello	Principal Adviser, Crown Entity Monitoring and Appointments		
OTHER AGENCIES CONSULTED			
Treasury			

Purpose

1. You are provided with talking points to support your meeting with Kāinga Ora Chair Simon Moutter at 5pm on Monday 19 August 2024.
2. If requested, Andrew Crisp, or other HUD officials, are available attend for all or part of the meeting.

Agenda

- Credible Plan
 - Chief Executive recruitment
 - Expectations in the June 2024 letter of expectations (LOE).
3. We have provided comments on some of these items below, together with some notes on performance reporting.

Credible Plan

4. HUD and Treasury met with Adrian Littlewood (Advisor to the Board) on 12 August to discuss progress on the financial turnaround plan (Credible Plan), where he provided an update including discussions at a Kāinga Ora Board meeting on 5 August.
5. The update was encouraging but all parties agreed there is still significant work to do in the remaining time. Therefore, HUD and Treasury suggest that you convey these critical messages to the Chair, outlined below:
 - a. *As set out in our LOE, we expect the Credible Plan to include detailed implementation plans for the significant savings incorporated into Budget 2024. The first priority of the Credible Plan is giving us confidence in the delivery of these savings.*
 - b. *The LOE also sets out our expectation that the plan materially reduces operating losses, on top of the savings indicated as part of Budget 2024.*
We expect that substantial savings can be made from Kāinga Ora performing its existing functions more efficiently, including consideration of alternative delivery models for redevelopments on Kāinga Ora land which are a large component of the renewal programme.
Savings will need to be based on robust evidence. This is particularly important for programmes that have promised significant savings which have not yet been realised, such as the Housing Delivery System (HDS – formerly known as Project Velocity)
 - c. *We understand the Board is also considering changes to the functions performed by Kāinga Ora, including a potential 'bare-bones' model. Any changes to the remit, functions, and objectives of Kāinga Ora are decisions for Cabinet to make and may require legislative change.*
While we're interested in receiving options for our consideration, the Board should expect Kāinga Ora to continue performing its current statutory functions in the short-to-medium run.

- d. *In considering options provided in the Credible Plan, we will be looking at the impact on the Crown as a whole, rather than just the impact on Kāinga Ora. This may mean that we choose not to progress options that make Kāinga Ora's role simpler, such as transferring functions to another entity. It also reinforces the need to ensure Kāinga Ora is performing all its current functions as efficiently as possible.*
6. We also expect the Chair to raise system-level levers with Ministers, in particular the current funding settings, and requiring medium-term investment certainty to drive efficiencies.
7. There are some specific issues that HUD is currently exploring as part of the broader funding and financing settings work. However, the message from officials has been that the focus for the Board is to reduce expenditure. As this work progresses, funding settings may contribute to reducing the Kāinga Ora operating loss in the future.
8. Given the tight timeframes, Ministers may wish to reiterate the expectation to share information as early as possible with officials to ensure Ministers receive robust advice on the likelihood the Credible Plan will deliver against Cabinet's expectations.
9. You may also wish to request the Chair provide you with documents ahead of time for your next meeting on 24 September.

Chief Executive recruitment

10. The CEO's term ends on 31 October 2024 and the Board manages the CEO recruitment process. You could ask the Chair how this is progressing.

Expectations in the June 2024 LOE

11. Your June LOE includes expectations detailed in the table below:

	STATUS UPDATE	KEY MESSAGES
Social Housing Delivery Expectations: - meeting targets for new places for 2024/25 - deviations from regional delivery targets being proactively agreed with Ministers	Ministers signed HUD2024-004970 and the letter was sent to Kāinga Ora on 14 August reinforcing delivery expectations for both 2024/25 and regional delivery.	Expect regular reporting and quarterly programme reporting to the Treasury as part of major investments.
Community Engagement: undertaking genuine engagement with communities about delivery plans	As Kāinga Ora begins engagement with communities in line with the agreed renewal programme for 2025/26 this can be further assessed.	

	STATUS UPDATE	KEY MESSAGES
Kāinga Ora Land Programme: receiving an update by 30 September 2024 on options for progressing land holdings, for consultation with Ministers.	s 9(2)(f)(iv) The broader programme report is progressing and HUD expects to review this draft in the next few weeks.	Expect all options considered including divestment are put forward for Ministers' consideration. As part of the credible plan, Ministers may also be interested in all Kāinga Ora land holdings (purchased for social housing only outside of the Kāinga Ora Land Programme) which have remained vacant for periods of time (e.g. Don McKinnon Drive in Albany).
Supporting the Tāmaki Regeneration Programme	s 9(2)(f)(iv)	
Core Tenancy: strengthening management of disruptive tenants	Trends since February 2024 show formal action against tenants is increasing. However, it is still low compared to the high number of serious incidents. 7 tenancies were terminated for disruptive behaviour in Quarter 4, compared to 5 in the preceding 9 months.	Expect to see a continuation of increased formal actions taken by Kāinga Ora against disruptive behaviour in the next six months.
- actively managing rental arrears	Rent arrears has decreased by \$300,000 in the last financial year to \$19.4 million at June 2024.	Expect to see a continuation of reducing rent arrears.
reducing the volume of vacant properties	Vacant homes have increased in the last two months as Kāinga Ora delivered 1915 additional social housing units.	Expect to see large decreases in vacant homes in the next three months.
IAF progress	Cost pressures are occurring across the IAF with several projects experiencing or expecting overruns, which are the Council's responsibility to fund. The programme milestones are behind and although payments are only made as these are achieved it indicates that the	Ministers expect with tight fiscal conditions, consideration of returning money to the centre if contractually possible should be explored if projects are not sustainable.

	STATUS UPDATE	KEY MESSAGES
	scope for reassessing viable projects is high.	
Large Scale Projects	Ministers signed the paper outlining how Budget 2024 savings targets have been met [HUD2024-004939 refers].	Ministers expect HUD to assess further investment in LSPs in unapproved neighbourhoods against other priorities in the Housing portfolio.

Improving performance reporting

12. HUD continues to ask Kāinga Ora officials to draft reporting from the Board that meets your information needs and is provided in good time e.g. Monthly and Quarterly Reports by the end of the following month. HUD reviews these reports and provides comments to the Minister of Housing via HUD's Weekly Updates. If there are significant concerns to raise this will be done through a briefing to joint responsible Ministers.
13. The current SPE was approved by the previous Board. A Crown entity can propose an amended SPE at any time under s.149K of the Crown Entities Act. We would not recommend amending the SPE until after delivery of the Credible Plan and following any government decisions on the remit of Kāinga Ora. Improved measures can then drive better performance reporting.



Aide mémoire

MEETING WITH CHAIR OF KĀINGA ORA 8 OCTOBER 2024			
To Minister	Hon Nicola Willis	Portfolio	Finance
To Minister	Hon Chris Bishop	Portfolio	Housing
Date	3 October 2024	Priority	High
Tracking number	HUD2024-005235		
CONTACT FOR DISCUSSION			
Name	Position	Telephone	1st contact
Glenn Phillips	Head of Crown Entity Investment and Performance	s 9(2)(a)	✓
Brad Ward	DCE, Organisational Performance		
OTHER AGENCIES CONSULTED			
The Treasury			

Purpose

1. To provide you with background information for your meeting with the Kāinga Ora Chair, Simon Moutter, at 5:30pm on Tuesday 8 October 2024.

Agenda

2. The primary agenda item for this meeting is an update on the credible plan.
3. We understand the Chair is seeking a no-officials time at the end of the meeting to discuss Board appointment issues. Annex A provides background information on current Board matters.
4. Annex B provides an update on expectations in the June 2024 LOE.

Credible Plan

5. Ministers met with the Board on Tuesday 24 September to discuss the progress on the credible plan, and agencies received further information from Kāinga Ora on Friday 27 September.
6. The information provided was at a good level to enable agencies understanding the Board's direction of travel achieving the Budget 24 savings targets and the delta between Kainga Ora total build costs and comparable market acquisitions Kāinga Ora has made in the past financial year. This also includes scenarios to achieve a more sustainable financial position within agreed debt limits.
7. At a high level the level of confidence in the savings for 2024/25 is high with 2025/26 savings requiring actions to be implemented to increase the confidence of achievability in particular around maintenance and reducing cost of construction which are discussed further below.
8. Importantly, the information provided is balanced around the risks and challenges in achieving changes but is not shying away from taking deliberate steps to implement the necessary actions (e.g. reducing build costs).
9. Officials have not had sufficient time to stress test the detail of the scenarios. Workshops are planned over the coming fortnight to enable Kāinga Ora to take agencies (HUD, Treasury, DPMC and PSC) through the modelling in finer detail to continue the progress towards a finalised credible plan for consideration by Ministers on 20 November.
10. We understand that Kāinga Ora will provide Ministers with some slides to facilitate discussion at the meeting. These will provide an update on the Budget 2024 savings, and three proposed scenarios in terms of an approach to renewal activity that show the impact on the operating deficit and debt levels under different assumptions.

Budget 2024 Savings

11. The Board has made good progress on implementing actions to achieve the personnel savings identified in Budget 2024. The most recent change proposal was released for consultation on Thursday 26 September. If enacted, their proposal will mean it meets its savings targets in relation to personnel cost reduction.
12. Progress has also been made on reducing maintenance spend in the current year by implementing a tighter set of controls over responsive maintenance orders. This has seen a significant decrease in volumes of activity, without increasing the risk profile of the assets through deferred maintenance.
13. The second phase of maintenance savings (2025/26 onwards) requires a larger shift in the operating model, and the Board has commissioned an independent review of the actions identified previously to gain comfort that the actions will have the desired effect on savings.
14. HUD and the Treasury will continue to liaise with Kāinga Ora as this review is undertaken to understand the impact on the savings identified, and appropriate monitoring of the delivery of these savings.

Reducing Capitalised Costs to closer to Market

15. The Kāinga Ora scenario modelling is based off an ambitious target of 20% reduction in physical build costs (which translates to a 12% reduction in total capitalised costs from projects completed in the 2023/24 year), which would bring Kāinga Ora costs to just above market rates (2.5% difference).
16. There are some justified factors in additional costs leading to this difference, including the quality of Kāinga Ora land requiring more professional services (e.g. geotechnical assessments), demolition and site clearance, and civils and site works that apply to redevelopments undertaken by Kāinga Ora.
17. The level of savings targeted is significant and although there are some identifiable actions (e.g. reduced design specifications) the only realistic way to assess achievability of these cost reductions is through transparent and regular monitoring of pipeline projects that are currently not contracted¹.
18. The recently-issued Letter of Expectations for delivery [HUD2024-004970 refers] enabled Kāinga Ora to undertake 2,000 renewals in 2025/26. Approximately 40% are not yet contracted and these projects provide the opportunity to demonstrate the achievability of these savings targets.
19. To maintain oversight of progress towards these cost reductions, regular reporting to monitoring agencies (and if desired to Ministers) will be required. HUD and Treasury

¹ These savings can only be realised for projects due to be completed from 2025/26 onwards as earlier projects are already designed and in construction.

will work with Kāinga Ora on a monitoring regime to be included in the 20 November report back.

20. HUD and Treasury suggest that you canvass these areas with the Chair and Kāinga Ora representatives:
- a. What progress have you seen from cost reduction activities already actioned (e.g. design specifications, material specification)?
 - b. Do you think the new approach will open up more build partners to work with through the procurement?
 - c. When would the Board expect to see the changes in build costs flowing through contracts in significant quantity to have confidence in achievability of the reduction built into the scenarios?
 - d. Do you see potential opportunities to extract more savings after the first tranche is achieved to get below market?
 - e. What are your initial thoughts on the Board monitoring approach of this work and how to keep Ministers and our monitoring agencies informed of progress?

Scenarios Modelled

21. Kāinga Ora has been working on three main scenarios with differing levels of construction from 2026/27 to model the impacts on both the deficit level and debt requirements
22. These scenarios are:
- a. No renewal or new builds after 2026, leading to an ageing asset portfolio (break fix scenario).
 - b. Construction of 1,600 new houses per annum (offset by demolitions of around 600 and sales of around 1,000), and an additional 400 retrofits of existing houses.
 - c. Growth scenario with an additional 700 net new social housing places every year, which increases construction activity by around 700-800 places per annum on the scenario b with similar levels of demolitions and sales.
- This scenario may require additional operating funding with associated impacts on OBEGAL and net debt but this will be validated through the workshops occurring in the coming weeks.
23. These scenarios present an initial view of the financial impact. These scenarios can be further developed to inform decisions as part of Budget 25 on the direction for Kāinga Ora for 2026/27 onwards in terms of:
- a. speed of renewing aged assets

- b. level of sales activity
 - c. any net new IRRS places
 - d. regional distribution of these activities.
24. Officials have not had sufficient time to stress-test the detail of the scenarios in terms of financial impact so cannot at this stage provide assurance as to how they compare to existing Budget 2024 forecasts. There are several key assumptions to be tested, including revenue gained from house sales. This work will be undertaken with Kāinga Ora through workshops over the coming weeks.
25. As the credible plan is finalised, it will be important to ensure that Kāinga Ora provide clear choices, and their consequences and trade-offs, to ensure ongoing financial sustainability. This should be distinct from choices around new investment in additional social housing.
26. Officials recommend that you make it clear to the Board Chair that the scenarios are within the scope of what was requested in the Letter of Expectation, but final decisions on the preferred approach are likely to be part of the Budget 2025 process to be considered in the context of the overall fiscal position.

Next steps

27. Officials will continue to work with Kāinga Ora over the next few weeks to stress test the scenarios and modelling provided by Kāinga Ora. Feedback from Ministers on preferred scenarios will be helpful to guide the focus as the credible plan is finalised by 20 November.

Annex A: Board matters

1. Deputy Chair John Duncan finishes on the Board on 30 November 2024 [HUD2024-005242 refers] so from 1 December the Board will have the minimum membership of eight and no Deputy Chair. John Bridgman's term then ends on 31 December 2024.

Current Membership

Name	Gender Identity	Region	Date of appointment	Expiry of present term	Skills & competencies
Simon Moutter (Chair)	M	Auckland	04/06/2024	31/05/2027	Large organisation management
John Duncan (Deputy Chair)	M	Auckland	1/10/2019	30/11/2024	Finance, investment
Arihia Bennett	F	Canterbury	08/07/2024	30/06/2026	Iwi leadership, social work
Jenn Bestwick	F	Otago	08/07/2024	30/06/2027	Strategy, governance
John Bridgman	M	Auckland	01/01/2022	31/12/2024	Engineering, infrastructure
Alan Dent	M	Wellington	08/07/2024	30/06/2027	Accounting, finance
Peter Jeffries	M	Auckland	08/07/2024	30/06/2026	Community housing
Ceinwen McNeil	F	Auckland	08/07/2024	30/06/2026	Government relations
Fiona Mules	F	Canterbury	08/07/2024	30/06/2027	Finance, Crown governance

Deputy Chair

2. The Chair may want to discuss appointment of a new Deputy Chair following the end of John Duncan's tenure.
3. Deputy Chairs are appointed by Responsible Ministers via the Cabinet appointments process. There is no legal requirement to have a Deputy Chair.
4. Deputy Chairs are paid a board fee that is 25% higher than an ordinary board member.
5. A Deputy can share the workload with the Chair, helping with specific tasks like leading committees, engaging with stakeholders, or managing board meetings, and having a Deputy Chair can provide a ready successor for the Chair in case of resignation, reducing disruption and facilitating a smoother transition.

6. On the other hand, it can make it difficult to manage expectations for Chair succession, if there are other potential candidates within the board membership or externally who might offer the right skill sets when the need to replace the Chair arises.
7. At this stage, HUD has not had any detailed conversations with the Chair about the Deputy Chair role and would recommend this as a next step in progressing this if you are interested.

John Bridgman's term expiry

8. John Bridgman's term expires on 31 December 2024. Mr Bridgman is Chair of the Board's Investment and Delivery Committee and a member of the Finance, Risk and Assurance Committee.
9. There are two options available in the short term:
 - a. reappoint him through APH and Cabinet (this could be done by mid-December if the process starts soon); or
 - b. utilise the run-on provisions in section 32(3) of the Crown Entities Act to continue Mr Bridgman past his term expiry date, and run a contestable call for nominations which would enable Cabinet decisions in the new year.

28. s 9(2)(g)(i)

Annex B: Expectations in the June 2024 LOE

	STATUS UPDATE	KEY MESSAGES
Social Housing Delivery Expectations: - meet targets for new places for 2024/25 - deviations from regional delivery targets to be proactively agreed with Ministers	Ministers signed HUD2024-004970 and the letter was sent to Kāinga Ora on 14 August reinforcing delivery expectations for both 2024/25 and regional delivery.	Expect regular reporting and quarterly programme reporting to the Treasury as part of major investments to continue with clear articulation of risks to delivery in priority locations.
Community Engagement: undertaking genuine engagement with communities about delivery plans	The draft August Monthly Report to Ministers advises that: 885 development sites have no known community issues 189 Category 2 sites have increased community concerns 22 Category 3 sites have escalated community opposition, driven by concerns about: higher density; increased pressure on community social services from more social housing; disruptive tenant behaviour; and delayed projects that reduce social housing supply.	Expect reporting to advise if community engagement activities are helping to mitigate concerns at Category 2 and 3 sites.
Kāinga Ora Land Programme: You are to receive an update by 30 September 2024 consulting with Ministers on options for progressing land holdings.	HUD provided advice on 1 August 2024 on Ferncliffe Farm [HUD2024-004847 refers] s 9(2)(f)(iv) On 26 August 2024 KO sent a briefing to Ministers on Major projects in Wellington. The paper provided information prior to formally consulting with Ministers on projects over the coming months. Further background information on Ferncliffe was provided to Ministers in an aide memoire on 13 September 2024 [HUD2024-005369].	Expect all options including divestment are put forward for Ministers' consideration. Ministers are also be interested in all Kāinga Ora land holdings (purchased for social housing only outside of the Kāinga Ora Land Programme) which have remained vacant for periods of time (e.g. Don McKinnon Drive in Albany).
Supporting the Tāmaki Regeneration Programme Kāinga Ora is Master developer for Tāmaki Regeneration Limited,	s 9(2)(f)(iv)	

	STATUS UPDATE	KEY MESSAGES
as well as delivering enabling infrastructure through the Tamaki LSP. both organisations to work collectively to ensure work is aligned and value for money is being achieved.		
Core Tenancy: strengthening management of disruptive tenants	Trends since March 2024 show formal action against tenants is increasing. However, it is still low compared to the high number of serious incidents. Terminations: July and August: 9 April 24 to June 24: 7 July 23 to March 24: 5	Expect to see formal actions continue to address disruptive behaviour.
actively managing rental arrears	Kāinga Ora will be advising you about its plan to write off a large amount of rent arrears because it considers these debts are uncollectable.	Expect that sufficient actions will be taken to recover debt prior to writing off.
reducing the volume of vacant properties	There were 1,380 vacant lettable homes at the end of August, down from the 30 June number of 2,165.	
IAF progress	Cost pressures are occurring across the IAF with several projects experiencing or expecting overruns, which are the Council's responsibility to fund. The programme milestones are behind target. Although payments are only made as these are achieved it indicates that the scope for reassessing viable projects is high.	Ministers expect, with tight fiscal conditions, that returning money to the centre if contractually possible should be explored if projects are not feasible within current funding agreements.
Large Scale Projects	Ministers signed the paper outlining how Budget 2024 savings targets have been met [HUD2024-004939 refers].	Ministers expect HUD to assess further investment in LSPs in unapproved neighbourhoods against other priorities in the Housing portfolio and identify potential savings.

20 November 2024

Hon Christopher Bishop, Minister of Housing
Hon Nicola Willis, Minister of Finance
Parliament Buildings
Wellington

Dear Ministers

RE: Kāinga Ora Reset Plan

Kāinga Ora plays a critical role in New Zealand's social housing system and therefore it is imperative the organisation operates in an efficient, effective and financially sustainable manner.

Following a recommendation from an Independent Review of Kāinga Ora, in May this year Cabinet agreed a new Kāinga Ora Board should develop a credible and detailed plan to improve financial performance with the goal of eliminating losses. Your subsequent June 2024 letter of expectations (LOE) outlined a series of requests for how Kāinga Ora should manage its obligations, its role as a social housing landlord and deliver on its Budget 2024 commitments.

Meeting these expectations and improving outcomes for our tenants while also streamlining our operations has underpinned the development of the Board's detailed plan. We are therefore pleased to present our plan for resetting the organisation to deliver on your June 2024 expectations (the Reset Plan). This letter sets out a summary of the plan with the detailed Reset Plan attached as an appendix. We have worked with Kāinga Ora management, Ministry of Housing and Urban Development (HUD), Treasury, and Department of Prime Minister and Cabinet (DPMC) on the development of the plan.

Introduction

Social housing has played an important part in the development of New Zealand and Kāinga Ora and its predecessor Housing New Zealand have been at the centre of this work to address a societal problem and help the most vulnerable in our society.

Kāinga Ora's people are passionate New Zealanders who work hard to support the tenants they serve and in recent years Kāinga Ora has ramped up its delivery of new social housing, upgraded existing houses and improved its tenancy management capabilities in response to previous government policies.

However, the recent and rapid growth in housing stock, high levels of inflation, rising interest rates and an increasingly complex mandate combined to make Kāinga Ora's operational and commercial model unsustainable. Further, as identified in the Independent Review, Kāinga Ora's own response to these challenges compounded the issue with insufficient focus on fiscal discipline, house build costs outstripping

market rates¹, organisational overheads growing substantially and a widespread loss of community support for Kāinga Ora across New Zealand.

The plan proposed in this letter and the attached Reset Plan will reset Kāinga Ora so it can address these challenges, better serve all New Zealand communities, including Māori, and leave a more sustainable social housing legacy for future generations.

The plan refocuses Kāinga Ora on its core role as a provider of safe, warm and dry social housing and as a supportive landlord for New Zealanders in need. It will focus on delivering value for the money invested and the wider operational and commercial improvements required to give you the confidence to sustainably and consistently invest in social housing well into the future.

Summary of the Reset Plan

The proposed Reset Plan serves a number of purposes. Its primary aim is to deliver on the requests outlined in the LOE and Kāinga Ora's Budget 2024 financial commitments to government. However, it is also a tool to allow the Board and management to set and achieve a high standard of organisational performance across Kāinga Ora operations. In developing the plan, the Board has sought to strike a balance between resetting the organisation but not upsetting the work it does every day. Kāinga Ora delivers important services for around 200,000 Kiwis and it is crucial that a functioning organisation is sustained through the reset process – particularly given the scale of change and challenge inherent in delivering on this plan.

Some of the detail in the plan reflects the work needed to make immediate operational and cost improvements within Kāinga Ora and you will note from the attached Reset Plan that this approach is comprehensive, underway and already delivering results. While risks remain, the Board is closely monitoring delivery against the initiatives in the plan and will continue to provide you and your monitoring agencies with regular updates on progress.

As requested, the Reset Plan includes three potential long term investment scenarios for your consideration and the scenarios modelled have taken guidance from the LOE. The Board's preferred long term investment scenario (Scenario 2 – Dynamic) would allow Kāinga Ora to continue to manage its stock of around 78,000² homes as well as address the significant renewal backlog of poor quality, end-of-life homes that are expensive to maintain and drive poor tenant outcomes. This involves completing 11,500 renewals by FY30 and renewing all pre-1986 homes within 30 years. This approach would better align homes with the changing profile of Kāinga Ora tenants³ while also operating within the prescribed debt envelope and meeting the other financial targets set in the LOE.

Critically, all the scenarios include an expectation that Kāinga Ora will deliver new stock and redevelopments in line with market rates through tight procurement management and the utilisation of all available channels for

¹ Where the term market rate is used in this document it means construction costs comparable with similar typology, size and quality private sector builds appropriately adjusted for some narrowly defined essential requirements specific to social housing (eg durability, child safety). Kāinga Ora's house build costs were approximately 12% more expensive based on a like-for-like comparison (all costs excluding land)

² Projected to be around 78,000 homes by 30 June 2026. This includes around 73,000 Kāinga Ora social houses plus around 5,000 properties made up of 1,489 Community Group Housing places, 968 Community Housing Providers lease portfolio, 2,464 Transitional Housing and 76 private houses.

³ Forecasts indicate that future Kāinga Ora tenant needs will shift away from traditional three bedroom houses to more single bedroom or multi bedroom large houses

construction delivery⁴. A summary of the scenarios considered and the Board's recommendation is contained in the attached Reset Plan and we are seeking your endorsement of our recommended scenario.

Against the most recent BEFU forecast our recommend investment scenario delivers a meaningful improvement in the financial outlook, but when compared with Kāinga Ora's 2023 budget (which was the baseline forecast used by the Independent Review panel) the forecast savings are significantly better and represent a major change in trajectory, as follows:

- Debt in FY26 is -\$721m compared with BEFU (and -\$2.7b compared with Kāinga Ora's internal 2023 budget); and
- Operating deficit in FY26 is reduced by \$72m (15%) compared with BEFU (and by \$297m (42%) compared with Kāinga Ora's internal 2023 budget). The operating deficit is forecast to be eliminated in FY36. Given interest and depreciation alone absorb over 50% of revenue in the next few years, achieving surplus more quickly would require more drastic operating changes. Changes to the revenue model arising from HUD's review could address the operating deficit more quickly, however it is recognised that this would not improve the OBEGAL position;
- While accounting losses persist until FY36, cash surpluses are sustained from FY28 onwards. Achieving a cash surplus in FY28 would demonstrate the organisation is able to meet all its outgoings from a cash perspective, but should be considered as the first milestone on a path to achieving operating surpluses. Kāinga Ora will use all available cost and revenue levers to return to operating surplus as early as possible.

\$m	Scenario	FY25	FY26	FY27	FY28	FY29
Total debt	BEFU	19,388	20,288	21,080	22,130	
	Recommended investment scenario (Scenario 2 - Dynamic)	18,407	19,567	20,415	20,504	21,033
	Difference	-981	-721	-665	-1,626	n/a
Net deficit after tax	BEFU	523	482	580	347 ⁵	
	Recommended investment scenario (Scenario 2 - Dynamic)	512	410	449	481	320
	Difference	-11	-72	-131	n/a	n/a
Free cash	BEFU	-103	-71	-58	-25	
	Recommended investment scenario (Scenario 2 - Dynamic)	41	-25	-21	133	147
	Difference	144	46	37	158	n/a

The Reset Plan work has primarily focused on what action Kāinga Ora can take within its current mandate however there are a number of areas where your decisions, or support from other parts of government, would assist us to deliver the plan. We have set out those decisions below and will continue to work with other agencies to gain their support, however we are confident that the initiatives in the Reset Plan will together deliver on your renewed objectives for Kāinga Ora.

⁴ The plan requires that Kāinga Ora introduce processes to ensure the best available channel is used for new builds/redevelopment whether that be direct commissioning or acquire stock from market.

⁵ FY28 BEFU numbers previously provided to HUD included an error of about +\$200m associated with the incorrect treatment of LSPs

In summary the Reset Plan covers five key themes:

1. **Kāinga Ora to be refocused on its core mission:** building, maintaining and managing quality social housing to meet the needs of our communities and being a good, supportive but firm landlord. This focus means we seek your support to scale back or transfer non-core functions that have stretched the organisation's resources and attention. In meeting our core mission, Māori interests and stakeholders will remain a high priority for Kāinga Ora given Māori represent a disproportionate number of our tenants. Iwi and other Māori entities will also remain valued partners both in land and housing development and in the provision of tenant support services.
2. **Improved organisational performance with a focus on cost effectiveness:** a significant part of the Reset Plan involves not only delivering on the Budget 2024 commitments but also achieving further cost savings by reducing high overheads and leveraging buying power more effectively. Improvements will be enabled and sustained by resetting core organisational performance management discipline and capability. To support this work a new internal transformation team has been established to qualify and execute savings opportunities and drive organisational change across the organisation.
3. **Improved tenant and community management:** better managing tenant and community relationships and ensuring the right people are in the right homes. If tenant needs change, we will establish a path to transfer them to homes that better suit them or (working with the Ministry of Social Development (MSD)) to other housing providers that are better placed to serve those specific needs. Improvements have already been made but further change involves implementing a more data driven tenant segmentation model, regularly reviewing tenant needs and having the right entity providing the right social services at the right time.
4. **Improved housing portfolio and build management:** better managing the existing Kāinga Ora asset portfolio and building or renewing homes as efficiently as the market. Kāinga Ora will adopt a more optimised approach to managing its housing stock including seeking your continued support to recycle properties that are located on sub-optimal or sub scale land, that are poor quality, that do not meet changing tenant needs, or are high valued. We would reinvest the proceeds in building or upgrading more suitable stock to maintain total stock levels. To support Kāinga Ora's focus on value-for-money, we will also simplify our social housing building specifications and use all available building delivery channels so that we can deliver quality homes at a cost that is in line with market prices.
5. **More persistent and sustainable approach to funding and associated settings:** The Reset Plan requests some adjustments to Kāinga Ora operating and funding frameworks including seeking more persistent and predictable annual delivery targets and associated funding commitments. These changes would allow Kāinga Ora to more effectively plan and execute a consistent pipeline of building activity and build greater capability – leading to increased operational efficiencies and lower build costs per unit.

More detail on the initiatives underpinning each of the above themes can be found in the attached Reset Plan.

Risks to Reset Plan delivery and reporting

Any organisational and performance change of this scale is challenging and will take time for the change to be embedded in the organisation. There are a number of primary risks to the delivery of the Reset Plan including:

- 1. Sufficiently reducing total costs of construction:** We have put significant focus on reducing the cost to build and using the best available delivery channel for new stock but there remains a risk that the savings anticipated may not fully eventuate. However, recent construction pricing achieved in our tender processes does give us some early confidence and we are committed to close monitoring and early intervention if results do not meet our expectations. Our FY25 new-build programme is now 90% contracted and our cost-to-complete forecasts suggest we are on track to meet our savings targets.
- 2. Achieving replacement sales volumes and prices over time:** Any replacement sales and prices will be dependent on market conditions and local demand for the houses offered for sale. Recent market conditions for residential sales have been weak, though there are signs that the market is improving, aided by falling interest rates and population growth.
- 3. Delivering costs savings:** We are ahead of our Budget 2024 cost savings target year-to-date⁶, however significant savings are planned from our asset maintenance programme beginning in the second half of FY25. The Board has commissioned external assurance over this programme which has validated the opportunity but also signalled that the next phase of this savings programme is running behind targeted timelines. Again, we are monitoring outcomes closely and have also identified a range of additional savings opportunities that we are pursuing to de-risk the overall cost saving targets.
- 4. Work in progress (WIP) write-offs associated with paused projects:** We are working through the risks associated with write-offs on paused projects which may affect our FY25 operating results⁷. While many of these projects will proceed as part of the FY26 programme, some projects are unlikely to go ahead and others will involve some write-down of WIP where the level of investment is not commensurate with the status of the project. Once the Board has a clear view of the size and scale of these risks we will provide you with a detailed report and this is expected by March 2025.

Given the importance of delivering these savings the Board will continue to closely monitor progress and will actively manage and mitigate risks against targets, including providing early warnings to you should these savings or outcomes continue to be at risk. Specifically, we will report back as follows:

- Continued monthly reporting on meeting remaining delivery targets, disruptive tenants, rent arrears, vacant homes and community engagement.
- Initial report back to Ministers in March 2025, covering:
 - Progress on maintenance savings;
 - Write-off risks due to paused projects;
 - An update on vacant land and an overview of next steps;
 - Our approach to social housing replacement sales in FY26 including geographical locations and typology mixes;
 - Progress towards reductions in the cost of delivery of social housing for both FY25 and FY26.

⁶ Includes YTD operating cost (\$5.5m) and capital cost (\$4.5m) savings associated with asset management, maintenance and fleet (but excludes costs associated with building new homes)

⁷ These are non-cash impacts, but will affect the operating deficit and OBEGAL

- Following the report back in March 2025 it is proposed that progress, risks and savings opportunities are captured through the regular quarterly reporting process, including:
 - Updates on the asset management and maintenance savings programme, wider operating cost savings and overhead cost reductions;
 - Cost-to-complete estimates for key capital programmes including house building, retrofits and Large-Scale Projects (LSPs). This will include comparisons with budget and against savings targets.
 - A periodic (semi-annual) market build cost review which will provide an analysis of all-in build costs with market comparisons. We propose agreeing approach, methodology and timing with HUD and Treasury by March 2025.

Decisions requested to support Reset Plan execution

As highlighted earlier, we would welcome your feedback on the detail in the Reset Plan. There are also some specific decisions (drawn from the plan) which we would request the Ministers' attention to:

Topic	Ministerial decisions sought
<i>Core versus non-core activities</i>	<i>Provide feedback</i> on our recommendations regarding the future of activities considered to be 'non-core' (as set out in the plan and as described below as item 1a for further exploration)
<i>Recommended investment approach</i>	<i>Approve</i> our recommended investment approach as outlined in Scenario 2 - Dynamic so we may access debt (while remaining within the approved debt limit) to undertake our renewal programme across four years to FY28.
<i>Asset recycling approach</i>	<i>Confirm</i> our proposed asset recycling approach, noting that this will involve the sale of around 900 homes per year, with the proceeds being reinvested to deliver at least the same number of new fit-for-purpose replacement homes.
<i>Confirmed investment cycle</i>	<i>Confirm</i> we move to a pattern of rolling four year investment certainty through the addition of a new fourth year at each annual government budget to better match the dynamics of the construction industry.
s 9(2)(f)(iv)	

As a whole, this set of commitments and decisions will enable Kāinga Ora to commit to implementation of the Reset Plan and enable early progress to be made.

Further areas for exploration to support Reset Plan execution

The Board has identified certain initiatives within the Reset Plan that it believes would improve Kāinga Ora's financial and non-financial performance but which involve working with other parties or require changes to policy and legislative settings. Our financial projections do not rely on these changes, but we believe they will ultimately declutter the organisation and support a more streamlined Kāinga Ora. This would better enable the organisation to cost effectively build and maintain social houses and meet the needs of its tenants. Below we have extracted those specific initiatives from within the Reset Plan to bring them to your attention (highlighting the themes and numbering from the Reset Plan to aid cross-referencing):

1. Kāinga Ora to be refocused on its core mission (theme 1 of plan)

- a. The Board proposes that certain Kāinga Ora activities mandated by legislative and policy settings are reviewed. This includes activities currently funded through appropriations such as Specified Development Projects under the Urban Development Act (UDA) and administration of the Infrastructure Acceleration Fund, and the Kāinga Ora Land Programme. Further detail on what the Board considers is core and non-core to delivering on its social housing landlord role (and the funding attached to those activities) is in the attached Reset Plan.

2. Improved tenant and community management (theme 3 of the plan)

- a. Our analysis suggests that by using a data-driven tenant segmentation model we can deliver a more differentiated service model that meets individual tenant needs and drives service and cost efficiency.
- b. To achieve this, Kāinga Ora will need to work closely with other agencies including:
 - i. Engaging with MSD to improve data sharing practices and needs assessments to enhance tenant management.
 - ii. Providing input into HUD's social housing funding model review to ensure social housing products better match different needs of tenants with an appropriate revenue model to support portfolio efficiency.
- c. We note that Kāinga Ora may not be the best service provider for some tenants. We recommend investigating:
 - i. Kāinga Ora supporting HUD in the development of a framework that enables a transition of existing selected Kāinga Ora tenants, homes and/or services to other housing or specialist support providers where mutually beneficial (for example, approaches like the current social outcomes contracting pilot which HUD is currently trialling with service providers and Kāinga Ora).
 - ii. Refreshing the Services Agreement and identifying any legislative changes required to provide Kāinga Ora more decision rights around the acceptance, placement and management of very high needs or disruptive tenants (including for the benefit of neighbouring tenants and communities).

3. More persistent and sustainable approach to funding and associated settings (theme 5 of the plan):

- a. The Board notes HUD is leading a review across social housing funding models. As part of the Reset Plan development the Board has considered both funding principles and features that it believes could form a basis for an improved funding model.

- b. The Board looks forward to contributing to this work with a view that the review outcome will resolve revenue model issues and also support improved portfolio efficiency over time through the better matching of funding to costs and facilitating positive paths for tenants to move through social housing to the private market (as their circumstances improve).
- c. To support greater clarity between the role of the Board as governors and the role of the government and its monitors as shareholders, we believe some clear financial covenants and performance requirements would support organisational flexibility and autonomy while at the same time set strong, financial expectations and guardrails. This is standard practice for commercial entities, enables the shareholder to set clear expectations and express its risk appetite and provides a clear objective perspective on financial performance. Possible covenants could include interest cover ratio, debt caps and debt-to-asset ratios, overhead efficiency ratios, and specific targets around the operating position. These could be constructed as a series of milestones beginning with cash surpluses, moving to a sustainable interest cover ratio and then to accounting surpluses.

Conclusion

We have confidence that once executed the Reset Plan will meet your expectations for Kāinga Ora while also enabling us to meet the needs of both the tenants we serve and the communities they live in.

Finally, I would like to take this opportunity to thank staff at HUD, Treasury and DPMC for their advice, input and support, and the staff and Board members of Kāinga Ora who put considerable effort into the development of the Reset Plan and who will also be responsible for its delivery over the coming years.

Yours sincerely



Simon Moutter
Chair Kāinga Ora – Homes and Communities

Attachment: Kāinga Ora Reset Plan



Briefing

KAINGA ORA TURNAROUND PLAN			
To Minister	Hon Nicola Willis	Portfolio	Minister of Finance
	Hon Chris Bishop	Portfolio	Minister of Housing
Date	21 November 2024	Priority	High
Tracking number	HUD2024-005739		

ACTION SOUGHT	
Action sought	Note the contents of this briefing Provide direction to inform the Cabinet Paper considering the Kāinga Ora turnaround plan
Deadline	27 November 2024

CONTACT FOR DISCUSSION			
Name	Position	Telephone	1st contact
Glenn Phillips	Head of Crown Entity Investment Performance and Monitoring	s 9(2)(a)	✓
Brad Ward	Deputy Chief Executive Organisational Performance		

OTHER AGENCIES CONSULTED
The Treasury, DPMC



RECOMMENDED ACTIONS		
It is recommended that you:		
Financial Sustainability		
1.	Note that the Board has identified the following savings which have formed the basis of financial modelling and approaches within the plan that i. average construction costs will reduce to ^{\$9(2)(b)(ii)} per place (excluding land) which is broadly in line with market costings ii. FTE numbers will reduce by 1,000 to a final headcount of 3,000 by June 2025 iii. Maintenance costs will reduce by \$200 million per annum compared to the Pre-Election Update 2023 levels.	<i>Noted</i>
2.	Note that these savings significantly reduce expenses, deficits and debt compared to the Pre-Election Update 2023.	<i>Noted</i>
3.	Note that inclusive of the savings approaches there are still cumulative losses of \$2.2 billion across the forecast period	<i>Noted</i>
4.	Note that in order to balance the aging stock and sufficient volumes to Board is proposing i. renewal activity of 2,000 (including retrofits of 400) build activity per year which is offset by ii. Demolitions associated with Large Scale Projects and redevelopment activity (around 600 per annum) iii. Sales (around 900 per annum)	<i>Noted</i>
5.	Note that there is significant residual risk in the construction cost reduction assumptions as the approaches are implemented which will require on going reporting and monitoring.	<i>Noted</i>
6.	Agree that Kāinga Ora is requested to report back to Ministers in March 2025 on the following i. Progress on maintenance savings;	<i>Agree/Disagree</i>



ii. Write-off risks due to paused projects; iii. An update on vacant land and an overview of next steps; iv. The approach to social housing replacement sales in 2025/26 including geographical locations and typology mixes; v. Progress towards reductions in the cost of delivery of social housing for both 2024/25 and 2025/26. vi. Three scenarios fully modelled being i. 2,000 renewal events ii. 1,500 renewal events. iii. 1,000 renewal events vii. s 9(2)(f)(iv)		
7.	Agree to provide Kāinga Ora feedback that the until sufficient confidence is gained on expenditure reduction, the request for a rolling four-year investment cycle will not be considered.	<i>Agree/Disagree</i>
8.	s 9(2)(f)(iv)	<i>Agree/Disagree</i>
9.	s 9(2)(f)(iv)	<i>Agree/Disagree</i>
Scope of Kāinga Ora		
10.	Note the Board has examined the scope of activities that are currently undertaken by Kāinga Ora and sized them appropriately in line with Budget 2024 decision around operating funding	<i>Noted</i>
11.	Note these changes will require changes to SPE measures which you will be consulted on in early 2025.	<i>Noted</i>
12.	Note the Board has identified the following functions as non-core	<i>Noted</i>



i. KiwiBuild ii. IAF iii. Urban Development Powers iv. Financial Products (e.g. First Home Loan processing) v. Crown Urban Growth Partnerships vi. Delivery for Tamaki Regeneration Company		
13.	Agree to seek in principle decisions from Cabinet and delegation to Joint Ministers to i. Consolidate underwrite activity (KiwiBuild) into the Ministry of Housing and Urban Development by June 2025 ii. wind down the Kāinga Ora Land Programme with Joint Ministers making decisions on approaches to the existing four land holdings.	<i>Agree/Disagree</i>
14.	Agree to signal your intention to Cabinet for: i. MHUD to provide advice on the role of Government in urban development in 2025 which will assess the functions that Kāinga Ora currently perform and identify alternative delivery options ii. Treasury will provide advice on opportunities for NIFF to administer additional infrastructure funds, including the Infrastructure Acceleration Fund, once NIFF's other new functions have been stood up.	<i>Agree/Disagree</i>
15.	Note that further information on the future scope of the Large-Scale Projects will be presented to Joint Ministers in December 2024.	<i>Noted</i>
16.	Note the following amendments to the Kāinga Ora – Homes and Communities could remove the ambiguity around core functions including: i. Remove operating principles with the Act	<i>Noted</i>



- ii. Reduce the Board minimum size in line with other Crown Entities and remove the prescriptive capabilities of the Board members within the Act
- iii. Remove the requirement for the GPS to include how the Government expects Kāinga Ora to meet the Government's direction and priorities for housing and urban development as this is already covered in the Crown Entity Act expectation of adhering to Government direction.

17. **Note** further work on the role of Government in urban development in 2025 may require more substantive legislative changes to both the Urban Development Act and Kāinga Ora – Homes and Communities Act. *Noted*

Response to Broader Actions

18. **Agree** to respond to the Board clarifying actions within the plan that Ministers are not supportive of at this stage including;
- i. Action 3.5: Develop recommendations for adjusting government policy settings that provide Kāinga Ora more decision rights around the acceptance, placement and management of very high needs or disruptive tenants
 - ii. Action 3.8: Work with HUD to develop a framework that enables a transition of selected Kāinga Ora tenants/homes/services to other housing providers (including iwi or Māori led organisations) where mutually beneficial
 - iii. Action 5.6: Reworking the Delivery Pipeline to a rolling four-year commitments
 - iv. Action 5.7: Focus financial outcomes on specific ratios and cash outcomes
 - v. s 9(2)(f)(iv)

Next Steps

19. **Note** Ministers have a meeting scheduled with the Chair on 27 November to discuss the turnaround plan *Noted*



- | | | |
|-----|---|-----------------------|
| 20. | Agree subsequent to this meeting, a formal response is drafted to the Board to outline Ministers proposed approach to the plan including how Cabinet consideration of key components will occur. | <i>Agree/Disagree</i> |
|-----|---|-----------------------|

Glenn Phillips
Head of Crown Entity Monitoring
21 November 2024

Hon Nicola Willis
Minister of Finance
..... / /

Hon Chris Bishop
Minister of Housing
..... / /



Purpose

1. The purpose of this briefing is to provide supporting advice regarding the Kāinga Ora turnaround plan that you received from the Board on 20 November 2024.
2. This briefing is to enable Ministers to navigate and bring together the components outlined in the slide deck of the turnaround plan.

Executive summary

3. The Letter of Expectations issued in June 2024 outlined the requirements that Ministers expected to be incorporated into a turnaround plan that materially reduced operating losses and managed within the approved debt appropriations including:
 - i. Investment scenarios that provide Ministers with choices, consequences and trade off's around the speed and scale of asset renewal and credible divestment approaches with no net new growth in Kāinga Ora social housing places
 - ii. Greater visibility and transparency of the total capitalised costs that are incurred in the social housing programme
 - iii. The approach to treasury and liquidity management practices
 - iv. The approach to delivering Crown funded activities and statutory obligations
 - v. Detailed implementation plans with tangible actions and measures of the savings proposals incorporated into Budget 2024.
4. The plan has these components –
 - i. summary financials against a preferred scenario and other scenarios to consider;
 - ii. actions the Board considers are necessary to achieve the outcomes of the plan;
 - iii. risks to consider and manage; and
 - iv. other recommendations to help it narrow its focus on its role as a social housing landlord (their remit).
5. The Board has the material components and appropriate actions embedded within the 35 actions identified (refer Annex A) to cover off the Letter of Expectations requirements but there is a concern that the broad set of proposed recommended actions are too wide ranging and may distract from the core focus around financial sustainability.
6. Through the work to date, there are clear identified actions but Officials from HUD and Central Agencies believe the turnaround plan as currently drafted makes it difficult for



Cabinet to quickly gain comfort around the priority of actions necessary for Kāinga Ora to return to a more sustainable financial footing.

7. Further, the Board is seeking a level of autonomy in this draft Plan that without further demonstration of progress in particular around reduction in construction costs could represent significant risk to the Government fiscal forecasts. For example, they are seeking a confirmed investment cycle of a minimum of four years.
8. Officials recommend that feedback is given to the Board and some recommendations are rejected now to ensure that the primary focus for the next 12 months is on the actions necessary to demonstrate progress towards reducing costs to increase Ministers and monitoring agencies confidence around the utilisation of available borrowing.
9. In particular, the request of a four-year rolling investment cycle is not supported by Officials, given the significant risks around reducing constructions costs and house sale revenue assumptions. Providing four-year funding certainty at this stage would also further constrain Budget allowances, and limit Ministers options to invest in other interventions across the Housing portfolio.
10. Some degree of funding certainty could be considered as part of future budgets, once Ministers have more information about and confidence in the Kāinga Ora renewal and asset recycling programmes, and greater clarity around the role and remit of Kāinga Ora in the housing system.
11. There has been significant progress in reducing the forecast impact of Kāinga Ora on the Government Financial Forecasts since the Pre-Election Update, with a large proportion of these savings incorporated into the 2024 Budget Economic and Fiscal Update.
12. Officials have scrutinised Kāinga Ora Half Year Economic and Fiscal Update submission and validated material drivers of the operating and debt positions including
 - i. Personnel Costs – reducing FTE by 1,000 to a new headcount of 3,000
 - ii. Maintenance Costs – reducing spend back to 2021 cost adjusted levels
 - iii. Depreciation
 - iv. Interest Costs
 - v. Write off's associated with demolitions of existing properties
 - vi. Construction costs - reducing total capitalised costs to be in line with market s 9(2)(b)(ii)
 - vii. Sales assumptions
13. Although these assumptions are reasonable and some areas such as FTE reduction are nearly completed, there is still significant uncertainty given the magnitude of



change in the crystallisation of some of the savings incorporated into the fiscal forecasts which need to be appropriately monitored to ensure progress is made.

14. For these reasons the Board (following feedback from agencies) has suggested various report backs to Joint Ministers in their draft turnaround plan. Agencies recommend endorsing this action.
15. The suggested actions materially reduce operating losses in the short term and set a path to achieving eliminating losses in the medium term through investment.
16. However, Kāinga Ora is still forecasting cumulative losses of \$2.2b from FY25 to F29 inclusive under their preferred scenario. A portion of these losses are structural and driven by funding settings (market rent is insufficient to cover an ageing portfolio) and would not have an impact on OBEGAL if these were changed for Kāinga Ora as they would be eliminated on consolidation.
17. To further reduce expenditure, delaying renewal of already degraded assets and significant additional FTE reductions over and above the 1,000 roles already disestablished would be necessary.
18. HUD believes that pushing Kāinga Ora to reduce expenditure further in the short term through reducing the renewal programme to bare bones (therefore reducing interest and depreciation) would not be in alignment with the broader independent review commentary which highlighted that existing housing stock is aging and, in some cases, poor quality which would require significant investment over the next two decades to maintain and renew housing stock.
19. Treasury is of the view that further savings are possible and are not confident that Kāinga Ora is functioning as efficiently as possible in other areas. The Board has identified other savings options for exploration which should provide a start towards identifying further savings.
20.

s 9(2)(f)(iv)
21. In order to adjust to Budget 2024 funding decision, the Board has identified numerous actions in the plan to reduce the size and scope of some functions within their purview. The flow on impact is that some SPE performance measures will need to be removed for the 2025/26 year.
22. It also identifies functions that the Board considers detract from the core purpose which require either legislative change or a transfer of functions to other agencies, which HUD has provided some initial thoughts on. For example, the administration of the Infrastructure Acceleration Fund and KiwiBuild functions and in the medium term removing Urban development powers incorporated in the Urban Development Act and Kāinga Ora – Homes and Communities Act.

23. There are also wider recommendations in the plan which do not have a material impact on the financial sustainability of Kāinga Ora, that although they may have some merit in further consideration at some stage, Officials believe these are not a priority at this stage and risk distracting Cabinet when considering the turnaround plan. For example, the approach to tenant segmentation and changes to the allocation of tenants from the register.
24. The covering letter is also seeking agreement to recommended investment approaches, sales approach and funding of some functions which are time limited, which Officials recommend looking at as part of Budget 2025 decisions.

The Turnaround Plan

KO Financial Position (Pre-Election Update to HYEPU)

25. There has been significant progress made in reducing the forecast impact since the Pre-Election Update which was the financial information which informed the Independent Review.
26. The 2024 Half Year Economic and Fiscal Update forecasts from Kāinga Ora in the table below were based off Scenario 2 discussed later in the briefing and represent current state compared to the time of the Independent Review.
27. A summary of key indicators is presented below:

	2024/25	2025/26	2026/27	2027/28
Forecast Deficit pre tax				
2023 Pre Election Update	(779)	(925)	(1,003)	(864)
2024 Half Year Update	(536)	(311)	(320)	(337)
Change	243	614	683	526
Change Comprising of:				
Personnel	54	94	98	90
Maintenance	64	204	221	206
Construction Costs driven				



Depreciation	58	99	130	116
Interest	(26)	198	221	36
Write Off's	44	47	46	43
Other	49	(27)	(34)	35

	2024/25	2025/26	2026/27	2027/28
Debt				
Pre Election Update	18,669	22,463	22,573	22,288
Half Year Update	17,965	19,121	19,942	20,562
Change	(704)	(3,341)	(2,631)	(1,725)

28. The covering letter appropriately references the change back to Budget 2024 as this was the set of financial forecasts the current Board inherited and this already incorporated Budget 2024 savings.
29. HUD and the Treasury met with Kāinga Ora on a number of occasions to understand the assumptions driving the Half Year Economic and Fiscal Update forecasts and validated significant assumptions.
30. The focus on the short-term forecasts was deliberate as this sets the basis for the long term modelling assumptions which are primarily aligned with broader Treasury economic assumptions.
31. The material areas covered were:
 - i. Personnel Costs
 - ii. Maintenance Costs
 - iii. Depreciation
 - iv. Interest Costs



- v. Write off's associated with demolitions of existing properties
 - vi. Construction costs
 - vii. Sales assumptions
32. Although these assumptions are reasonable and some areas such as FTE reduction are nearly completed, there is still significant uncertainty due to the magnitude of change required in the crystallisation of some of the savings incorporated into the fiscal forecasts which need to be appropriately monitored to ensure progress is made.
33. For these reasons the Board (following feedback from agencies) has suggested various report backs to Joint Ministers and Agencies recommend endorsing this action.

Critical Components

34. The following table summarises the critical components of the Turnaround plan with material impacts on the financial sustainability of Kainga Ora.

AREA	ACTIONS COMPLETED	RESIDUAL RISK	RELEVANT ACTIONS IN PLAN	MONITORING APPROACH
SAVINGS INCORPORATED IN BUDGET 2024 AND HALF YEAR FORECASTS				
Personnel	Change proposals have been decided and communicated to staff which reduces personnel levels by approximately 1,000 roles	Low		Quarterly monitoring of financial statements.
Maintenance	The Aurecon report into maintenance savings that the Budget 2024 savings were based off, identified two distinct phases of work and changes to extract savings from the current spend. The first phase was around tightening controls and delegations to ensure that a shift from responsive maintenance to preventive maintenance was achieved and bringing responsive maintenance back to 2021 cost adjusted levels. It also suggested physical assessments of properties as a significant amount of information was held by maintenance partners. This forms the majority of the nominal decrease of expenditure in 2024/25 of \$46 million. Early indications are that through tightening controls, the volume of general work orders and responsive maintenance work orders have decreased by 14% which is estimated to be approximately \$48 million of savings.	Medium The second phase of the savings is more significant in terms of change and quantum aligned to reviewing the current supply chain arrangements based off a level of activity in the medium term for operating costs associated with retrofit activity. s 9(2)(g)(i)	2.1 Deliver on asset management and maintenance savings commitments and mitigate risks raised in the external assurance review to ensure budgeted savings are delivered	Report back in March 2025 on progress towards 2 nd phase of savings.
Construction Cost Reduction impacting: Debt Depreciation Interest (slide 22)	Analysis undertaken by the Board has identified that current delivery by Kainga Ora is above market rates.	High The forecasting assumptions require a reduction in capitalised cost for social housing renewals of approximately 13% or \$60k per place. (equates to \$100m per annum reduction in debt for the Kainga Ora preferred investment path of 1,600 renewal events excluding retrofits).	4.5 Commit to delivering renewals/new stock at fully allocated costs that are in line with or better than market rates using the best available channel of delivery and introduce new processes/gates to ensure compliance 4.7 Establish an updated and rigorous approach to market price benchmarking that includes sufficient localised information to ensure Kainga Ora is well informed on best value growth channel. Gain support from HUD and Treasury on approach.	Report back in March 2025 on progress towards reducing total capitalised costs in line with forecasting assumptions.

			4.2 Revise Investment Management Framework (IMF) to reflect focus on management and renewal of existing portfolio and set new financial metrics based on new settings	
Sales Volumes and Price obtained		High The forecast assumptions incorporate sales of approximately 800-900 per annum for the next two years to offset redeveloped houses (e.g. 3 houses on a site where 1 previously existed). s 9(2)(g)(i)	4.3 Confirm proposed asset recycling approach with Ministers with a focus on addressing poor condition, high value and remote assets	Report back in March 2025 on the approach to social housing replacement sales in FY26 including geographical locations and typology mixes.
ADDITIONAL AREAS OF INVESTIGATION FOR SAVINGS				
Vacant Land and Paused Projects impacting Debt Interest Holding Costs			4.4 Complete the review of current land holdings and paused projects with a view to selling surplus land that no longer meets Reset Plan objectives and use funds to reduce debt	Report back in March 2025 on the extent of vacant land holdings with approach to reducing these holdings.
Further Operating Savings (slide 23)			s 9(2)(f)(iv)	Investigate for Budget 2026 inclusion

Scenarios Modelled and Sensitivities

35. The Letter of expectations outlined the requirement for various scenarios which are summarised below:

SCENARIO	1	2	3	4	5
	Growth	2,000 renewals	1,200 Renewals	1100 Retrofit and LSP build only	Maintain and LSP build only
Key Delivery Outputs					
2027/28 New Homes	2,400	1,600	800	510	510
2027/28 Retrofit	400	400	400	400	-
2027/28 Sales	600	900	300	-	-
2027/28 Demolitions	1,000	700	500	510	510
Financial Metrics					
2028/29 Total Expenses	3,440	3,357	3,221	3,295	3,158
Deficit 2028/29	(472)	(481)	(235)	(268)	(176)
Debt 2028/29	23,080	21,033	19,942	20,036	19,688

36. Kāinga Ora preferred option is Scenario 2 which entails 2,000 construction events made up of redevelopments (intensifying on Kāinga Ora land and market acquisitions) and 400 retrofits (internal upgrade to existing properties) which is offset by demolitions

(linked to redevelopment by removing the existing house) and residual sales of 700 in 2027/28.

37. Although the Kāinga Ora modelling generates deficit numbers, the total expenses (pre tax) is the better indicator of impact on OBEGAL as the majority of the revenue stream for Kāinga Ora is eliminated on consolidation in the Crown financial statements.
38. The plan outlines some pro and cons of various options which are outlined below;

	PRO	CONS
Scenario 1	• Kainga Ora share of housing maintained (relative to population) • Renewal backlog addressed across 30 years • Housing typologies adjusted to tenant needs more quickly over time (compared to preferred scenario)	• Exceeds debt cap beyond FY27 • Additional Crown funding required to meet IRRS costs • Risks of crowding out build market • Organisation will need to grow to support larger portfolio (ie more tenancy managers etc)
Scenario 2	• Stays within approved debt cap • Renewal backlog addressed across 30 years • Housing typologies adjusted to tenant needs over time • More homes for NZ generally as homes are sold and replaced rather than demolished • Capacity to reintroduce a growth programme if required	• Kainga Ora share of housing declines • Significant operating deficits continue for 7-10 years • Operating deficit sustained for longer relative to scenario 5
Scenario 3,4	• Stays within approved debt cap • Lower sales volumes reducing risk	• Older homes for longer, leading to higher running costs and possibly worse health outcomes (insufficient to make a meaningful impact on the 8,000 end of life properties) • Homes mismatched to tenant needs for longer



Scenario 5	• Stays within approved debt cap • Deficit removed across a shorter timeframe (by FY32)	• Kainga Ora share of housing declines • Older homes for longer, leading to higher running costs and possibly worse health outcomes • Homes mismatched to tenant needs • Underutilised land • No homes freed up for broader market • More difficult to reinstate a build programme in the future
-------------------	--	---

39. Given the assumptions used in the financial modelling, the following high level sensitivities exist

PER 100 CHANGE	DEBT	OPERATING EXPENSES
Sales	\$50m	\$3m per annum
Renewals	\$60m	\$4m per annum
Demolitions	N/A	\$15m per annum

40. There is a balance to be struck with providing sufficient quantity of renewal activity over a longer time period as
- there is a wedge of aged properties (approximately 8,000 which are near the end of useful life and another significant portion in the next five years.)
 - to demonstrate cost savings sufficient lead in time is necessary
 - kicking the renewal programme down the road will increase cost per unit from an inflationary perspective
 - current composition of the portfolio doesn't adequately address demand from the register (e.g. one bedroom properties).
 - it reduces the risk of the level of paused projects resurfacing as occurred following the independent review.

41. Given the risk around sufficient lead time to enter into construction contracts and avoid the issues around paused projects, it is necessary to give direction to Kāinga Ora on the level of activity for at a minimum for the 2026/27 year by April/May 2025.
42. HUD would support extending this direction to 2027/28 if the report back in March 2025 on construction costs reductions and proposed sales locations for 2025/26 to offset renewal activity increased sufficiently the level of confidence in delivery.
43. HUD and Treasury would also recommend that Ministers request two additional fully costed scenario of 1,000 and 1,500 renewal activities is produced for both 2026/27 and 2027/28 for consideration alongside the 2,000 preferred scenario which would reduce the risk of increasing sales volumes and prices not being achieved significantly impacting debt in the next two years.

Approach to Remit

44. The turnaround plan presents the Board's view on functions which they consider as being core and non core.
45. A significant number of these functions are within the Board's control to adjust service levels to align with the available funding and have largely been self determined by Kāinga Ora in the past.
46. Officials are broadly comfortable with the distinction between core and non core in terms of alignment to focusing on being a social housing landlord.
47. There are changes outlined in the plan (refer Annex One), which are within the Board's purview and will be reflected in the Statement of Performance expectations for 2025/26 which you will be consulted on in early 2025.
48. Officials have no concerns in principle to the decisions the Board have or are proposing to make in these areas and will provide advice on the SPE in due course.
49. The Board has also identified functions that they believe are not core functions which Ministers could consider for transferring or legislative change to remove these functions.
50. The functions and suggested approaches to respond to the Board are below:

FUNCTION	APPROACH
KiwiBuild residual functions	Seek in principle Cabinet agreement to transfer functions to HUD by June 2025 and delegate final decisions delegated to Joint Ministers



Infrastructure Acceleration Fund	Note that the Treasury will provide advice on opportunities for NIFF to administer additional infrastructure funds, including the IAF, once NIFF's other new functions have been stood up.
Urban Development Functions and Powers	Signal your intention to Cabinet to receive advice from MHUD on the role of Government in urban development in 2025 which will assess the functions that Kāinga Ora currently perform and identify alternative delivery options
Kāinga Ora Land Programme	Seek in principle Cabinet agreement to wind down the Kāinga Ora Land programme. Noting that Kāinga Ora is due to report back on approaches for the four land holdings under this programme shortly. Note that other vacant land holdings held by Kāinga Ora is suggested to have a report back in March 2025.
Large Scale Projects	While honouring existing contractual agreements, seek Cabinet agreement to narrow the scope of projects to focus on enabling infrastructure with a direction linkage to the renewal of social housing stock. Noting the report back due in December on any further savings options within the programme.
Financial Products (first home loans etc)	There is no obvious entity for this activity to transfer to, so would recommend that these functions remain in Kāinga Ora.
Housing Act	Further work would need to be done with Kāinga Ora to understand the size and nature of the functions outlined by the Board but HUD's initial view is that this is unlikely to be material.



Crown Urban Growth Partnerships	Further work will need to be done with Kāinga Ora to ensure across both HUD and Kāinga Ora there is sufficient representation in these partnerships.
s 9(2)(f)(iv)	

51. In order to reduce the self determination of size and scope of functions, a tidy up of the Kāinga Ora Act could be undertaken in 2025 to:
- Remove the operating principles
 - Reduce the Board minimum size in line with other Crown Entities and remove the prescriptive capabilities of the Board members
 - Remove the requirement for the GPS to include how the Government expects Kāinga Ora to meet the Government's direction and priorities for housing and urban development as this is already covered in the Crown Entity Act expectation of adhering to Government direction.
52. Given the likelihood that the broader work around the role of Government will require changes to legislation there is potential that the Acts maybe amended twice within quick succession, so consideration will need to be given on the priority of any short-term changes.

Ministerial Decisions Requested

53. The turnaround plan presents five areas for Ministers immediate consideration which relate to financial sustainability

DECISION	RECOMMENDED APPROACH	COMMENTARY
Provide feedback on our recommendations regarding the future of activities considered to be 'non-core'	Refer Table in Paragraph 41.	
Approve our recommended investment approach as outlined in Scenario 2 - Dynamic so we may access debt (while remaining within the approved debt limit) to undertake our renewal programme across four years to FY28.	Make final decisions in March 2025 following report backs and request two alternative scenarios of a lower level of renewals of 1,000 and 1,500 per annum to be fully modelled alongside the Board's preferred investment approach.	Ministers have articulated purchasing expectations to the end of June 2026. The short-term nature of the purchasing approach does create uncertainty for contracting redevelopments and at a minimum an extension of purchasing expectations to June 2027 will be needed as part of Budget 2025 forecasts. HUD's view is that if sufficient evidence exists in the report back in March 2025, renewal expectations out to June 2028 balances the continued monitoring of savings and sufficient certainty to volumes to drive these changes.
Confirm our proposed asset recycling approach, noting that this will involve the sale of around 900 homes per year, with the proceeds being reinvested to deliver at least	Make final decision in March 2025 following report back.	It is recommended that there would be an annual expectation to report back to Ministers in November on proposed sales approaches to enable consideration in each Budget Round. This enables Ministers to consider if there are any net new social housing places as part of Budgets and they wish to

the same number of new fit-for-purpose replacement homes.		reduce sale volumes, some of the net new could be allocated to Kāinga Ora once sufficient confidence in cost reduction is achieved.
Confirm we move to a pattern of rolling four year investment certainty through the addition of a new fourth year at each annual budget to better match the dynamics of the construction industry	Inform the Board that this is not going to proceed at this time until confidence is gained on savings programmes.	

s 9(2)(f)(iv)

Other Recommendation to provide feedback to Board

ACTION	RECOMMENDED APPROACH	COMMENTARY
3.5 Develop recommendations with HUD and MSD for adjusting government policy settings that provide Kāinga Ora more decision rights around the acceptance, placement and management of very high needs or disruptive tenants (including for the benefit of neighbouring communities). Refresh the Services Agreement and identify legislative changes as appropriate	Provide feedback to Board that allocation of tenants from the register should remain a central Government decision and passing off difficult tenants to CHP's to reduce "burden" is not consistent with levelling the playing field.	HUD do not believe this is a priority or appropriate. The Taylor Fry report as part of the Independent review identified that Kāinga Ora has a relatively standard distribution of tenants.
3.8 Work with HUD to develop a framework that enables a transition of selected Kāinga Ora tenants/homes/services to other housing providers (including iwi or Māori led organisations) where mutually beneficial	Provide feedback to Board that as place-based decision making is advancing that Kāinga Ora should meaningful engage but this will not extend to focusing on a framework for transferring individual tenants	Note that as the Government considers implementation of place-based decision making there will be an expectation that Kāinga Ora is engaging with HUD to understand available assets (housing stock and vacant land) that may help advance this approach. However, HUD will not be focusing on a framework for transferring individual tenants in line with the response to 3.5 above.
5.6 Rework the housing delivery pipeline (with HUD and Treasury) to remove the highly	Inform the Board that multiyear decision paths are dependent on providing Ministers	

inefficient annualised process of approval which leads to an undue focus on 30 June measurement dates. Target four-year rolling commitments by requesting the addition of a fourth year at each annual government budget to better match the dynamics of the construction industry	with comfort about reduction in construction costs and the overarching fiscal position.	
5.7 Focus financial outcomes on sustaining cash surpluses and over time seek to bring target earnings to interest cover ratio above 1.5x in line with financial scenario endorsed by Ministers	Inform the Board that until comfort around the reduction in construction costs is obtained, the use of high-level financial ratios to assess performance will not be considered given the primary revenue source is from the Crown.	Kāinga Ora reports a wide range of financial metrics as part of Annual report processes and has internal financial metrics already in place which were used by the previous Board to justify financial sustainability. HUD is of the view, that focusing in on nominal expenditure levels and reducing construction costs is fundamental and high-level metrics would only be suitable when Ministers have a greater level of confidence around the achievability of the savings targets incorporated.

s 9(2)(f)(iv)

Risks

- 54. The risks to achieving the savings incorporated in the Plan are outlined in paragraph 34.
- 55. There is a risk that elements of the plan require action to be communicated shortly and therefore clear roles and responsibilities between Ministers and the Chair will need to be discussed at the 27 November meeting.

Consultation

- 56. The Treasury and DPMC were consulted in the drafting of the briefing and have working closely with HUD in stress testing the turnaround plan.

Next steps

- 57. There is a meeting scheduled with the Kāinga Ora chair on 27 November to discuss the turnaround plan.
- 58. A Cabinet paper is currently being prepared and will need to be updated to reflect any feedback you have on the turnaround plan actions.
- 59. We recommend a formal response to the Board is required to outline roles and responsibilities and to express where appropriate Ministers appetite to advance any of the actions proposed in the plan.

Annexes

Annex A: Summary of Turnaround Actions

Annex A: Summary of Turnaround Actions

ACTION	DESCRIPTION	TIMELINE	RECOMMENDED RESPONSE TO BOARD
Theme 1: Kāinga Ora refocused on its core mission			
1.1	To deliver on Kāinga Ora's agreed scope, strategies and targeted outcomes of the Reset Plan and to ensure excellent outcomes for tenants: • Develop and then work with HUD to obtain Ministerial approval of new Statement of Intent (SOI) /Statement of Performance Expectations (SPE) • Establish revised format for quarterly reporting which tightly aligns to Reset Plan	June 2025 – SPE December 2025 (SOI)	Note changes to accountability documents are needed and encourage early engagement with HUD on this in 2025.
1.2	Subject to Ministerial decisions, work with HUD on any legislative and policy changes that sit with other agencies to initiate that will both enable key aspects of the Reset Plan and Kāinga Ora's desired organisational focus	TBC by HUD, but likely 12-24 months	Note that Ministers are open to considering transfer of non core functions in a three Phased approach 1) Tidy up aspects of the Kāinga Ora – Homes and Communities Act 2) Seek Cabinet agreement to transfer functions where an alternative agency exists as part of the resetting investment work eg IAF 3) Seek in principle decision to move Urban Development functions in the medium term after considering the role of Government in Urban Development.
1.3	Reset internal standards/processes to reflect new obligations and complete the shut-down or transfer of any non-core activities to align with the Reset Plan and any consequent policy and legislative changes	Subject to other changes	No response required as dependent on changes in 1.2 above.

Theme 2: Improved organisational performance with a focus on cost effectiveness			
2.1	Deliver on asset management and maintenance savings commitments and mitigate risks raised in the external assurance review to ensure budgeted savings are delivered	Full run rate by June 2025	Actions underway and covered in regular monthly reporting, as well as report back in March 2025.
2.2	Deliver on new pan-business operational cost savings programme (eg fleet, procurement, people, facilities) to ensure committed budgeted savings are delivered and further overhead cost efficiencies for FY26 and beyond are clearly identified	Underway	Note the additional savings options being investigated and request a report back for Budget 2026 processes in November 2025.
2.3	Conduct a review of our technology estate and digital capabilities to (over time) establish more efficient platforms for operating the business and a much higher level of digital engagement and self-service for tenants	June 2025	Internal Kāinga Ora Management action, no response required.
2.4	Implement best practice transformation management and reset the organisational model. Improve organisational health, culture and capabilities with a focus on enhanced accountability, decision making, performance and people management practices	June 2025	Internal Kāinga Ora Management action, no response required.
2.5	Develop and implement a more effective and efficient platform for communicating with the public and the media to ensure we retain our social licence to operate within communities	From Nov 2024	Internal Kāinga Ora Management action, no response required.
2.6	Align Te Kurutao unit to new government direction and reduced appropriation funding and focus on supporting execution of Reset Plan, strengthening iwi partnerships and the development of Initiative 3.8. s 9(2)(f)(iv) and engage with HUD on at least two Māori focused social housing initiatives	From Nov 2024	Internal Kāinga Ora Management action, no response required. The two Māori focused social housing initiatives is the social outcomes contracts recently established. And so not their role
2.7	Apply the new treasury and liquidity management policies and engagement with monitors as highlighted in the LOE	Underway	Action already incorporated in fiscal forecasts, no response required.
2.8	Resolve and execute agreed actions regarding rent arrears	Underway	Actions underway and covered in regular monthly reporting, no response required.

Theme 3: Improved tenant and community management			
3.1	Complete the inflight post-implementation review of the 2021 Customer Programme and report to Board. Implement agreed recommendations	Feb 2025 (1st stage)	Internal Kāinga Ora Management action, no response required.
3.2	Adopt the tenant segmentation approach to develop a more sophisticated tenant product/service model and improved portfolio efficiency (e.g. better matching of tenants to housing stock). Target lower costs to serve and benchmark to private market (particularly for lower complexity tenants)	June 2025	Internal Kāinga Ora Management action, no response required. Potential savings to be highlighted as part of Budget 2025 or Budget 2026.
3.3	Deliver on LOE commitments to manage disruptive tenant behavior. Continue to monitor new tenancy management framework and community engagement effectiveness	Underway	Actions underway and covered in regular monthly reporting, no response required.
3.4	To support initiative 3.2 and improved tenant management work with MSD to better integrate its data with Kāinga Ora operations. Improve Kāinga Ora's own approach to tenant data management	TBC with MSD, (~12-18 months)	Improving information about tenant data is an internal management action, so no response required. The commitment with MSD is an operational matter which will need to be agreed between agencies in terms of order of priority.
3.5	Develop recommendations with HUD and MSD for adjusting government policy settings that provide Kāinga Ora more decision rights around the acceptance, placement and management of very high needs or disruptive tenants (including for the benefit of neighbouring communities). Refresh the Services Agreement and identify legislative changes as appropriate	TBC with HUD, (target June 25)	HUD do not believe this is a priority or appropriate. The Taylor Fry report as part of the Independent review identified that Kāinga Ora has a relatively standard distribution of tenants. Allocation of tenants from the register should remain a central Government decision and passing off difficult tenants to CHP's to reduce "burden" is not consistent with levelling the playing field.

3.6	Work with MSD to investigate the introduction of an annual tenant needs assessment to ensure that tenant housing/service needs are better matched and that Kāinga Ora's housing portfolio evolves to meet changing requirements	Late 2025 (MSD dependent)	The commitment with MSD is an operational matter which will need to be agreed between agencies in terms of order of priority.
3.7	Work with HUD as the 'active purchaser' (alongside MSD) to develop a more sophisticated demand and tenant segmentation model for social housing support to enable improved planning and service provision including paths to partner or place tenants with other housing providers (where appropriate) to support Initiative 3.2 and to leverage Initiative 3.4	HUD/MSD dependent	Note the commitment to working with HUD on the implementation of active purchaser. As noted in 3.5 above, operational placement to align with tenant needs on an individual basis to other providers should not be a default position for all tenants Kāinga Ora does not want the burden of.
3.8	Work with HUD to develop a framework that enables a transition of selected Kāinga Ora tenants/homes/services to other housing providers (including iwi or Māori led organisations) where mutually beneficial	2025 (HUD dependent)	Note that as the Government considers implementation of place based decision making there will be an expectation that Kāinga Ora is engaging with HUD to understand available assets (housing stock and vacant land) that may help advance this approach. However, HUD will not be focusing on a framework for transferring individual tenants in line with the response to 3.5 and 3.7 above.
Theme 4: Improved housing portfolio and build management			
4.1	Revise the Kāinga Ora Asset Management Strategy (AMS) in line with Reset Plan as the guide for long term housing portfolio management (including asset recycling	Jun 2025 (Kāinga Ora Board endorsement)	Internal Kāinga Ora Management action, no response required.
4.2	Revise Investment Management Framework (IMF) to reflect focus on management and renewal of existing portfolio and set new financial metrics based on new settings	Dec 2024	Internal Kāinga Ora Management action, no response required.
4.3	Confirm proposed asset recycling approach* with Ministers with a focus on addressing poor condition, high value and remote assets.	March 2025	Note that Ministers will make final decisions in March 2025 following report backs and request additional scenarios with lower level of renewals of 1,000 and 1,500 per annum to be fully

			modelled alongside the Board's preferred investment approach.
4.4	Complete the review of current land holdings and paused projects with a view to selling surplus land that no longer meets Reset Plan objectives and use funds to reduce debt	March 2025	Note that the Board has committed to a report back in March 2025.
4.5	Commit to delivering renewals/new stock at fully allocated costs that are in line with or better than market rates using the best available channel of delivery and introduce new processes/gates to ensure compliance	Now	Note the commitment and report back in March 2025 (and regular on going reporting) of progress towards these targets.
4.6	Complete the review of standard designs and specifications to ensure they deliver sound tenant and financial outcomes over the useful life of the home. Consult with HUD to consider proposed changes against HUD's Public Housing Design Guidance	Feb 2025	Internal Kāinga Ora management action and will be a component of the progress against 4.5 above.
4.7	Establish an updated and rigorous approach to market price benchmarking that includes sufficient localised information to ensure Kāinga Ora is well informed on best value growth channel. Gain support from HUD and Treasury on approach.	December 2024	Internal Kāinga Ora management action and will be a component of the progress against 4.5 above.
4.8	Proceed with the planned introduction of systemised management processes (and the supporting restructure) for the current pipeline of build projects to drive down cost of new stock. Review performance before moving to the next phase of change in the commissioning models.	June 2025	Internal Kāinga Ora management action and will be a component of the progress against 4.5 above.
Theme 5: More persistent and sustainable approach to funding and associated settings			
5.1	s 9(2)(f)(iv)		
5.2	Contribute to HUD's work on social housing funding models with a view to better matching funding to costs and facilitating positive paths for tenants to move through social housing to private market (as their circumstances improve)	On going	Note the commitment to engage where necessary on the policy work programme.

5.3	s 9(2)(f)(iv)		
5.4			
5.5	Gain support from Ministers for a sufficient annual rate of new/renewed houses and recycling permissions to enable Kāinga Ora's pre-1986 housing stock to be renewed/refreshed over next 30 years and to gradually adjust housing typology to meet changing tenant needs (eg shift to more 1 beds)*	Budget 2025	Note that decisions on annual rate of renewal levels will be made in Budget 2025 and the length of time agreed being dependent on providing Ministers with comfort about reduction in construction costs.
5.6	Rework the housing delivery pipeline (with HUD and Treasury) to remove the highly inefficient annualised process of approval which leads to an undue focus on 30 June measurement dates. Target four-year rolling commitments by requesting the addition of a fourth year at each annual government budget to better match the dynamics of the construction industry	Budget 2025	Inform the Board that multi year decision paths are dependent on providing Ministers with comfort about reduction in construction costs and the overarching fiscal position.
5.7	Focus financial outcomes on sustaining cash surpluses and over time seek to bring target earnings to interest cover ratio above 1.5x in line with financial scenario endorsed by Ministers	Budget 2025	Kāinga Ora reports a wide range of financial metrics as part of Annual report processes and has internal financial metrics already in place which were used by the previous Board to justify financial sustainability. HUD is of the view, that focusing in on nominal expenditure levels and reducing construction costs is fundamental and high level metrics would only be suitable when Ministers have a greater level of confidence around the achievability of the savings targets incorporated.
5.8	s 9(2)(f)(iv)		



Aide mémoire

MEETING WITH MATT CROCKETT 20 DECEMBER 2024			
To Minister	Hon Chris Bishop	Portfolio	Housing
CC Minister		Portfolio	
Date	18/12/2024	Priority	Medium
Tracking number	HUD2024-005851		

CONTACT FOR DISCUSSION			
Name	Position	Telephone	1st contact
Glenn Phillips	Head of Crown Entity Investment and Performance Monitoring	s 9(2)(a)	✓
Carey Tasker	Manager Crown Entity Monitoring		

OTHER AGENCIES CONSULTED
None



Purpose

1. You are meeting with Matt Crockett, Kāinga Ora Chief Executive on Friday 20 December 2024 at 8:30.

Background

2. HUD Officials have informed Kāinga Ora of the Cabinet decisions in relation to the Turnaround plan (Annex B) and suggest the conversation focuses on the following points.

Importance of March Report Backs

3. The March report backs cover critical elements to ensure that Joint Ministers can approve the renewal programme for 2026/27 and there is an expectation that this presents sufficient confidence on the progress being made.
4. As already covered in the lead up to the Cabinet paper, the focus on savings incorporated into Budget 2024 and reducing total capitalised costs in line with market are front and centre of giving Ministers confidence Kāinga Ora is heading in the right direction.
5. There are two report backs where there has been limited focus to date as part of the turnaround plan which have a significant risk of both impacting OBEGAL and the short term Kāinga Ora deficit track – paused projects and vacant land.
6. Of particular interest is the level of write off's associated with the paused projects as this is likely to directly impact OBEGAL and is a residual impact of past approaches within Kāinga Ora.
7. The majority of paused projects were in feasibility in November 2023 so the sunk costs within these projects are unlikely to have moved significantly since that point in time.
8. A portion of these paused projects would not have proceeded due to financial metrics and other feasibility considerations irrespective of any changes made to delivery expectations.
9. There is an interplay with the objective of reducing construction costs, in that if these costs are not reassessed and written off where appropriate the total capitalised costs of the delivery in 2025/26 and 2026/27 would be higher.
10. It is important to emphasise that Ministers want a clear understanding of the timing of expenditure incurred on each written off project to ensure there is a clear distinction between past costs and the impact of reducing the delivery pipelines.
11. The report back on vacant land will be an extension of the recently released OIA which only covered land purchases from 2017. The report back will suggest



possible approaches to these land holdings that will present an important opportunity to assess how these land holdings could be utilised to advance broader system objectives (e.g. in Rotorua and Hastings).

12. There is a residual risk that significant land sales to reduce asset holdings and debt burden will crystallise further losses through write downs which will need to be carefully managed.¹ Officials are interested in how Kāinga Ora plans to manage this risk given the significant increase in sales activity compared to current levels.
13. Officials recommend that you reiterate to Kāinga Ora that early engagement on all the report backs is essential to ensure any actions committed to by Kāinga Ora are open and transparent to both Ministers and monitoring agencies and that Kāinga Ora proactively engage around Rotorua and Hastings land holdings which are vacant.

Greater Focus on value for money of Urban Development Programmes

14. With the agreement to narrow the focus of Kāinga Ora agreed by Cabinet there are two immediate areas of focus where clear expectations need to be communicated to the Chief Executive.
15. The narrowing of the Large Scale Project scope and approach to Kāinga Ora land programme.
16. These two functions are fully funded from a Kāinga Ora perspective so have no direct impact on their deficit track, therefore have not had a large focus in the turnaround plan, but any savings identified will impact the OBEGAL and Government debt tracks.

s 9(2)(f)(iv)

¹ The write down to market value will go through the revaluation reserve when the property is identified as intended for resale, however, if the resale value subsequently obtained is less than the reassessed value this will impact OBEGAL.



s 9(2)(f)(iv)

Kāinga Ora Land Programme

23. Recently you signed a briefing from Kāinga Ora in relation to the current land holdings within the Kāinga Ora Land Programme. The outstanding actions from the briefing are

a.

s 9(2)(f)(iv)

b.

- 24.

s 9(2)(f)(iv)

Cabinet wants focus on Financial Sustainability and delivery

25. The plan included additional actions targeted towards the broader system changes which although valid are led through other agencies and it is important that Kāinga Ora focus on the critical workstreams in relation to fiscal sustainability.
26. We recommend that you reinforce the message that the primary focus for Kāinga Ora is on fiscal savings and approaches to cost reductions and should prioritise this work in the next six months.
27. We also recommend that you reiterate your expectations that regional delivery of social housing places is essential in places such as Rotorua and want regular transparent updates on progress in these areas.



Annexes

Annex A: Talking Points

Annex B: Cabinet Recommendations



Annex A: Talking Points

- The Cabinet decision in principle to a renewal programme in 2026/27 is heavily dependent on delivering high quality report backs in March next year.
- As already covered in the lead up to the Cabinet paper, the focus on savings incorporated into Budget 2024 and reducing total capitalised costs in line with market are front and centre of giving Ministers confidence Kāinga Ora is heading in the right direction.
- Of particular interest to Ministers are the elements of the report backs which are have not had significant attention to date but have potentially material financial impacts including paused projects, vacant land and the reset of the Large Scale Projects programme to align to the focus of renewal of stock.
- Our expectation is that the Board and Senior Management are working closely with monitoring agencies to provide early visibility of proposed approaches and that these areas where there is significant Government funding attached to them receive the same level of focus as those that directly impact the Kāinga Ora deficit track.
- In terms of paused projects, Ministers want a clear understanding of the timing of expenditure incurred on each written off project to ensure there is a clear distinction between past costs and the impact of reducing the delivery pipelines.
- In terms of vacant land, Ministers want open engagement especially in Rotorua and Hastings about how to advance broader system objectives and an understanding of the approach to divestment including impact on the OBEGAL of any write off's and approach to retention across other land holdings in line with renewal requirements in the short term.
- s 9(2)(f)(iv)
- s 9(2)(f)(iv)
- s 9(2)(f)(iv)
- The Kāinga Ora delivery in Rotorua is of particular importance for the Government response to emergency housing and want regular transparent updates on progress in these areas.



Annex B: Cabinet Recommendations

- a. Agreed in principle to a renewal programme for 2026/27 of
 - i. 1,500 renewals through redevelopment and market acquisitions
 - ii. 400 retrofits of existing properties; offset by
 - iii. 700 demolitions of existing properties to use for future redevelopments; and
 - iv. 800 sales of properties.
- b. Report backs to finalise the renewal programme covering
 - i. progress on maintenance savings
 - ii. write-off risks due to paused projects;
 - iii. an update on vacant land and an overview of next steps;
 - iv. the approach to social housing replacement sales in 2025/26, including geographical locations and typology mixes;
 - v. progress towards reductions in the cost of delivery of social housing for both 2024/25 and 2025/26;
 - vi. s 9(2)(f)(iv)
- c. agreed in principle that Kāinga Ora will not have a role in enabling urban development in the medium term, other than where needed to support the provision or renewal of social housing;
- d. agreed to reduce the scope of Kāinga Ora by:
 - i. transferring KiwiBuild residual underwrite activity to the Ministry of Housing and Urban Development by June 2025;
 - ii. transferring the administration of the Infrastructure Acceleration Fund to the National Infrastructure Funding and Financing Agency by June 2025;
 - iii. winding down the Kāinga Ora Land Programme, with the Minister of Finance and Minister of Housing making decisions on approaches to the existing four land holdings in consultation with the Kāinga Ora Board;
 - iv. redefining the scope of the Large Scale Projects programme run by Kāinga Ora to ensure the primary focus is on enabling social housing renewal requirements and reprioritising investment within this programme on this basis, with any excess funding identified in the resetting investment report back in March 2025;