Kāinga Ora
Homes and Communities

Waterloo Quay Office
PO Box 2628, Wellington 6140

0800 801 601
www.kaingaora.govt.nz

16 April 2025

[redacted] s 9(2)(a)

Dear [redacted] s 9(2)(a)

Thank you for your request of 19 March 2025 to Kāinga Ora – Homes and Communities for the following briefings under the Official Information Act 1982 (the Act):

- *Kainga Ora Turnaround Plan*
- *Update on Kāinga Ora Organisational Health Index (OHI) Survey results on the Kāinga Ora – Homes and Communities Status Report for period 21 February – 28 February 2025*
- *Organisational Health Index Survey on the Kāinga Ora – Homes and Communities Weekly Report for period ending 8 November 2024*

  And also the following letters from Minister Willis:

- *21 June 2024 Updated Letter of Expectations for Kāinga Ora – Homes and Communities*
- *14 August 2024 Updated Letter of Expectations for Kāinga Ora – Homes and Communities*

I have provided responses to your questions below.

- ***Kainga Ora Turnaround Plan***

Note at the outset that Kāinga Ora refers to the Turnaround Plan as the Reset Plan. Your request for the Kāinga Ora Turnaround Plan **(also known as the Kāinga ora Reset Plan)** is refused in part under section 18(d) of the Act on the basis that the information requested is publicly available here: [Turnaround plan.pdf]

I am however releasing in part and attaching the letter of 20 November 2024 from Simon Moutter, Kāinga Ora Board Chair to Hon Christopher Bishop, Minister of Housing and Hon Nicola Willis, Minister of Finance, that was sent to the Ministers together with the Turnaround Plan.

Some information within the letter is being withheld under section 9(2)(f)(iv) of the Act to *"maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials"*. In terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the withholding of information under section 9 is not outweighed by other considerations that render it desirable to make the information available in the public interest.

- ***Update on Kāinga Ora Organisational Health Index (OHI) Survey results on the Kāinga Ora – Homes and Communities Status Report for period 21 February – 28 February 2025***

I am releasing to you in part as an excerpt under 16(1)(e) of the Act, the *Update on Kāinga Ora Organisational Health Index (OHI) Survey results* on the Kāinga Ora – Homes and Communities Status Report for period 21 February – 28 February 2025 which is attached.

- ***Organisational Health Index Survey on the Kāinga Ora – Homes and Communities Weekly Report for period ending 8 November 2024***

I am releasing to you in part as an excerpt under 16(1)(e) of the Act, the *Organisational Health Index Survey* on the Weekly Report Kāinga Ora – Homes and Communities for the period ending 8 November 2024.

- ***And also the following letters from Minister Willis:***
    - ***21 June 2024 Updated Letter of Expectations for Kāinga Ora – Homes and Communities***
    - ***14 August 2024 Updated Letter of Expectations for Kāinga Ora – Homes and Communities***

Your request for the Ministers Letter of Expectations for Kāinga Ora – Homes and Communities dated 21 June 2024 and 14 August 2024 is refused in full under section 18(d) of the Act on the basis that the information requested is publicly available here: Minister's Letter of Expectation :: Kāinga Ora – Homes and Communities

You have the right to seek an investigation and review by the Ombudsman of this response. Information about how to make a complaint is available online at www.ombudsman.parliament.nz or by phone on 0800 802 602.

Please note that Kāinga Ora proactively releases our responses to official information requests where possible. Our response to your request may be published at https://kaingaora.govt.nz/publications/official-information-requests/ with your personal information removed.

Yours sincerely

Rachel Kelly
Manager, Government Services

Kāinga Ora
Homes and Communities

Waterloo Quay Office
PO Box 2628, Wellington 6140

0800 801 601
www.kaingaora.govt.nz

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

Waterloo Quay Office
PO Box 2628, Wellington 6140

0800 801 601
www.kaingaora.govt.nz

market rates[1], 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 78,000[2] 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 tenants[3] 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 delivery[4]. 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.

Waterloo Quay Office
PO Box 2628, Wellington 6140

0800 801 601
www.kaingaora.govt.nz

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-date[6], 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 results[7]. 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

Kāinga Ora
Homes and Communities

Waterloo Quay Office
PO Box 2628, Wellington 6140

0800 801 601
www.kaingaora.govt.nz

- 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
Core versus non-core activities	***Provide feedback*** 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)
Recommended investment approach	***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.
Asset recycling approach	***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 the same number of new fit-for-purpose replacement homes.
Confirmed investment cycle	***Confirm*** 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) [redacted]	

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.

Kāinga Ora
Homes and Communities

Waterloo Quay Office
PO Box 2628, Wellington 6140

0800 801 601
www.kaingaora.govt.nz

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.

Kāinga Ora
Homes and Communities

Waterloo Quay Office
PO Box 2628, Wellington 6140

0800 801 601
www.kaingaora.govt.nz

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

Information provided as an excerpt under section 16(1)(e) of the Official Information Act 1982

Kāinga Ora – Homes and Communities Status Report for period 21 February – 28 February 2025

Update on Kāinga Ora Organisational Health Index (OHI) Survey results

In our 20 December 2024 Status Report, we shared that we were analysing our November 2024 Organisational Health Index (OHI) survey results. 2,572 Kāinga Ora employees responded to the survey. The Organisational Health Workstream is part of a wider programme of work to transform various elements of Kāinga Ora and has been built to meet the requirements of the Turnaround Plan.

High level findings have been presented back to the organisation via an organisation-wide online session as well as an article posted to our intranet. This includes a summary OHI results report for people.

Kāinga Ora has an overall health score of 52 placing us in the bottom quartile of the public sector benchmark; a 9-point decrease from 2020.

The following focus areas have been agreed as a focus for the 'Organisational Health Workstream', which will work to improve scores over the next year.

- We will build critical capabilities to improve delegation and empowerment while significantly strengthening financial and risk management practices;

- We will implement a new performance management approach with our people to help clarify accountabilities and improve performance management, with fair and consistent consequence management;

- and will elevate focus on the needs of our customers and on building more open, innovative industry partnerships.

Information provided as an excerpt under section 16(1)(e) of the Official Information Act 1982

Weekly Report Kāinga Ora – Homes and Communities for period ending 8 November 2024

Organisational Health Index Survey

We are running an Organisational Health Index (OHI) Survey from Tuesday, 12 November to Monday, 25 November. This survey will provide useful insights into what staff perceive as the key strengths, weaknesses and areas for additional, targeted improvement at Kāinga Ora. These will help identify the leadership and cultural elements that will contribute to Kāinga Ora becoming a high performing organisation.

Kāinga Ora will use the same survey tool provided by McKinsey for Housing New Zealand (2016) and Kāinga Ora (2020). The insights from the survey will be considered and applied, where appropriate, to actioning the Reset Plan recommendations. In line with best practice, survey responses will be collected confidentially and summarised into a report for Kāinga Ora by McKinsey.

We intend to share the high-level results of the findings with staff before the end of the year and stand up a dedicated team in early 2025 to take action on the areas that show the most potential for targeted improvement. We have also informed the Public Service Association about the survey and our External Communications team are prepared should we receive any media interest.