

In Confidence

Office of the Minister of Finance

Office of the Minister of Housing

Cabinet Economic Policy Committee

Response to the Independent Review of Kāinga Ora: Turnaround Plan

Proposal

- 1 This paper provides a report back on the response to the Independent Review of Kāinga Ora (the Review). The Kāinga Ora Board has now provided Ministers with a Turnaround Plan (Annex A). Based on this plan, Responsible Ministers are seeking agreement to settings that will put Kāinga Ora on a sustainable financial footing, refocusing it on its core purpose, reducing losses and debt, whilst maintaining the number of social houses owned by Kāinga Ora.

Relation to government priorities

- 2 The Review was included in the Government's 100-day plan. Getting Kāinga Ora on track contributes to the Coalition Government's drive to get better value for money from public services and make them fiscally sustainable.

Executive Summary

- 3 Kāinga Ora is an important Crown Entity which has an asset base of \$46.7 billion of property assets around New Zealand, housing 191,000 tenants.
- 4 In December 2023 the government commissioned an Independent Review of Kāinga Ora ("the Review") which found that the entity was underperforming and not financially viable without significant savings. The Review also recommended reviewing the scope and remit of activities of Kāinga Ora to improve transparency and accountability.
- 5 The Government initially responded to the Review by agreeing to refresh the Board of Kāinga Ora, and for that Board to provide Ministers with a financial turnaround plan [CBC-24-MIN-0032] ("Turnaround Plan") by the end of the year.
- 6 The Government also responded to the Review through a range of savings initiatives made through Budget 2024 over three years to June 2027, which involved \$130 million of personnel savings, \$464 million of operating maintenance savings, \$126 million of capitalised maintenance savings, \$96 million of retrofit savings, and \$12 million of travel savings.
- 7 Ministers have now received the Turnaround Plan from the Board, and we seek Cabinet endorsement on a range of settings to bring Kāinga Ora back to financial sustainability.
- 8 The Plan is comprehensive and detailed. The Plan outlines a range of immediate operational and cost improvements within Kāinga Ora, many of which are already underway. The core of the Plan involves an investment scenario which would allow Kāinga Ora to manage its stock of around 78,000 homes (social and supported housing, after current commitments are met) and address the poor quality, end-of-life homes that are expensive to maintain and drive poor tenant outcomes.

- 9 The final part of the Plan involves a range of broader social housing funding settings which Ministers will take further time to consider in the context of our review of all housing funds, of which we will report to Cabinet on in February.
- 10 The plan proposes a programme of around 1,900 - 2,000 construction events per year, made up of approximately 1,500 newly built homes and 400 retrofits of existing homes. This would be offset by demolitions associated with redevelopment activity and Large Scale Projects of around 600 per year, and sales of around 900 per year. This will ensure that the number of Kāinga Ora state houses does not reduce, and that the existing housing stock is refreshed over time.
- 11 The impact of this scenario on the Government's financial forecast (also taking into account Budget 24 savings) is net reduction in deficits of around \$190 million in the current financial year, further reducing the deficit in 2027/28 by around \$354 million compared to the 2023 Pre Election Update.
- 12 With a commitment to reduce construction costs so they are in line with the private sector, the updated plan has debt \$1.8 billion lower in 2027/28 while still maintaining an average age of housing stock of 38 years. The plan has Kāinga Ora debt remaining relatively flat over the same period at around \$21 billion.
- 13 The Board has indicated a preference for a rolling four-year investment horizon of renewals. Given the significant change in approach and reduction in construction costs required, Ministers are proposing Cabinet agree in principle to a one-year extension of the agreed renewal programme to 2026/27 to balance the need to contract activity now with monitoring progress against the plan.
- 14 We propose to consider the rolling four-year investment proposal in 2025, subject the Kāinga Ora report backs on its progress on this plan, and in the context of the housing funds review currently underway.
- 15 To improve organisational performance and to refocus Kāinga Ora on its core role of building, renewing and maintaining social houses and looking after tenants, we also propose a variety of changes to Kāinga Ora's remit and functions. This will involve legislative change.
- 16 s 9(2)(f)(iv)

Background

- 17 Under the previous government, Kāinga Ora (formerly Housing New Zealand) grew rapidly, with debt on its balance sheet rising from \$2.3 billion in 2017/18 to \$16.5 billion in 2023/24. Operating deficits grew from a surplus of \$76 million in 2017/18 to a deficit of \$568 million in 2023/24. Kāinga Ora's housing stock grew from around 62,000 to over 70,600 social houses, although it is worth noting that the social housing register (often referred to as the waitlist) also grew from around 8,700 to 23,000.
- 18 Kāinga Ora's 2023 internal Board approved budget showed a forecast deficit of \$570 million in 2023/24, debt to grow to \$24.8 billion by 2026/27 ¹(outside of the previous government's debt limit for the organisation) and forecast the sale of around 10,000 Kāinga Ora owned houses in the next four years.

¹ The impact incorporated into the Government Fiscal Forecasts was less as the internal budget incorporated assumptions around future Government decisions such as sales which were not agreed at the time.

- 19 As part of the 100-day plan, the Government commissioned the Review [CAB-23-MIN-0011], which found that the entity was underperforming and not financially viable without significant savings. The Review also recommended reviewing the scope and remit of activities to improve transparency and accountability.
- 20 Cabinet agreed to initial steps to respond to the Review in May 2024, which included a refreshed Board, tasked with developing a credible Turnaround Plan to improve financial performance, with a goal of eliminating losses. [CBC-24-MIN-0032].
- 21 The Turnaround Plan specifically notes that “the rapid and recent 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 Kāinga Ora’s own response to these challenges compounded the issue with insufficient focus on fiscal discipline, house build costs outstripping market rates, organisational overheads growing substantially and a widespread loss of community support for Kāinga Ora across New Zealand.”
- 22 Annex B provides an overview of how Ministers are proposing to respond to the remaining recommendations of the Review. The Minister of Housing is seeking the Committee’s endorsement of this approach.

Kāinga Ora Turnaround Plan

- 23 The refreshed Board has made good progress engaging with Ministers on the turnaround plan. They recognise the importance of demonstrating a value for money focus in order to gain support for continued investment in the aging Kāinga Ora housing portfolio (renewals).
- 24 The Board has presented Ministers with a turnaround plan which broadly meets the expectations set out to materially reduce operating losses and manage within the approved debt appropriations. It includes:
 - 24.1 Investment scenarios for renewals of social housing stock and credible divestment approaches
 - 24.2 Actions to reduce the total capitalised costs that are incurred in the social housing programme
 - 24.3 Lower liquidity holdings aligned to a new liquidity policy
 - 24.4 Staffing reductions to align Crown funded activities to Budget 2024 funding decisions
 - 24.5 Implementation plans with actions and measures for the savings proposals incorporated into Budget 2024.
- 25 The Plan covers five key themes:
 - 25.1 Kāinga Ora to be refocused on its core mission: building, maintain and managing quality social housing, and being a good supportive but firm landlord.
 - 25.2 Improved organisational performance with a focus on cost effectiveness – reducing high overheads and leveraging buying power more effectively.
 - 25.3 Improved tenant and community management.
 - 25.4 Improved housing portfolio and build management – better managing the existing KO assets and building or renewing homes as efficiently as the market, including simplifying social housing building specifications and using all available building delivery channels.

25.5 More persistent and sustainable approach to funding and associated settings.

- 26 Updated financial modelling has a materially improved profile to the information that informed the Review and projects a return to surplus in 2036/37. The high-level comparison is below.

\$millions	2024/25	2025/26	2026/27	2027/28
<i>Forecast Deficit pre tax</i>				
2023 Pre Election Update	(779)	(925)	(1,003)	(864)
Turnaround Plan	(588)	(432)	(479)	(510)
Reduction in Deficit	191	407	524	354

\$ millions	2024/25	2025/26	2026/27	2027/28
<i>Debt</i>				
Pre Election Update	18,669	22,463	22,573	22,288
Turnaround Plan	18,407	19,567	20,415	20,504
Reduction in Debt	(262)	(2,896)	(2,158)	(1,784)

- 27 Key to delivering on this financial track is the pace at which Kāinga Ora renew their aging stock and reducing the cost of construction to deliver new homes, as well as delivering Budget 2024 savings associated with personnel and asset maintenance cost reductions.

Renewal of Kāinga Ora stock

- 28 The Board has indicated a preference for a rolling four year investment horizon of renewals. Given the significant change in approach and reduction in construction costs required, Ministers are proposing a shorter extension to the renewal programme to balance the need to contract activity now with monitoring progress against the plan.
- 29 Ministers are proposing that Cabinet agree in principle to a renewal programme for 2026/27 of 1,900 construction events, made up of:
- 29.1 1,500 renewals through redevelopment and market acquisitions
 - 29.2 400 retrofits of existing properties; offset by
 - 29.3 700 demolitions of existing properties to use for future redevelopments and;
 - 29.4 800 sales of properties
- 30 The replacement sales programme will focus in on the following criteria
- 30.1 **High Value:** Older properties in high value areas, typically with restrictive planning rules meaning there is not a cost viable pathway for redevelopment, and the capital raised can be used to provide multiple other houses in different areas.
 - 30.2 **Not fit for purpose:** Where either the asset condition, configuration or location mean the asset cannot provide the service level required for tenants.
 - 30.3 **Surplus to requirements:** Assets where there may not be a need for this typology, type of property or other reason based on forecast demand in the location going forward.

- 30.4 **Uneconomic to Retain:** Assets where the costs to keep it in service do not make financial sense and it is more cost effective to divest the property and acquire a new one.
- 31 This renewal programme will keep the Kāinga Ora housing stock stable at around 78,000 homes (social and supported housing, after current commitments are met).
- 32 Importantly, this approach retains the ability to increase the level of Kāinga Ora stock by reducing the level of replacement sales or demolitions in future Budgets if Cabinet want to consider doing so.

Construction costs

- 33 The Board has advised Ministers that in the past, Kāinga Ora been building houses for approximately 12% more than market comparisons. The Board has already identified actions to reduce the total construction costs including:
 - 33.1 Removing the requirement to achieve Homestar certification
 - 33.2 Designing and implementing optimised house and apartment design plans including size of kitchen, dining and living area which optimise materials usage and labour efficiency.
 - 33.3 Completing detailed reviews of requirements and identifying a large number of small cost optimisations.
 - 33.4 Improving the site selection process to reduce civils and foundation costs and improve yield
 - 33.5 Being more selective about which projects proceed, including what can be acquired from the market.
- 34 The Board has identified a series of further actions (4.2, 4.3, 4.5, 4.7 in Annex A) as part of the turnaround plan to ensure the costs savings are realised focusing in on benchmarking, refreshed financial metrics and approaches to extracting costs from the social housing construction.
- 35 The realisation of these construction costs reductions is critical to achieving the financial forecasts embedded in the plan and for this reason Ministers are proposing a report back to Joint Ministers in March 2025 on the progress made to date.

Delivering Budget 2024 savings

- 36 Kāinga Ora has already actioned savings projects and the Board is leading a change of culture that understands value for money as a priority. Specifically, Kāinga Ora has:
 - 36.1 Implemented change proposals that has commenced a reduction in the budgeted staffing level of Kāinga Ora by circa 1,000 FTE's from around 4,000 staff to around 3,000 staff
 - 36.2 Reduced maintenance costs for this current financial year of approximately \$50 million by tightening controls
 - 36.3 Pipeline projects being reassessed for financial feasibility before proceeding

- 36.4 Engaged with Responsible Ministers on options around Kāinga Ora Land Programme holdings.
- 37 The plan outlines further actions the Board is proposing to undertake to deliver on asset management and maintenance savings commitments and mitigate risks raised in the external assurance review to ensure budgeted savings are delivered (Action 2.1).
- 38 Due to the residual risk identified of achieving the full amount of maintenance savings from 2025/26 onwards, Ministers propose a report back in March 2025 on the progress towards these savings.

Monitoring the plan

- 39 The plan provides a clear set of steps forward, however, the implementation of these changes will take time and there are several risks which need to be managed and monitored to ensure the financial impact is front and centre over the next two years.
- 40 The critical risks identified in the plan are:
- 40.1 Sufficiently reducing total costs of construction
 - 40.2 Achieving replacement sales volumes and prices over time
 - 40.3 Delivering agreed cost savings (in particular asset maintenance savings from 2025/26 onwards)
 - 40.4 Write offs associated with projects that have been assessed for feasibility since the updated Letter of Expectations was issued.
- 41 To provide Ministers with assurance that the plan put forward by the Board are on track we intend to request a report back on the following by March 2025:
- 41.1 Progress on maintenance savings;
 - 41.2 Write-off risks due to paused projects;
 - 41.3 An update on vacant land and an overview of next steps;
 - 41.4 The approach to social housing replacement sales in 2025/26 including geographical locations and typology mixes;
 - 41.5 Progress towards reductions in the cost of delivery of social housing for both 2024/25 and 2025/26.
 - 41.6 s 9(2)(f)(iv)

Narrowing the scope and remit of Kāinga Ora (Review rec 5c)

- 42 The Review identified that consideration of the scope of Kāinga Ora would be beneficial to ensure the organisation can focus on its core role of being an efficient and effective social housing landlord.
- 43 Since Budget 2024 decisions to reduce the appropriation for urban development functions undertaken by Kāinga Ora from \$22.8m in 2024/25 to \$7.8m for 2025/26 and 2026/27, the Board has already scaled back a number of its urban development roles such as facilitating

housing and urban development outcomes in priority development areas, and submitting on plan changes under the Resource Management Act.

- 44 For these changed activities, Ministers will be consulted on an updated Statement of Performance expectations for 2025/26 to reflect these decisions made by the Board.
- 45 The Board and HUD Officials have also investigated what functions could be transferred from Kāinga Ora without need for legislative change and in this regard Ministers are seeking Cabinet approval to:
- 45.1 Transfer KiwiBuild residual underwrite activity to the HUD by June 2025
- 45.2 Transfer the administration of the Infrastructure Acceleration Fund to the National Infrastructure Funding and Financing Agency by June 2025.
- 45.3 Wind down the Kāinga Ora Land Programme with Ministers making decisions on approaches to the existing four land holdings.
- 45.4 Redefining the scope of Large Scale Projects programme run by Kāinga Ora to ensure the primary focus is on enabling social housing renewal requirements and reprioritise investment within this programme on this basis with any excess funding identified in the resetting investment report back in March 2025.
- 46 The Minister of Housing has commissioned HUD to provide advice in 2025 on the long-term roles for Government in supporting urban development, and where they should sit, once Going for Housing Growth and Resource Management reforms are further progressed.
- 47 These changes will be the vehicle through which the Minister of Housing will seek all urban development activity that is not related to the renewal of social housing are removed from Kāinga Ora with changes made to the Kāinga Ora – Homes and Communities and Urban Development Acts.
- 48 In the meantime, there are some quick wins that we can progress while we consider long-term changes including:
- 48.1 Repeal the Operating Principles under section 14 of the Kāinga Ora – Homes and Communities Act 2019. The operating principles in the Act have driven complexity and costs, and there are a range of other mechanisms under the Crown Entities Act to give direction to Kāinga Ora.
- 48.2 Repeal section 10(1) of the Kāinga Ora - Homes and Communities Act 2019 to allow the Board to have fewer members (6-10 members rather than the current 8-10 members) and to remove the detailed list of necessary skills for Board members in section 10(2).
- 48.3 Repealing references to Kāinga Ora in relation to the Government Policy Statement where it creates opportunities for broad interpretation of mandate around urban development activities.
- 48.4 s 9(2)(f)(iv)

Next steps

- 49 The Minister of Housing intends to report back to Cabinet on the remaining recommendations covering:
- 49.1 Resetting Government Investment in Housing in March 2025

- 49.2 Delivering Better Social Housing in June 2025 covering the broader housing system approach including moving to a social housing investment approach
- 49.3 Role of government in urban development and approach to delivery by November 2025

Financial Implications

- 50 The Turnaround plan delivered by the Board provides a way forward to improve the fiscal performance and sustainability of Kāinga Ora compared to the forecasts in the Pre-Election Update that was the basis of the Independent Review.

Legislative Implications

- 51 Subject to Cabinet agreement, changes will be made to the Kāinga Ora – Homes and Communities Act 2019 as a result of this paper.

Impact Analysis

Population Implications

- 52 Populations that are disproportionately represented in social housing (including Māori, Pacific, and sole parents) will be positively impacted by improving the performance of Kāinga Ora social housing provision.

Consultation

- 53 This paper has been prepared by HUD. Treasury were consulted.

Proactive Release

- 54 Following announcement of the reset of Kāinga Ora, I intend to proactively release this Cabinet paper.

Recommendations

The Minister of Finance and Minister of Housing recommends that the Committee:

- 1 **Note** that in May 2024, Cabinet agreed the Government’s response to the Independent Review of Kāinga Ora, and agreed to refresh the Kāinga Ora Board, issue a new direction, and for the new Board to present a turnaround plan by November 2024 [CBC-24-MIN-0032].
- 2 **Note** that the Board has delivered the turnaround plan that meets the expectations set out in the Letter of Expectations.
- 3 **Note** that the plan shows 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 Budget 2024 Economic and Fiscal Update.
- 4 **Agree in principle** that Minister of Finance and Minister of Housing set expectations for Kāinga Ora of a renewal programme for 2026/27 of
 - 1,500 renewals through redevelopment and market acquisitions
 - 400 retrofits of existing properties; offset by
 - 700 demolitions of existing properties to use for future redevelopments and;
 - 800 sales of properties.

- 5 **Delegate** to the Minister of Finance and Minister of Housing to finalise the renewal programmes for 2026/27 above upon the completion of a report back in March 2025 which will provide an opportunity to validate the progress being made and help inform final decisions for Ministers on the level of renewal activity Kāinga Ora should undertake post 2026/27.
- 6 **Agree** the report back will cover:
- Progress on maintenance savings;
 - Write-off risks due to paused projects;
 - An update on vacant land and an overview of next steps;
 - The approach to social housing replacement sales in 2025/26 including geographical locations and typology mixes;
 - Progress towards reductions in the cost of delivery of social housing for both 2024/25 and 2025/26.
 - s 9(2)(f)(iv)
- 7 **Note** that the plan assumes an ongoing level of sales in later years to fund replacement activity.
- 8 **Note** that Ministers will have the opportunity to reduce the level of sales activity each Budget if agreed through funding growth in Social Housing places if desired.

Scope and Remit:

- 9 **Note** that, in line with the Government's intention that Kāinga Ora focus on core functions and Budget 24 decisions, Kāinga Ora has already scaled back a number of its urban development roles.
- 10 **Agree 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.
- 11 **Agree** that the Minister of Housing will report back to Cabinet seeking formal decisions on the role of Government in urban development later in 2025, including formalising the removal of Kāinga Ora urban development functions and setting out where any functions should reside.
- 12 **Agree** to reduce the scope of Kāinga Ora by:
- 12.1 Transferring KiwiBuild residual underwrite activity to the HUD by June 2025
 - 12.2 Transferring the administration of the Infrastructure Acceleration Fund to the National Infrastructure Funding and Financing Agency by June 2025.
 - 12.3 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 with consultation with the Kāinga Ora Board
 - 12.4 Redefining the scope of Large Scale Projects programme run by Kāinga Ora to ensure the primary focus is on enabling social housing renewal requirements and reprioritise investment within this programme on this basis with any excess funding identified in the resetting investment report back in March 2025.

- 13 **Authorise** the Minister of Finance and the Minister of Housing jointly to agree any policy decisions and appropriation changes to give effect to Recommendation 12 above.
- 14 **Agree** that changes are made to the Kāinga Ora Homes and Communities Act to
- 14.1 Remove the operating principles
- 14.2 Remove references to Kāinga Ora in relation to the Government Policy Statement where it creates opportunities for broad interpretation of mandate around urban development activities
- 14.3 Reduce the minimum Board size to 6-8 to align to other Crown Entity Boards
- 14.4 Clarify the specifications of capabilities for Board members
- 14.5 s 9(2)(f)(iv)
- 15 **Endorse** the proposed approach to addressing the system-level recommendations from the Independent Review of Kāinga Ora set out in Annex B.

Authorised for lodgement

Hon Nicola Willis
Minister of Finance

Hon Chris Bishop
Minister of Housing

Appendix A: Kāinga Ora Turnaround Plan and Letter from Chair

Annex B: Review response implementation table

	Recommendation	Work programme	Cabinet decisions to date	Next step
1	To strengthen government accountability for social housing outcomes, Cabinet considers consolidating government funding for housing outcomes under the Minister of Housing, who will be supported by the Ministry of Housing and Urban Development to administer that funding on behalf of the Crown, together with expectations of formal reporting of outcomes by a third party.	Resetting investment	<p>Agreed targeted changes to funds and programmes, and these principles for investment in July 2024:</p> <ol style="list-style-type: none"> 1. optimise value for money, sustainably delivering on the Government's fiscal, economic and social objectives. 2. Increasing supply where this complements Going for Housing Growth policy to improve ownership and rental affordability over the medium to long term. 3. Applying a social investment approach. 	Cabinet paper in March 2025.
2	The Minister of Housing directs HUD to become an active purchaser that takes a social investment approach to cost-effectively improving housing outcomes.	Resetting investment		Cabinet paper in March 2025.
3	To better enable tenants and local communities to meet their diverse housing needs and aspirations, government policy and investment builds on the advancements made in place-based and specialised approaches to increase local decision making regarding the management and ownership of housing.	Better Social Housing	-	The Minister of Housing intends to report back to Cabinet in early 2025.
4	<i>To increase choice, diversity, and innovation, the government enables more providers to participate in the provision of social housing by</i>			
4a	The purchaser contracting with Kāinga Ora in a similar manner that it does with CHPs	Resetting investment	Agreed in May 2024	Will be implemented following Cabinet's decisions on the remit and turnaround plan for Kāinga Ora set out in this Cabinet paper.
4b	Addressing barriers in order to increase provision of social housing by CHPs, Iwi and Māori, and other providers	Better Social Housing	Cabinet noted and agreed a range of options that the Ministers of Finance and Housing will progress to remove barriers to Community Housing Providers in November 2024.	The Minister for Housing to report back to Cabinet in 2025 on the progress of developing options for a financing intervention.
4c	Ensuring the funding model incentivises delivery where needed and is responsive to the different needs of tenants	Resetting investment	As per recommendations 1 and 4b above.	Cabinet paper in March 2025.
4d	Implementing alternative delivery models based on local decision-making and specific tenant needs, with pathways for communities to manage Kāinga Ora housing stock	Better Social Housing	-	As per recommendation 3 above.
5	<i>To ensure that Kāinga Ora has the leadership and mandate to effectively implement the recommendations of the Review, responsible Ministers</i>			
5a	Refresh the Kāinga Ora Board	Monitoring	Agreed in May 2024	Business as usual monitoring continues
5b	Issue simplified government expectations and direction to Kāinga Ora	Monitoring	Agreed in May 2024	The agreed credible turnaround plan will inform the next LOE and SPE.
5c	Report back to Cabinet with options to narrow the scope of Kāinga Ora activities to social housing, including the option of designating Kāinga Ora as a Crown Company under Schedule 4A of the Public Finance Act 1989 with social and financial objectives.	Better Social Housing and Going for Housing Growth	This Cabinet paper seeks agreement to narrow the scope of Kāinga Ora activities. Ministers do not recommend establishing Kāinga Ora as a Schedule 4a company at this time as recommended in the Review. Ministers will require clear oversight to enable increased local decision making and alternative delivery models, including clear monitoring and accountability. We consider that this is best achieved for the time being if Kāinga Ora remains as a Crown Entity.	Subject to Cabinet agreement, necessary changes to legislation, expectations and directions will be made.

6	Responsible Ministers set an expectation that the Board will develop a credible and detailed plan to improve financial performance with the goal of eliminating losses.	Monitoring	Agreed in May 2024. This Cabinet paper seeks agreement to the key aspects of the turnaround plan and associated financial implications to the Crown.	Subject to Cabinet agreement, necessary changes to legislation, expectations and directions will be made.
7	Timeframes for recommendations above.	N/A	None	Superseded by timeframes within the broader housing portfolio work programme.