

Update on key Kāinga Ora Delivery Commitments

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Action sought

Recipient	Action sought	Deadline
Minister of Housing	note the contents of this briefing s 9(2)(f)(iv)	April 2022

Contact for discussion (if required)

Name	Position	DDI Mobile	Email	First contact
Andrew McKenzie	Chief Executive	s 9(2)(a)	Andrew.Mckenzie@kaingaora.govt.nz	Yes
Gareth Stiven	GM Strategy, Finance and Policy	s 9(2)(a)	Gareth.Stiven@kaingaora.govt.nz	-

Consulted with

Name	Position	DDI Mobile	Email	First contact
Glenn Phillips	Strategic Advisor to Deputy Chief Executive (HUD)	s 9(2)(a)	glenn.phillips@hud.govt.nz	-

For Minister's Office

Noted
 Approved
 Not approved
 Other

Comments

5 April 2022

Minister of Housing

cc: Vui Mark Gosche, Board Chair

Update on key Kāinga Ora Delivery Commitments

Executive Summary

1. In December 2021 Kāinga Ora – Homes and Communities advised you that it was seeing delays to its supply programme of at least six months driven by the impact of FY21 and FY22 lockdowns, and reduced builder productivity driven by supply chain constraints and limited buffer stock on hand. These delays had resulted in a compression of the timelines to meet its FY24 commitments.
2. Since then, as Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) has advised you (BRF21/22021230 refers) the headwinds the construction sector is facing have accelerated. For Kāinga Ora, this is currently materialising in:
 - Reduced ability to access materials – the most recent example being the issues with GIB supply.
 - Skills and labour shortages in the industry - exacerbated by the increased volume of work across the sector increasing demand for construction skills.
 - Increased build costs
 - The solvency of our build partners and their general ability/ preparedness to commit to new work
 - Competition from developers (though this is lessening slightly currently due to changing market conditions)
 - Feasibility of development in some areas given land and house prices.
3. The current Omicron outbreak is exacerbating this situation with builders unable to consistently have contractors onsite undertaking works. The delays in work and changes to programme look to be reducing productivity by 30-50 percent over this period, keeping builders on their current sites for up to three months longer than planned. This impact is yet to be fully understood, as we work with builders to reprogramme their work, but is likely to see at least 200 units moved into FY23.
4. Kāinga Ora has a plan in place to deliver the units required to meet our net FY24 commitments. This includes changes to our delivery strategy and a variety of improvement initiatives that will drive speed and cohesion by:
 - buying more serviced and consented land
 - increasing the number of suppliers we are working with
 - speeding up redevelopment site resource and building consent approvals,
 - speeding up our internal project-initialisation and contract negotiation processes
 - Improvements to our and suppliers design and build processes that will reduce construction planning, design and building timeframes
 - leveraging offshore labour to complement internal capacity
 - ensuring the provision of faster and more cost-effective building consent services

- identifying opportunities to leverage any builder capacity that has been freed up as a result of market changes
 - working with HUD to review operating supplement settings to better address financial viability issues in regional markets
 - establishing a portfolio for homes that we may look to hold for short/medium period that are good quality, but that do not meet all of the standards that we would expect for a home we would hold for the long-term, to enable us to access more pre-consented homes including from group home builders and more NZ-based OSM homes.
5. There is a high level of confidence that homes that are currently in procurement, contracted or in construction will be delivered by FY24.
 6. Given the unprecedented volume in FY24 our biggest focus right now is moving the homes that are currently in feasibility and planning phases through to procurement and contract stages in a timely manner. At that point we are able to work with build partners to get clarity on construction timelines. That timing is heavily reliant on the capability and capacity of the building sector, council resource consent processes and the supply of materials. A key focus of our reporting to you going forward will be the movement of these projects through these phases.
 7. These changes will enable increased housing supply delivery in the next two years, and are the basis for plans by Kāinga Ora to deliver to our housing supply commitments. However, headwinds in the construction sector are beginning to accelerate and while we are committed to pulling all levers these will make this meeting our commitments very challenging.
 8. Like our supply programmes, our Retrofit and Healthy Homes programmes have also faced significant challenges. As with new home construction, we estimate COVID-19 has set our Healthy Homes interventions back by approximately six months, and has compacted significantly more of the programme activity in to the final year before the compliance deadline. Omicron related labour issues continue to impact on labour productivity. We expect to have to complete more than twice the number of homes in the final year than originally planned. We are now continuously reforecasting what needs to be done to achieve compliance in response to a very fluid operating environment.
 9. In April, the Kāinga Ora Board will begin considering options for how we reset the Healthy Homes Delivery Programme for the final year. Depending on progress over the next few months, Kāinga Ora may need to undertake interventions to upgrade between 700 and 800 homes per week in 2022/23, and the organisation and its maintenance partners will need to maintain this progress week-on-week for the whole year. In this scenario New Zealand trade capacity will be the key risk.

Recommendations

10. It is recommend that you:
- a) **note** that COVID-19 lockdowns, supply chain constraints and border restrictions over the FY21 and FY22 years have compressed our timelines to meet our FY24 commitments and resulted in a large delivery requirement for the FY24 year.
 - b) **note** that Kāinga Ora has made, and is making, significant changes to its construction processes that will reduce construction planning, design and building timeframes.
 - c) **note** that these changes will enable increased housing supply delivery in the next two years, and are the basis for Kāinga Ora plans to deliver to the housing supply commitments through its redevelopment and market delivery programmes.
 - d) **note** that as HUD has advised (BRF21/22021230 refers) the construction sector is facing a range of accelerating headwinds on both the supply and demand side. These headwinds will make the ability of Kāinga Ora to meet its FY24 commitments challenging.

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- f) **note** that the extent that the Resource Management Amendment Act 1991 will provide opportunities for additional housing on Kāinga Ora-owned land is still to be fully understood, however, indications are these will most likely be realised in the medium-long term.
- g) **note** that mitigations and strategies are being implemented and proving effective for the delivery of Heathy Homes compliance activity, but there are still COVID-19 related supply and labour risks that will likely remain through to the compliance deadline of July 2023.
- h) **note** that Kāinga Ora will provide you with further information in May 2022 on its long-term financial projections, in particular the impact of cost pressures and inflation and the implications of this on our funding settings (including the operating supplement), projected debt and our associated financing strategy. This report back will also include the financial implications of our renewal approach.
- i) **consider** the points raised in this briefing note for discussion at the next Officials meeting.

s 9(2)(a)

Andrew McKenzie
Chief Executive
Kāinga Ora – Homes and Communities

Noted/Approved/Not Approved/Other

Hon Dr Megan Woods
Minister of Housing

Date


Purpose

11. This briefing note provides an update around how Kāinga Ora is tracking towards its key delivery commitments.

Background

12. On 13 October 2021 Kāinga Ora provided you with a briefing note (BN 21 031) which set out the delivery challenges prior to and as a result of the August alert level changes as at 30 September 2021, and as a consequence of extended border closures and huge disruptions to international flows of labour and materials supply chains. This briefing noted that:
 - The Alert Levels had significantly impacted our ability to work with, and support, our customers and to deliver at our planned pace and scale.
 - That over half of the Kāinga Ora SPE targets had been impacted by COVID-19 Alert Level changes and were unlikely to be achieved.
 - We would be unlikely to be able to just absorb the delays on an annual basis and that our preference was to focus on the development of a plan for the delivery of our multi-year commitments.
13. On 8 November 2021 you sent a letter to our Board Chair, which requested advice on how the delivery risks (primarily driven by COVID-19 lockdowns, supply chain constraints and border restrictions over the FY21 and FY22 years) to our existing housing supply commitments through to June 2024 could be mitigated. On 1 December 2022, we provided you with advice on this (BN 21 040), in particular on what we could do differently.

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14. At the time you advised that you would reserve any decision on these points subject to further advice on:
 - The scale of opportunities enabled through the Housing Supply Bill
 - Our long-term financial projections, in particular the impact of cost pressures and inflation and the implications of this on our funding settings (including the operating supplement), projected debt and our associated financing strategy
15. This briefing provides an update on the delivery of our public and transitional housing commitments both in the short-term (FY22) and in relation to the FY24 commitments. It also provides a report back on the scale of opportunity enabled through the RMA changes late last year and the subsequent implications of a High Court decision. In addition, an update is provided on our retrofit programme and how we are tracking against compliance with the Healthy Homes legislative requirements.
16. We do not see any benefits to changing our OSM settings currently, as issues with the global supply chain will limit the impact we will get from increasing the use of offshore providers at this time.

17. We expect to provide you advice in May 2022 on our long-term financial projections following the completion of our internal budget reforecast process. This will enable us to have a full understanding of the longer-term impact of the cost pressures we are currently experiencing and provide you with more robust advice around how these could be managed.

Public and Transitional Housing Delivery

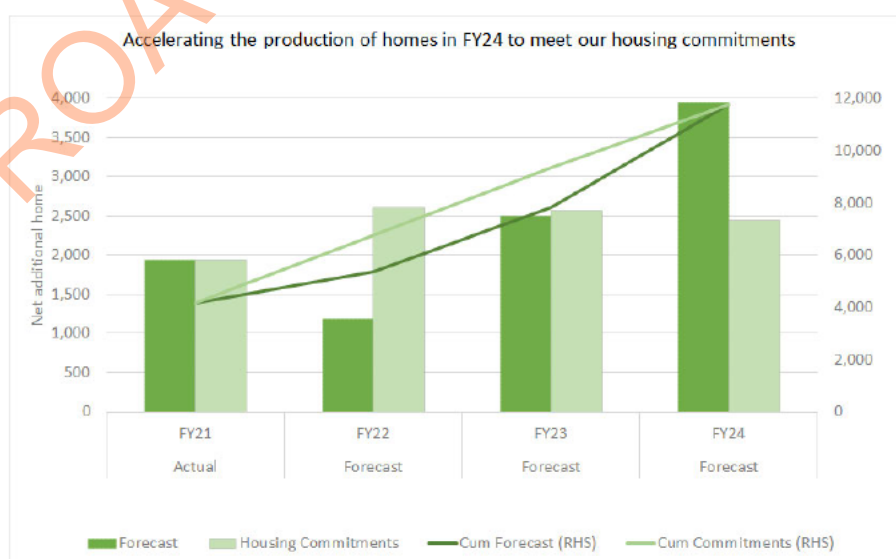
18. Kāinga Ora has commitments to deliver 11,780 **net**¹ additional homes between FY19 and FY24. The detail of these commitments is set out in Table 1 below. 4,590 of these homes were delivered between FY19 and January 2022.

Table 1: Delivery against six-year housing commitments

Six-Year housing plans (net volume)	Commitment	Delivered (to 31 Jan 22)	Remaining deliveries
Public Housing Plan 1: July 2018 to June 2022	4,480	2,919	1,561
Public Housing transfer: Tenanted	142	142	0
Public Housing: Refugee Housing	364	227	137
Public Housing Plan 2: July 2022 to June 2024	4,800	0	4,800
Transitional Housing: PERM 530-650	404	404	0
Transitional Housing: Budget 2020	1,400	854	546
Community Group Housing	126	10	116
Corrections Department	64	34	30
Total	11,780	4,590	7,190
Public Housing	9,786	3,288	6,498
Supported Housing	1,994	1,302	692

19. As advised in December 2021, Kāinga Ora has experienced delays to our supply programme of at least six months due to the various lockdowns, restrictions at different alert levels and supply chain constraints. The initial lockdowns saw homes scheduled for delivery in FY20 moved into FY21, with cascading impacts into later years. Subsequently, the restrictions in FY22 have affected both FY22 deliveries and undermined activity to catch up on FY20 delays [BN 21 040 refers].
20. These delays have resulted in a compression of the timelines to meet our FY24 commitments. Figure 1 sets out the original versus the revised phasing for this delivery for both public and supported **net** housing commitments.

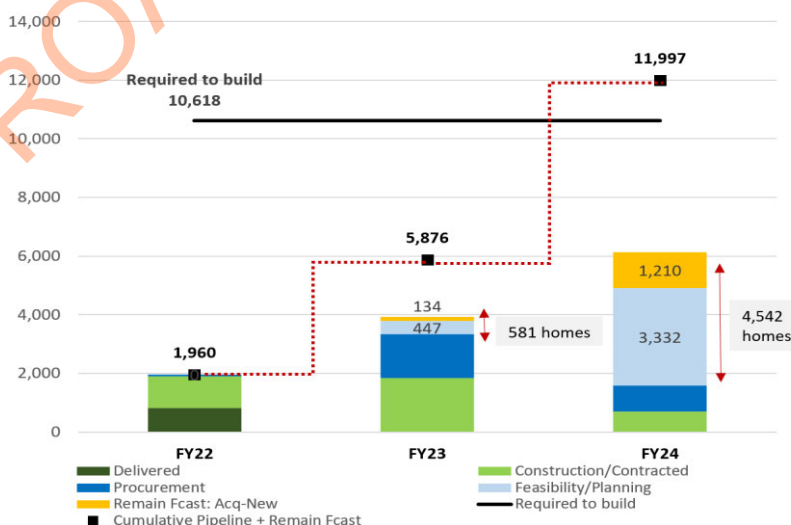
Figure 1: Delivery against six-year housing commitments (original and revised forecasts)



¹ Net homes equals all homes built or acquired less all disposals.

21. As is illustrated in Figure 1 above the ongoing effects of COVID-19 will prevent us meeting our new homes SPE targets this year and the plan to catch up will require us to deliver homes at record levels in FY24. However, we remain focussed on doing everything we can towards meeting our multi-year commitments.
22. Figure 2 on the following page sets out our cumulative gross² build pipeline for the FY22-24 deliveries. Key points to note:
 - a) The figure sets out the current status of our delivery against the commitments. It shows that we have a plan in place to deliver each of the units required to meet our net FY24 commitments. This includes buying land, increasing the number of suppliers we are working with, increasing the number of redevelopment sites and resource and building consent approvals, and putting in place the contracts for the delivery of the homes.
 - b) There is high level of confidence in homes that are in procurement, contracted or in construction will be delivered by FY24.
 - c) Given the large delivery volume in FY24 our biggest focus right now is moving the 3,779 homes (refer Table 2) that are currently in the feasibility and planning phase through the process into the procurement and contracted stages in a timely manner. This is because at this point we begin to have a greater clarity of scheduling. It should be noted that these are real projects and we have a process in place to ensure these move through the pipeline and are commissioned, however, as our model is highly partner-centric our ability to deliver these is heavily reliant on the capability and capacity of the building sector. A key focus of our reporting to you going forward will be the movement of these projects through the phases.
 - d) Our “Acquisition – New” forecast represents the land and home packages we are working to acquire from the market. As we do not own the land these homes will move from ‘forecasted’ straight to ‘contracted’ (i.e. there is no planning, feasibility and procurement phase). We can also buy these at various stages in their delivery up until the home is completed so the lead in times are not as significant. As above, the conversion of these homes is also reliant on market capacity and capability.
 - e) While the figure is showing we will deliver more than is required we are creating a buffer as we know some of the projects (particularly those in the planning stages) may not proceed for various reasons.

Figure 2: Gross Build Pipeline for FY22-24 delivery



² Gross builds represent all homes built excluding any disposals.

Table 2: Breakdown of Gross Build Pipeline for FY22-24 deliveries (expected delivery dates, by each projects current status in our delivery cycle)³

State + Supported	FY22				FY23				FY24				FY22 to FY24
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total
Redevelopment + Acquire-New	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross
Delivered	264	401	158	0	0	0	0	0	0	0	0	0	823
Construction/Contracted	0	0	168	904	453	375	571	434	363	123	205	0	3,596
Procurement	0	0	3	62	151	313	540	498	207	214	178	289	2,455
Feasibility/Planning	0	0	0	0	7	52	57	331	308	656	792	1,576	3,779
Total: Pipeline	264	401	329	966	611	740	1,168	1,263	878	993	1,175	1,865	10,653
Remaining Forecast: Acq-New	0	0	0	0	30	30	45	29	234	299	234	443	1,344
Total: Pipeline + Remain Fcast Acq-New	264	401	329	966	641	770	1,213	1,292	1,112	1,292	1,409	2,308	11,997

23. As we have previously advised we are committed to pulling all the levers we can and have a variety of improvement initiatives already underway, and others proposed that will drive speed and cohesion – particularly in those up front stages which are critical to our delivery. These include:

- Project Velocity - a process re-engineering initiative focussing on improving the efficiency and effectiveness of both our and suppliers end-to-end processes for housing development.
- Construction Accord procurement alignment. We have sped up our contract negotiation processes by aligning our contracts wherever possible with Construction Accord Standards
- Construction Partnering agreements – delivering time and cost savings through multi-year contracts with build partners for the annual delivery of a set number of homes.
- Off-site manufacturing (modular and panelised) - accelerating the delivery of homes and leveraging offshore labour to complement internal capacity.
- Initiation of Consentium, our Building Consent Authority, to provide faster and more cost-effective building consent services and to improve Kāinga Ora building processes through greater consistency and transparency.

24. More broadly we:

- are engaging with group home owners where possible to see if we can leverage any capacity that has been freed up as a result of market changes.
- have recently agreed some exceptions around operating supplement settings with the Ministry of Housing and Urban Development to better address financial viability issues in regional markets. We are currently finalising a framework with them which we anticipate will support us to deliver faster in these areas.
- are establishing a portfolio for homes that we may look to hold for short/medium period that are good quality but don't meet all of the standards that we would expect for a home we would hold for the long-term – it is hoped that this will enable us to access more pre-consented homes including from group home builders and more NZ-based OSM homes.


³ Data based on Feb-22 Pipeline and the current status of projects however note that the dates are subject to movement and the level of risk around projects vary as they move further through the process (i.e. at feasibility the delivery dates are placeholder schedules until such time a contract is confirmed)

Opportunity is excluded from the report

Remaining Forecast Acquire-New - is a calculation based on budget and pipeline

25. However, as the Ministry of Housing and Urban Development has advised you (BRF21/22021230 refers) the construction sector is facing a range of accelerating headwinds on both the supply and demand side that are impacting on its ability to continue to deliver housing at pace and scale. For Kāinga Ora this is currently materialising in:
- Our ability to access materials – the most recent example being the issues with GIB supply.
 - Skills and labour shortages in the industry - exacerbated by the increased volume of work across the sector increasing demand for construction skills.
 - Increased build costs
 - The solvency of our build partners and their general ability/ preparedness to commit to new work
 - Competition from developers (though this is lessening slightly currently due to changing market conditions)
 - Feasibility of development in some areas given land and house prices.
 - The impact of the current Omicron outbreak and our ability to have contractors on-site undertaking works. If Omicron results in a reduction in productivity by 30-50 percent it could result in approximately 200 units moving to FY23. This impact is yet to be fully understood however is being particularly felt on our more significant sites as is illustrated in the Greys Avenue example below.

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26. These headwinds will make our ability to meet our FY24 commitments challenging.

Alignment of public housing delivery to PHP

27. Table 3 sets out alignment between the current pipeline and the Kāinga Ora Planning Intentions for public housing. At a total level the Planning Intentions have us delivering our **net** commitments of 70 percent of PHP1 and 80 percent of PHP2 for public housing.
28. Kāinga Ora's Planning Intentions take the Public Housing Plan and the settings our Board has agreed in our Asset Management Strategy and determine how we should respond. This ensures we are locating homes in areas that have:
- Clear and identifiable unmet demand for public IRRS housing;

- Ready access to employment, amenities and social services to support our customers' needs;
- Good quality land and be adequately protected from the detrimental effects of climate change; and
- That we do not invest in a town where we have made a decision to exit over time (i.e. remote towns with high service costs, limited underlying demand, and very small existing portfolios).

With the final location mix agreed with HUD to enable focus areas and Community Housing Provider capacity to be taken into account.

Table 3: Current forecasted Public Housing delivery by location

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29. The forecasted under delivery in some locations against the current targets is driven by:
- delays on some of our larger projects i.e. they are being delivered just outside this period for example Arlington
 - availability of land particularly in areas such as Tauranga and Masterton where we lack an existing presence
 - not having a viable build sector to partner with
 - poor or weak provisions in district plans of many councils which favour single site and have minimum lot sizes

⁴ Note the low and high forecasts take into account adjustments for forecasted sales, leases, expiries and demolitions

⁵ Note that where there are net decreases it will be as a result of demolition activity occurring ahead of deliveries which will come through in subsequent years

⁶ Note the difference between the 9,603 and 9,786 commitment noted above is the 142 Nelson tenanted transfer and 41 unallocated places

- capacity in some of the markets we haven't been active in for some time
- the operating supplement cap (90 percent for PHP1 and 100 percent for PHP2 deliveries) not being sufficient to meet development economics. A key lever we might need to come back to the government over would be to change the level of operating supplement in these areas so the investments become financially feasible.

30. We have a clear preference to deliver in line with our commitments in each market and are working hard to do so, however as noted in the above paragraph in some markets this is going to be hard.

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31. You should also be aware that we are currently reviewing projects that are currently projected to be delivered outside FY24 timeframes that have more complicated planning or approval processes and divert large amounts of internal resources. These projects might be large and complex or be testing different, more innovative ways of working and often have a higher degree of partnership involvement. Being selective around which of these projects are reprioritised will enable us to refocus our resources on meeting our FY24 commitments. This will however create a risk to our FY25 pipeline as the lead in times for these projects are often significant.

Transitional housing delivery

32. Kāinga Ora had committed to deliver 1,400 of 2,000 Transitional Housing places by June 2022. This has now been revised to 1,400 of 2,500 places by June 2024 reflecting the delivery of places by other providers with the original target being met in approximately September 2022.

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Scale of opportunity enabled through the Resource Management Amendment Act

34. In our December 2022 briefing Kāinga Ora committed to come back to you on the level of additional housing capacity that the Resource Management Amendment Act may enable on our land holdings above and beyond capacity provided by the current operating frameworks.

35. As we noted then, initial work has indicated that while the Act will enable some additional capacity in the Tier 1 council locations, Kāinga Ora would benefit more significantly from the application of the Medium Density Residential Standards in the majority of the Tier 2 and some Tier 3 Councils.

36. The extent that the Amendment Act will provide opportunities for additional housing on Kāinga Ora-owned land will not be fully understood until mid-year when the draft plans are released by Councils. For example, the degree to which Councils will seek to limit intensification through requiring qualifying matters is still to be determined and consulted on. In our view, the benefits of the Amendment Act are likely to be limited in the short term (i.e. to June 24), however we do expect opportunities in the medium-long term, however all FY24 projects that will be consented post-August 2022 have been tagged to ensure they will be reconsidered in light of the provisions.

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39. Implications at a broader national scale are still to be determined.

Retrofit

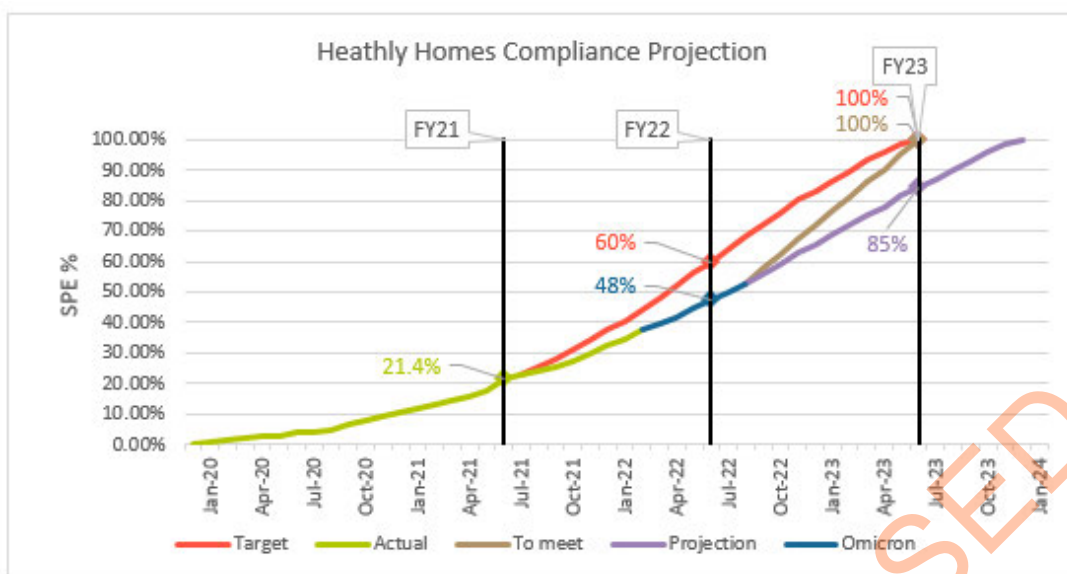
40. As you are aware approximately 86 percent of our state houses require significant capital reinvestment in the next 30 years in order to enable them to meet the needs of our customers. This means we need to make a decision for each of these assets around how we will renew them to provide the functionality and thermal performance necessary for modern public housing, and improve the typology to match our customers' needs.
41. We currently renew our homes in several different ways – retrofitting, re-developing or selling and replacing.
42. In 2019, the Housing New Zealand Board agreed to a two-stage retrofit programme with the first stage to run until June 2022 and deliver approximately 1,500 retrofitted homes. A checkpoint was put in place at the end of stage-one to assess evidence and strategies in place and validate the costs and approach.
43. As noted in BN 21 026, stage one has faced a number of delivery challenges including:
- Limited rehousing capacity within current supply;
 - Limited design and builder capacity to deliver retrofits particularly in Tasman, West Coast and Otago;
 - Limited internal project management and tenant rehousing capacity due to redevelopment; and
 - Like our supply programme it has also been severely impacted by COVID-19, which has made it harder to carry out activities like tenancy inspections, preparing homes for new tenants, and carrying out site work.
44. In response, we have recruited more staff; are simplifying the build partner agreement to attract more tender submissions; and are investigating more flexible options for finding temporary accommodation for our customers.
45. However these challenges have meant that the programme is unlikely to meet its current SPE targets with current forecasts suggesting we will deliver 1,015 of our 1,500 homes by the end of FY22 subject to further COVID-19 and supply chain impacts.
46. As we advised in BN 21 026 we are currently reviewing our approach to retrofit in light of these challenges but also in response to a broader review of our renewal programme to ensure that we take the best-value for money approach for the Crown that results in a warm, dry, fit for purpose homes for our customers.

47. While we expect retrofit will always have an important role as part of this mix (particularly in areas with ongoing demand and no ability to redevelop), we anticipate that we may seek to change the balance of the renewal programmes towards building new homes that both improve the quality of our housing stock and increase the total number of homes in New Zealand.
48. Our May 2022 report back will provide advice on any funding and financing implications of this change in approach within the broader organisational context.

Healthy Homes

49. The Residential Tenancies (Healthy Homes Standards) Regulations (2019) has set out new minimum standards for heating, insulation, ventilation, moisture ingress/drainage and draught stopping. As New Zealand's largest landlord, with over 70,000 homes and nearly 200,000 customers, confirming compliance of all homes across the portfolio is a significant undertaking for Kāinga Ora.
50. Kāinga Ora is required to ensure compliance with these Regulations by 1 July 2023.
51. As at 28 February 2022, 37.43 percent of the portfolio (24,727 homes) has been confirmed as meeting the Healthy Homes Standards. This is an increase of 10,672 homes across the portfolio this financial year to date. A further 8,673 homes have Healthy Homes maintenance work currently in progress.
52. Kāinga Ora is upgrading its homes to healthy homes standards through a variety of interventions, such as work on homes when they become vacant, retrofits and renewals, but its primary intervention is the Healthy Homes Delivery Programme, which is upgrading over 80 percent of the portfolio, while customers are in the homes.
53. Like our other programmes, our Healthy Homes delivery has faced significant challenges since the compliance deadlines were set. These include unforeseen limitations on contractors entering homes due to lockdowns, heightened customer anxiety, interrupted supply chains for critical materials, intense competition for the same trades, price escalations, and lower than anticipated vacancies in Kāinga Ora homes (around 85 percent of expected volumes).
54. Kāinga Ora estimates the COVID-19 impacts we have seen to date have set our Healthy Homes interventions back by approximately 6 months, and this has compacted significantly more of the programme activity in to the final year before the compliance deadline. We expect to have to complete more than twice the number of homes in the final year than originally planned.
55. In June 2021, we fundamentally reset our Healthy Homes Delivery Programme, and enlarged its capacity. This has had a significant impact. The programme is moving almost three times faster than it was. In June 2021, it was upgrading 180 homes per week, and in February 2022 prior to the peak of Omicron impacts, it was upgrading 500 homes per week.
56. Kāinga Ora is now continuously reforecasting what needs to be done to achieve compliance in response to a very fluid operating environment. As at the end of February, we were forecasting 54 percent of our portfolio as compliant for the year against our SPE target of 60 percent. However, March is proving to be a very challenging month with a significant number of trade shortages and customer access issues due to Omicron illness and isolation. If this persists we are forecasting a worst case scenario for the year of approximately 48 percent portfolio compliance.

Figure 3: Healthy Homes Compliance Projection



57. Within the bounds of the programme as we reset it in June 2021, we are continuing to implement a range of mitigations and innovations to adjust for the operating environment as we go. Examples are set out below.

Table 4: Healthy Homes Mitigations

Supply of materials	Trade capacity	Customer access
<ul style="list-style-type: none"> Accelerating the scoping of homes to improve supply chain management 	<ul style="list-style-type: none"> Increasing rates for trades Introducing new alternative products to reduce need for scarce trades Mobilising trades from one region to another to mitigate severe trade shortages in particular areas 	<ul style="list-style-type: none"> Working intensively with place-based teams to gain access Fast-tracking education programmes to support customer understanding of what we are doing Increasing pre-engagement with customers (including advance outbound calls)

58. In April, Kāinga Ora’s Board will begin considering options for how we reset the Healthy Homes Delivery Programme for the final year. Depending on progress over the next few months, interventions by Kāinga Ora may need to upgrade between 700 and 800 homes per week over the 2022/23 financial year, and the organisation and its maintenance partners will need to maintain this progress week-on-week for the whole year. In this scenario New Zealand trade capacity will be the key risk.

Opportunities to leverage others in the sector to meet delivery commitments

59. HUD have specifically asked us to provide you with further advice around how we could be further leveraging others in the sector to meet our delivery commitments in addition to the advice we provided in BN 21 040 which noted:

- The current engagement by Kāinga Ora with the broader construction sector to varying degrees across each phase of delivery. This includes delivering homes from market sources through acquisition of land and home packages from the private sector and securing construction outcomes via contract mechanisms on Kāinga Ora land.

- Partnership activity we already undertake with various groups to deliver joint outcomes for example with iwi on Māori owned land, and with Councils and Crown in priority areas and the work we are doing to increase our partnership approach further, particularly in relation to achieving its broader urban development outcomes.
60. It should be noted that **all** housing interventions by Kāinga Ora are completed in partnership with the private sector - this includes not only our public and supported housing maintenance, renewal, growth activities but also our urban development activities. Our organisation's ability to meet our commitments is completely contingent on the private sector's capability and capacity.
61. Kāinga Ora takes a market-by-market approach to ensure we are enabling the private sector effectively in the current environment. This includes ensuring that the mix of methodologies we employ with the private sector in each market will support us in meeting our agreed outcomes. We are also aware that when we use the private sector we are removing those resources from developing or building homes for other clients.
62. There are effectively two options for Kāinga Ora to use in procuring new homes, a "build" approach or a "development" approach. The build approach normally sees Kāinga Ora identify the site, lead the planning and development processes with engineering, planning and design specialists, and then procure a builder to build the home. This approach is predominantly used on land we already own and newly acquired bare land. The development approach normally involves Kāinga Ora purchasing projects from developers who have land, consented and designed homes and their own build partners already identified. Occasionally a developer will approach us with a land acquisition opportunity they have identified and we will commit to purchase a development from them.
63. Within each of those approaches we employ a diverse mix of contractual and construction methodologies. They allow us to tailor our approach to the supply and demand dynamics within individual markets, as well as the capabilities of our partners. Most partners specialise in a particular set of approaches and have varying appetites for risk. The table below provides a summary of the various methods we deploy.

Table 5: Procurement and construction methodologies

Procurement Methods	Construction Methods
Development (on land owned by Kāinga Ora) <ul style="list-style-type: none"> • Construct Only • Design and Build • Capacity Partnering Agreement • Early Contractor Involvement • OSM Direct Source 	OSM <ul style="list-style-type: none"> • Volumetric • Panelised • Modular Cross Laminate Timber Tilt-Slap Concrete
Acquisition <ul style="list-style-type: none"> • Acquire new land and home • Lease new land and home • Acquire existing homes (Buy-ins) 	Traditional Stick Build

64. Kāinga Ora is also proactively looking to maximise opportunities and outcomes with our commercial partners by setting up a shared Commercial Partners methodology, which we will use across the organisation to ensure that we build a coherent relationship with them. This consists of:

- Segmentation – to ensure that we are focusing our efforts and resources on the partners who we can work with to achieve the best outcomes
 - Engagement Plans - developing engagement plans for our top tier Commercial Partners that capture the breadth of the activity we're doing with them, and plans for future work
 - Relationship Management - allocating relationship leads, and setting up regular engagement meetings with our Commercial Partners, in a way that works for them
 - Voice of the Commercial Partner – setting up a regular satisfaction survey to understand how our Commercial Partners view their relationship with us.
65. We have also introduced more collaborative partnering arrangements when we are working with developers to deliver newly built homes. Historically, Kāinga Ora would use fixed price contracts on a project by project basis, and make payment for these developments once construction was completed. This required developers to have strong balance sheets and support from banks, with risk, contingency and escalation embedded into pricing. We have changed our approach, introducing contractual cost escalation clauses, milestone payments to assist developers with their cash flow, more focussed relationship management and are working to put in place large scale supply arrangements.
66. Kāinga Ora is also engaging with group home owners to investigate whether their build partnerships can be used for building our homes as a result of market changes.

Conclusion

67. Kāinga Ora has made, and is making, significant changes to its construction processes that will reduce construction planning, design and building timeframes to support the delivery of homes at pace. These include:
- Undertaking a variety of improvement initiatives that will drive speed and cohesion – particularly in those up front stages which are critical to our delivery. These include improvements to both our and suppliers end-to end processes for housing development, speeding up contract negotiation processes, developing construction partnering agreements, accelerating the delivery of homes and leveraging offshore labour to complement internal capacity, and the provision of faster and more cost-effective building consent services.
 - Identifying opportunities to leverage any builder capacity that has been freed up as a result of market changes.
 - Working with HUD to review operating supplement settings better address financial viability issues in regional markets.
 - Establishing a portfolio for homes that we may look to hold for short/medium period that are good quality to enable us to access more pre-consented homes including from group home builders and more NZ-based OSM homes.
68. We are also proactively looking to maximise opportunities and outcomes with our commercial partners by setting up a shared Commercial Partners methodology, which we will use across the organisation to ensure that we build a coherent relationship with them.
69. These changes will enable increased housing supply delivery in the next two years, and are the basis for plan by Kāinga Ora to deliver to our housing supply commitments. However, headwinds in the construction sector are beginning to accelerate and while we are committed to pulling all levers these will make this meeting our commitments very challenging.

Next Steps

70. As noted in BN 21 040 Kāinga Ora is currently working through the financial impact of delivering our commitments within compressed timeframes and will come back to you with a more detailed report on this in May following the completion of our internal budget reforecast. This will enable us to have a full understanding of the longer-term impact of the cost pressures we are currently experiencing and provide you with more robust advice around how these could be managed.
71. This report back will include the impact of cost pressures and inflation, and differing rent and operating supplement settings, and the flow on implications on projected debt levels and debt servicing.
72. Kāinga Ora will continue to also provide you regular updates on the delivery of our commitments through our Quarterly reports.

PROACTIVELY RELEASED