Kāinga Ora
Homes and Communities

Waterloo Quay Office
PO Box 2628, Wellington 6140

0800 801 601
www.kaingaora.govt.nz

16 December 2024

s 9(2)(a)
[redacted]

[redacted]

I write in response to your request dated 19 November 2024, for information under the Official Information Act 1982 (the Act):

- *All correspondence, including letters and emails, that Kāinga Ora has sent or received regarding asset recycling or sales at Kāinga Ora, since 27 November 2023.*
- *All correspondence, including letters and emails, that Kāinga Ora has sent or received regarding asset recycling or sales at Kāinga Ora, since 27 November 2023.*
- *All briefings, memos, aide-memoires, or any other documents regarding asset recycling or sales at Kāinga Ora, since 27 November 2023.*
- *All briefings, memos, aide-memoires, or any other documents regarding asset recycling or sales at Kāinga Ora, since 27 November 2023.*

On 2 December 2024, you clarified your request to:

- *Any correspondence (digital or hardcopy) between the Minister of Housing or his office and Kāinga Ora Leadership Team or Board regarding asset sales or asset recycling since 27 November 2023.*
- *Any papers that have gone to the Board of Kāinga Ora regarding asset sales or asset recycling since 27 November 2023.*
- *All briefings, memos, aide-memoires, or any other documents regarding asset recycling or sales at Kāinga Ora, since 27 November 2023 that have been prepared for the Minister of Housing and/or the Board.*

There are two items of correspondence in scope of your request:

- 9 April 2024 - Letter to John Duncan Acting Chair, Response to Kainga Ora Contribution to Financial Sustainability

- 29 April 2024 - Letter from John Duncan in response to 9 April letter

These are attached in full. A search of our system for emails with key words "asset sales" or "asset recycling" to and from parliament.govt.nz addresses returned no results.

On 22 November 2024 Kāinga Ora sent one email to the Minister's Office regarding sales. This is attached. Some information has been withheld under the following sections of the Act:

- 9(2)(a) to protect the privacy of natural persons
- 9(2)(f)(iv) to maintain constitutional conventions for the time being which protect the confidentiality of advice.

Kāinga Ora
Homes and Communities

Waterloo Quay Office
PO Box 2628, Wellington 6140

0800 801 601
**www.kaingaora.govt.nz**

Over the two years to 30 June 2026, Kāinga Ora will be adding 2,650 homes to its portfolio and renewing around 3,000 homes through replacement or significant renovation. We will be increasing social housing where we are asked to deliver homes, and improving existing homes to ensure we have the right size and type of properties that are suitable for the people who live in them.

Asset recycling is a key part of being a prudent asset owner and will be a critical to how we renew our portfolio while ensuring we stay within our debt cap. It will see Kāinga Ora strategically sell some properties and land that don't meet our current or future needs to invest in better quality homes for the people that live in them.

It is important to note this is not new activity for Kāinga Ora and we are not reducing the number of homes we own. For each existing social home sold, a newly built home is delivered elsewhere. It is about increasing the performance and quality of the overall Kāinga Ora portfolio and delivering homes that better match the changing needs of those who live in them – both now and in the future.

Advice to the Board and Minister about asset recycling or asset sales is withheld in full under section 9(2)(f)(iv) to maintain constitutional conventions for the time being which protect the confidentiality of advice tendered.

You have the right to seek an investigation and review by the Ombudsman of this decision. There is Information about how to make a complaint at https://www.ombudsman.parliament.nz or by freephone on 0800 802 602.

Nāku iti noa, nā

Gareth Stiven
**General Manager – Strategy, Finance and Policy**

**Hon Nicola Willis**

Minister of Finance
Minister for the Public Service
Minister for Social Investment
Associate Minister of Climate Change



John Duncan
Acting Chair
Kāinga Ora – Homes and Communities
john_1.duncan@kaingaora.govt.nz

Dear Acting Chair,

**RESPONSE: KĀINGA ORA CONTRIBUTION TO FINANCIAL SUSTAINABILITY**

Thank you for your letter of 22 March 2024 outlining how Kāinga Ora – Homes and Communities (Kāinga Ora) is planning to give effect to the Government's Fiscal Sustainability Programme, as well as further opportunities for savings.

We are writing to you as the Responsible Ministers for Kāinga Ora to set out our joint response to your letter and set additional expectations. This is an interim letter that expands on the expectations set in our letters of 18 March 2024 and 18 December 2023. We expect to issue an updated letter in response to the Kāinga Ora Independent Review recommendations.

This letter should inform your April BEFU 2024 submission and the preparation of your 2024/25 Statement of Performance Expectations.

*Kāinga Ora Budget*

We were very alarmed to learn that the budgets approved by the Kāinga Ora Board incorporated assumptions that the Government would automatically approve significant additional debt and operating funding.

To say this is unacceptable is an understatement. We are aware that in December 2023 the Board approved a Budget which explicitly forecast the entity exceeding the borrowing limit set for it by the government. We would like to emphasise that the total funding and financing approved is a policy decision by the Government, and we expect Kāinga Ora plans to reflect this. Our expectation was, and remains, that this would result in the forecasts approved by the Board aligning with the forecasts shared with the Government at each Economic and Fiscal Update.

For total clarity, the Government approved further lending of up to $10.574 billion to Kāinga Ora from July 2023 onwards. Kāinga Ora closing debt at June 2023 was $12.336 billion. This means the borrowing limit for Kāinga Ora is $22.910 billion. Disregard previous communications regarding the borrowing limit.

We also understand that in the May 2023 and December 2023 budget update, the Board did not review the Kāinga Ora Statement of Financial Position. We find this incomprehensible. The Board should be aware of its statutory obligations, which include ensuring that Kāinga Ora operates in a financially responsible manner. We expect that the Board will review a full set of financial statements in every budget pack moving forward.

*Renewals Programme*

We understand that Kāinga Ora's current Budget assumes gross builds of around 4,500 every year, and that the growth in homes will be offset with sales of over 3,100 homes each year.

We do not think it realistic nor is it an agreed Government position that Kāinga Ora will sell 3,100 homes each year, considering Kāinga Ora has sold fewer than 100 homes each year so far in the recent past.

We expect that a realistic sales pipeline is used. We would like to reiterate that the renewals and build programme must operate within approved debt limits.

Once the Independent Review of Kainga Ora has been received and digested by the government, we expect to communicate further with you about renewals and sales.

*Savings opportunities outlined in your letter*

We note you have incorporated operating savings for personnel and maintenance (section 1 of your letter) into your preliminary BEFU 2024 submission and signalled further savings of $42 million that will be incorporated into your final forecasts. Those savings will inform our savings and spending decisions through Budget 2024.

We expect that over the next year you continue to identify further opportunities to get your cost base down through improving efficiency and slowing down or stopping elements of your work programme that are not providing value for money.

We also note that you have provided limited information on the likelihood these savings will be realised, and limited information on associated risks. We are concerned that your proposed savings may not come to fruition. The Board is accountable for achieving the savings proposed, and we suggest that you put in place the appropriate governance to ensure the savings are realised at the level you have signalled in your letter and where possible they are accelerated.

*Further savings opportunities via Budget 2024*

We note the further opportunities you have identified to reduce operating and capital savings in sections 3 and 4 of your letter.

We have not had sufficient time or information to consider the feasibility and risks of the opportunities to reduce the build costs. We will consider these and may provide further expectations following advice from the Kāinga Ora Independent Review. In the interim, we expect you to use your best judgement on the feasibility and risks of these opportunities in finalising your renewed budget, and that you continue to consider the Crown's priority for fiscal sustainability.

*Resubmitting your fiscal forecasts to the Treasury*

We ask that you ensure Kāinga Ora submits its April BEFU fiscal forecasts to the Treasury by 11 April 2024, reflecting the expectations set out above. We expect that the submission will align with the new Board-approved budget and decisions and expectations we have outlined in this letter.

We trust these expectations will help you focus the Board's governance work and ensure there is clarity on what Kāinga Ora is able to deliver within the existing Government approved policies and funding and financing.

Following the Kāinga Ora Independent Review and Cabinet consideration of Budget 2024 decisions we expect to communicate further expectations to you.

Yours sincerely

Hon Nicola Willis
**Minister of Finance**
9 / 4 / 24

Hon Chris Bishop
**Minister of Housing**
9 / 4 / 2024

Cc: Hon Tama Potaka, Associate Minister of Housing (Social Housing)

Cc: Andrew Crisp, Chief Executive Ministry of Housing and Urban Development

Cc: Caralee McLeish, Secretary and Chief Executive - The Treasury

Kāinga Ora
Homes and Communities

Waterloo Quay Office
PO Box 2628, Wellington 6140

0800 801 601
www.kaingaora.govt.nz



29 April 2024

Hon Nicola Willis
Minister of Finance
Hon Christopher Bishop
Minister of Housing

Dear Ministers

Thank you for your letter dated 9 April regarding Kāinga Ora contribution to financial sustainability and the subsequent meeting with myself, Andrew Crisp, Leilani Frew and other officials. The Board have noted your comments and set out below some additional information that explains the budget approach taken and corrects some misunderstandings.

## Approval of Kāinga Ora budgets

1. The May budget does assume we have access to additional debt finance to continue our renewals programme. At the time of finalising the Crown Budget, debt allowances for renewals had been approved for the first three years only.
2. However, at no time was there any assumption "that the Government would automatically approve additional debt and operating funding":
   - The budget papers referred to, state that funding settings have not been confirmed, and specifically state it was *'dependent on the Crown agreeing to further lifts in funding & finance settings'.*
   - The Board's budget does not assume additional operating funding for new IRRS places.
   - No financial or other commitments have been made that would see Kāinga Ora exceeding any approved levels of funding or financing from the Crown.
3. Long-life assets require long-term thinking and commitment to a well-planned maintenance and renewal approach. Our asset management strategy incorporates a 60-year investment horizon. Planning, delivery, and maintenance of these assets exceeds the annual budget process and four-year forecast period. This can and has, led to a timing mismatch between debt financing allowances and delivery of Asset Management Plans.
4. While these final-year debt numbers were moderated for the HYEFU and BEFU submissions to stay within approved limits, we will ensure that future Kāinga Ora budgets fully align with government funding and financing settings.

## Debt limits

5. The Board actively considers financial projections of debt under multiple scenarios, to inform discussions with the Crown on the financial track for the organisation depending on decisions on quantum and timing of activity. This is wholly appropriate.
6. This is the first year where we have been required to present a budget under the new financing arrangements with a debt cap and financing fully sourced from the Debt Management Office (DMO) under an appropriation. We have engaged with the Ministry of Housing and Urban Development (HUD) and Treasury to ensure we are adopting the correct approach, sharing all information, assumptions and approaches taken.

7. Furthermore, when we shifted to financing via DMO, the Treasury advised that it would not affect our ability to raise debt to meet renewal obligations in accordance with our Asset Management Plan.
8. There has **never been an assumption that there will be an automatic approval of additional debt** since inception of the borrowing programme in 2016. We were signalling to Ministers where our financial position is heading under the current settings, to inform the approval decision required.
9. Both our monitoring agencies have always had, and continue to have, access to our budget information and assumptions. We feel these concerns could have been better picked up and addressed through a different forum.

## Board review of the Statement of Financial Position

10. When developing budgets **the Board follows an extensive process, including reflecting government direction**, agreeing the economic (and other) assumptions that drive our forecasts, identifying key issues and risks including to financial sustainability, and testing financial performance through a range of options and sensitivity tests.
11. We also consider a long-term outlook based on a 60-year model that provides a critical long-term view on the implication of decisions and investments – including **traversing balance sheet implications and risks**.
12. **The formal Statement of Financial Position was reviewed and signed off** as part of our SPE approval process at the June board meeting.
13. Management will include the full set of draft financial statements in future budget packs.

## Replacement sales assumptions

14. As you are aware, post June 2025, there is no further funding for additional IRRS places. This is not unique, in 2018 we were given a four-year target to 2022. This was extended in 2020 and again in 2023. Each instance required us to make assumptions about possible levels of activity in years beyond those included in the targets.
15. These cliffs mean we have had to balance managing within approved budgets, while also retaining capacity to respond quickly to requests for additional homes (as happened in both Budget 2022 and Budget 2023). In practice it takes significant time and investment to deliver homes at the levels we are delivering today[1], and this cannot be effectively done with short term, off-and-on funding.
16. Our solution to the lack of certainty around the Public Housing Plan, has been to retain our build capacity, but to divert it into accelerating the renewal of our housing stock. This involves retrofitting homes, and building new homes offset by demolitions and replacement sales to keep overall stock numbers the same. Relatively **significant replacement sales have been a feature of our budgets and long-term financial plan for several years**[2]. The sales in our budget have always been provisional pending clarity on the government's growth intentions.
17. This is a symptom of a mismatch between the funding certainty required for a long-life asset owner at a peak investment period where both renewal of assets and growth has been expected, and the short-term commitments made through the government decision making processes which, while being a fact of life, act as a constraint to good practice.
18. While replacement sales have been included in our budget and planning documents for several years, they have not been executed as we have been asked to continually grow our portfolio across New

[1] We expect to deliver approximately 4,700 homes this year.
[2] See, for example BN 21 026 "Retrofit progress report"; BN 22 015 "Financial sustainability"; Briefing to Incoming Minister (October 23).

Zealand. This means the volume of replacement sales that we could complete each year is untested. However, we are comfortable with the replacement sales target of ~3,000 homes per annum.[3]

19. This replacement sales programme would be at competitive price points and open up home ownership to a lot more New Zealand households. It is consistent with the Housing Minister's approach of building more homes for New Zealanders.

## Savings assumptions

20. We are setting a significant challenge for the organisation to achieve our projected savings and acknowledge there is risk with these. We are unapologetically ambitious to drive the change needed to maximise the value/outcomes from the Crown's investment in housing.
21. The governance, monitoring and tracking of the savings programme is important and we have introduced a very structured transformation process, with dedicated governance structures, detailed project plans and the right expertise in place to deliver the cost reductions. The Board is updated monthly on progress and is confident that the considerable savings forecast across home construction, maintenance, people and a number of corporate areas will be achieved.
22. This will become a feature of our reporting to shareholding Ministers and monitoring agencies through our quarterly reporting requirements, alongside any specific or more detailed briefings that may be requested.
23. This will be detailed and thorough, providing visibility on the actions required/changes made to give effect to the savings.
24. The CE and Management are clear about this expectation from the Board.
25. We have not been asked to provide further detail on these programmes but are happy to do so if that will assist.

I trust that this response addresses the concerns raised in your letter. We note that many of these issues relate to ongoing systemic challenges, which we have been raising for a number of years. We would welcome the opportunity to share our perspective and believe a robust and regular dialogue with shareholding Ministers is essential.

I or the Board are available at any time to discuss these issues further.

Yours sincerely

John Duncan
Acting Chair, Kāinga Ora Board

[3] Noting that ~3,000 sales per annum equates to just over 4% of the ~70,000 house sales each year across New Zealand, and Kāinga Ora owns approximately 4% of New Zealand's housing stock. Therefore, this level of sales would be relative to the turnover of housing stock in New Zealand generally.

| | |
|---|---|
| **From:** | James Kennelly |
| **To:** | EXT - David Chau |
| **Cc:** | Gareth Stiven; Greg Groufsky; Al Witcombe; Rachel Kelly; Sophie Costello; Ingrid Arnestedt; Haylee Marsh; Sue Wray |
| **Subject:** | Update for status report on cost of sales |
| **Date:** | Friday, 22 November 2024 9:26:58 AM |
| **Attachments:** | Outlook-4vdubibl |

Hi David

Please find below an update to include in the status report from Gareth:

*Kāinga Ora has an existing backlog of end-of-life assets, and an increasing number reaching the end of their lives over the coming years. Actively renewing these homes is critical to manage growing maintenance costs, improve the performance of the homes, and to realign them with changing customer demographics and needs. Assets are renewed in one of three ways:*

- *Redevelopment - this involves demolishing the old home and building new homes (typically targeting at least three). One of the new homes replaces the demolished home, while the other two can be used as growth, or to **replace** older homes elsewhere (see next point)*
- *Replacement – this involves selling older, end-of-life homes and replacing them with new homes that are either acquired from developers, or enabled through redevelopment.*
- *Retrofit of the existing asset – a significant refurbishment and modernisation of existing assets to provide another 50 years of life. This programme is deployed where redevelopment is not viable, but where the asset is well located, and it is more cost effective than selling and replacing.*

*Kāinga Ora's budget and recent HYEFU submission includes 300 units of replacement sales in FY25 with an expected value* 9(2)(f)(iv) [redacted]

*The budget increases in FY26 to 939 units at an expected value* 9(2)(f)(iv) [redacted] *for reinvestment in replacement homes to support the renewal of our portfolio.*

*These replacement sales are spread across New Zealand and enable some rebalancing of the portfolio from areas where redevelopment activity has been highest over the past couple of years (i.e. Auckland, Christchurch).*

*Replacement sales will primarily target poor performing end-of-life stock (generally pre-1986) with high and growing maintenance costs, poor alignment with customer needs and with limited commercially viable opportunities for redevelopment. They may fit within the following criteria areas;*

- ***Not fit for purpose:** for example where either the asset condition, configuration or location mean the asset does or can not provide the service level required for our customers including when refurbishment or redevelopment is considered.*
- ***Surplus to requirements:** this reflects 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.*
- ***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;*
- ***Uneconomic to Retain:** assets where the costs to keep it in service (meeting KOs standards) do not make financial sense and it is more cost effective to divest the property and acquire a new one.*

*In FY25 to date we have settled or have unconditional replacement sales on 63 units, providing $26.3m of capital for reinvestment. Our Investment and Planning teams are currently identifying assets suited for replacement, with plans to bring more assets to market in the next couple of months.*

*In addition, a review of vacant land holdings is being completed and proposed next steps are intended to be discussed with the Kāinga Ora board in December 2024, and will be shared with monitoring agencies and the minister. This may include the proposed divestment of various land assets that are considered surplus to needs in future.*

Cheers

James

**James Kennelly**

Team Leader
Government Services
Government and Sector Relationships

Mobile: 9(2)(a) [redacted]
Email: james.kennelly@kaingaora.govt.nz

Freephone: 0800 801 601 | Mainline: (04) 439 3000 | Kāinga Ora – Homes and Communities
PO BOX 2628 Wellington 6140 | New Zealand Government | **www.kaingaora.govt.nz**