

Estimated impact of the COVID-19 Pandemic on Kāinga Ora – Homes and Communities

Reference number	BN 21 031
Date	14 October 2021
Priority	Normal
Security level	In confidence

Action sought

Recipient	Action sought	Deadline
Minister of Housing	<p>note the significant impact of the COVID-19 Pandemic on the ability of Kāinga Ora to operate effectively and deliver on its SPE Targets</p> <p>note that Kāinga Ora would prefer to focus on the development of a plan for the delivery of its multi-year commitments</p> <p>provide feedback at the meeting scheduled on 21 October 2021 on the proposed approach to managing delivery risk</p> <p>note that a further briefing will be provided in December 2021.</p>	14 October 2021

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		gareth.stiven@kaingaora.govt.nz	

For Minister's Office
<input type="checkbox"/> Noted <input type="checkbox"/> Approved <input type="checkbox"/> Not approved <input type="checkbox"/> Other
Comments

BN 21 031

14 October 2021

Minister of Housing

cc: Vui Mark Gosche, Board Chair

Estimated impact of the COVID-19 Pandemic on Kāinga Ora – Homes and Communities

Recommendations

I recommend that you:

- a) **note** that the Alert Levels have significantly impacted the ability of Kāinga Ora to work with, and support, its customers and to deliver at its planned pace and scale.
- b) **note** that over half of the Kāinga Ora SPE targets have been impacted by COVID-19 alert level changes and are unlikely to be achieved.
- c) **s 9(2)(f)(iv)**
- d)
- e) **provide** feedback at your meeting scheduled on 21 October 2021 with the Kāinga Ora Board Chair and Chief Executive on the proposed approach to managing our delivery risk.
- f) **note** that a further briefing will be provided in December 2021 assuming the impact of the current lockdowns will be better known at this point. This will focus on risk mitigations in line with preferences indicated by you via this briefing.

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

1. To provide a high-level outline of the impact of the recent COVID alert level changes on Kāinga Ora and to seek your views on how we best manage the risk to our multi-year commitments and SPE targets.

Background

2. On 17 August 2021, New Zealand moved to Alert Level 4 at 11.59pm. While most of New Zealand moved to Alert Level Three on 31 August 2021 and to Alert Level 2 on 7 September 2021, Auckland moved to Alert Level 3 on 22 September 2021 and is currently still in a slightly modified version of Level 3.
3. As per our briefing dated 14 September 2021 (AH 21 071), Kāinga Ora typically tenants around 100 homes each week, responds to 9,500 maintenance jobs on its portfolio of 69,000 properties, and meets with over 2,000 of its customers.
4. Every day there are over 580 open construction sites across New Zealand, with around 3,400 public and transitional housing homes currently contracted or under construction. We are working on more than 80 hectares of land that will produce over 2,000 homes.
5. A large proportion of this activity occurs in Auckland. We have 28,000 of our homes there, and just over two thirds of the homes under construction are in Auckland. The land development work – primarily the Large-Scale Project programme, is predominantly in Auckland.
6. As outlined in our recent Ad hoc dated 24 September 2021 (AH 21 075), Kāinga Ora operations and work programmes are based on five key operating assumptions that have been significantly impacted by COVID-19 – both directly with restrictions within New Zealand, and indirectly by global shifts. They are:

Assumption	Areas of impact	Activity	Example
We work face-to-face, in person, in homes	Community relationships Customer relationships Rehousing customers	Urban development planning Maori engagement Community engagement Maintenance Customer support Home inspections	Our business model assumes we: <ul style="list-style-type: none"> • Can work with our customers to manage debt, rehouse and let homes • Can engage in a meaningful way with the community
We have external products and suppliers available to us	Material supply Labour supply and productivity Logistics	Maintenance Construction Land development	<ul style="list-style-type: none"> • Can inspect our properties and undertake maintenance work in our tenanted properties such as our Healthy Homes compliance work
Employees can operate at scale nationally	Community relationships Organisation productivity Quality control Procurement	Maintenance Construction Land development	<ul style="list-style-type: none"> • Have the materials available to maintain and construct our homes e.g. insulation, steel mesh, etc on a Just-in-Time basis
We have access to work sites	Organisation productivity Project/programme supervision Quality control Procurement	Construction Land development Land acquisition	<ul style="list-style-type: none"> • Can move staff around the country to manage our redevelopment activity
We can use people intensive practices	Labour supply and productivity Organisation productivity Project/programme supervision Quality control	Construction Maintenance	<ul style="list-style-type: none"> • Can carry out site inspections to plan work and commission technical reports as required • Can inspect work underway and ensure it meets our standards

Kāinga Ora Customer Commitments

7. Our customer commitments, work programme and targets are premised on being able to get into our homes and through face-to-face contact with customers. The higher alert levels and COVID apprehension make it difficult or impossible to operate in that manner. This impacts on our ability to:
 - Undertake welcome home visits within six weeks of tenancy's starting (an SPE measure) - noting we deliberately prioritise welfare calls to our tenants during lockdowns.
 - Manage rent arrangements (an SPE measure) - noting experience from last lockdown suggests loss of work does impact some customers' ability to pay their rent, and lack of access to their homes can make it more difficult to manage debt or introduce debt repayment arrangements. Furthermore, as part of our response to COVID-19 management, we have ceased all debt recovery activities and are taking a welfare approach to support our customers.
 - Let housing (an SPE measure around vacant to ready to let days) - this measure assumes we can have multiple contractors preparing the homes for a new customer, which is significantly impacted under the current alert level in Auckland.
 - Work with our customers to find appropriate rehousing solutions so we can undertake redevelopment or retrofit activity.
 - Undertake our regular tenancy inspections and more generally have face-to-face contact and site visits
 - Carry out maintenance work on our homes through our maintenance contractors. Some customers have requested not to have staff or contractors on their properties until we get to level one or two. Others have asked for assurances that contractors are vaccinated.
 - Call volumes for maintenance requests also reduce during these periods, despite people being in their homes more. That means we end up with both a significant backlog of work and surging demand when we get to reduced alert levels. Even once alert levels fall, some customers having enduring concerns around COVID-19 transmission and are understandably reluctant to have contractors in their homes, impacting our ability to undertake maintenance works.
8. In addition, as is discussed in further detail in the sections below, the various alert levels have a significant impact on our new housing supply, Healthy Homes, Retrofit, and land development programmes, which are focussed on providing warm, dry, fit-for-purpose homes for our customers and those on the waiting list.
9. The following sections set out our commitments in these areas, seek to estimate the level of risk to delivery associated with these, (noting that as a significant proportion of the portfolio is still in alert level three the full impact is still not fully known at this stage) and proposes options for managing this risk.

Construction and Asset Delivery Commitments

10. Kāinga Ora has a number of significant construction and asset delivery commitments for the next three years. Delivering on these commitments was premised on operational assumptions that:
 - We can work face-to-face, in person, in homes to support customers requiring rehousing

- External products and suppliers are available to us as needed for specialist advisory services, head contracting and trade delivery
- Employees can operate at scale nationally as our construction programme leverages expert resource right across New Zealand
- Our employees have access to work sites to perform programme management, project planning, project supervision and regulatory functions
- New Zealand's highly people intensive construction practices are able to operate at full levels of productivity

11. Key commitments include (but are not limited to):

- Existing Homes
 - Portfolio meets Healthy Homes standards by June 2023
 - Retrofit 1,500 properties by June 2022.
- New Homes
 - Budget 2018 commitment to deliver 4,480 homes by June 2022 (approximately 70 percent of this target is delivered, with the remaining planned for delivery in 2021/22)
 - Commitment to deliver 364 refugee homes by June 2023
 - Budget 2020 commitment to deliver 80 percent of the additional 6,000 public homes by June 2025.
 - Budget 2020 commitment to deliver 70 percent of 2,000 transitional homes by June 2022.

12. In addition, Kāinga Ora also supports on occasion the delivery of housing on behalf of a number of other organisations that do not count towards its Public Housing Plan commitments. This includes:

- 126 homes for Community Group Housing providers by 2024
- 64 homes for the Department of Corrections by 2022
- Homes for Oranga Tamariki.
- Tenanted public housing transfers e.g. Nelson Council housing (noting that this stock often comes with significant renewal requirements).

13. The combined net supply requirements from these commitments is illustrated in the below figure with total delivery expectations increasing by 25 percent in 2021/22 alone. Annual targets are set through the SPE.

Six-year housing commitments: volume and phasing (updated 20 August 2021)

All numbers are in net volume

Volumes (Net)	2018/ 19	2019/ 20	2020/ 21	2021 /22	2022/ 23	2023 /24	2018/19 - 2023/24	Agreement
Public Housing Plan 1: July 2018 to June 2022	1,223	727	940	1,590	0	0	4,480	Budget 2018
Public Housing Transfer: Tenanted	0	0	142	0	0	0	142	Nelson
Public Housing: Refugee Housing	0	0	215	23	126	0	364	Budget 2018
Public Housing Plan 2: July 2022 to June 2024	0	0	0	0	2,400	2,400	4,800	Budget 2020
Transitional Housing: PERM 530-650	0	229	175	0	0	0	404	HUD reset target to 404
Transitional Housing: Budget 2020	0	0	465	935	0	0	1,400	Budget 2020
Community Group Housing	-5	30	-5	21	42	43	126	13 in Corrections
Corrections Department	13	3	8	40	0	0	64	
Total	1,231	989	1,940	2,609	2,568	2,443	11,780	
Public Housing	1,223	727	1,297	1,613	2,526	2,400	9,786	
Supported Housing	8	262	643	996	42	43	1,994	

14. The Ministry of Housing and Urban Development have also initiated in the last month conversations around potential requirements for 2022/23 and 2023/24 for Transitional housing and Public Housing Plan 3. This would be in addition to what is set out above.

Risks to Delivery

COVID-19 prior to August 2021

15. As we have previously advised, prior to the resurgence of COVID-19 in August 2021 Kāinga Ora was facing some challenges to the delivery of its annual SPE targets. These challenges particularly related to the public and transitional housing programmes and have been driven by:
- the 2019/20 lockdown that rolled into 2020/21 saw three-month average delay across all construction projects with some ongoing effects on the overall industry productivity
 - Restricted global supply chains as a result of the pandemic
 - Significant ongoing demand for housing stock, which has limited the rehousing capacity within current supply
 - Market capacity and capability constraints including:
 - limited designer and builder capacity
 - limited internal project management and tenant relocation capacity due to competing priorities.
 - Limited availability of land in conjunction with the need to now purchase land - particularly as we move into new areas where the economics and land use rules mean that the redevelopment of our existing properties often does not make sense.

16. One of the key approaches to mitigating this gap was the Off-Site Manufacturing programme and the injection of this pipeline reduced the gap to close to half with the remaining homes being achieved through accelerating projects from FY2022/23 and being judicious on our site clearance and demolitions (which impact the net number delivered).

Impact of August 2021 COVID-19 outbreak

17. Our experience last year taught us that the COVID-19 Alert Levels and travel restrictions significantly impact our delivery programmes on a number of levels. These include:
- Our ability to have contractors on-site undertaking maintenance works
 - Staff not being able to physically inspect and progress work on sites
 - The efficiency of returning to business operations by the building sector through changes in alert levels
 - The solvency of our build partners and their general ability/preparedness to commit to new work
 - Skills shortages in the industry - exacerbated by the increased volume of work across the sector increasing demand for construction skills.
18. These impacts are not just constrained to the “product production” (physical construction) phase of our delivery programme. They impact across all phases of our construction process, some of which have less of an impact on immediate supply numbers but will see ripple effects into later years.



19. In particular, the change in alert levels have also:
- Community Requirements phase
 - Stopped us engaging with communities and iwi to determine their requirements
 - Delayed investigation of potential sites (geotechnical and contamination assessments)
 - Slowed land transactions
 - Slowed the moving of customers out of homes
 - Plan Fulfillment phase
 - Delayed urban design work
 - Delayed consents and land development activity (civil and infrastructure work)
 - Delayed technical assessments (engineering and geotechnical)
 - Stopped the movement of employees across regions

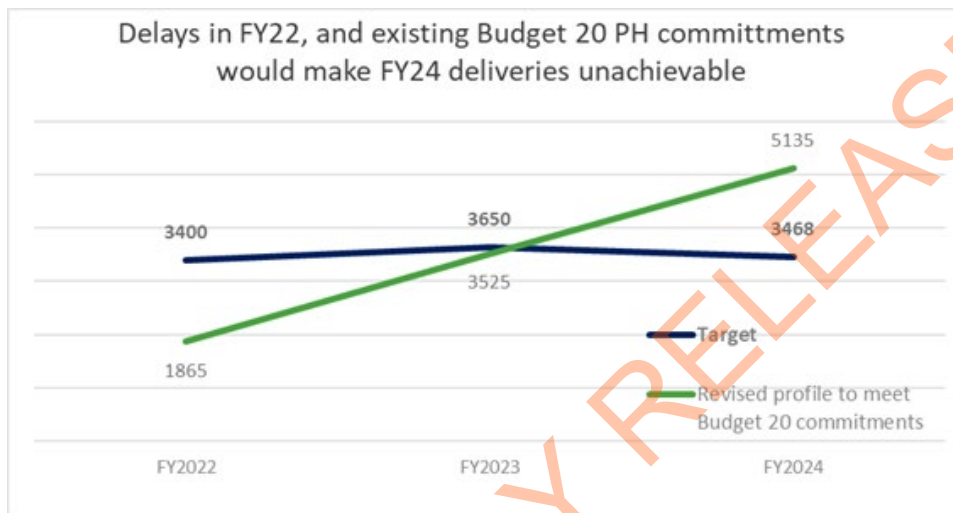
- Product Definition phase
 - Delayed home design work
 - Slowed procurement and pricing as site visits can't be undertaken
 - Customer Handover phase
 - Limited our ability to complete the handover of completed homes to our customers.
20. There are also some key differences this time around, which has meant that our pipelines are impacted in different ways to the last lockdown:
- Varying and more restrictive Alert Levels
 - Greater proportion of our supply is new build (reflecting a broader national spread of activity and a need to diversify our land holdings)
 - The size of our projects has increased, which means where single projects are impacted multiple units are affected - for example, one project may contain 40 plus units
 - Extended Alert Level 3 restrictions in Auckland have affected manufacturing and supply. This has been compounded where product manufacture relies on a non-integrated supply chain, particularly when only part of the manufacturing chain was permitted to operate at Alert Level 4
 - Port issues, international supply and commodity pricing, logistics challenges and freight costs continue to affect supply and costs. Impacts are further exacerbated as the sector has traditionally has not needed to plan well, having relied historically on just in time supply and manufacture therefore there is very little stock on hand to provide a buffer
 - The supply chain impacts have also directly impacted our major off-site manufacturing programme, which despite now having a pipeline of land for the 1,000 units is now expected to extend into Q3 2023 (it was previously expected to be completed by Q1 2023).
21. The following sections provide programme specific detail around impact for a number of our key delivery programmes. Further information on the potential impact at an organisation level is provided in Appendix 1.

New Homes

22. Current analysis suggests that we can expect delays to our supply programme of at least three to five months (refer appendix 2 for a list of key assumptions). This is based on:
- Last year's lockdown led to a three-month delay
 - A minimum three to four month shifting out of our programme relating to the length of the current lock down
 - Our biggest delivery months shifting into Q1 2022/23 (55 percent of FY2021/22 delivery was scheduled for completion in Q4) due to previous programme issues, like supply chain limitations
 - Supply chain constraints are worse now, with limited buffer stock on hand there will be a reduction in productivity

- The impact of the alert levels on the ability to implement the identified actions to close the gap identified in our pipeline pre-lockdown.
23. These delays are expected to result in a reduction of at least 1,535 homes being delivered in 2021/22.

24. s 9(2)(f)(iv)



25. In our view, a comprehensive re-phasing of future delivery commitments is needed. While we will continue to explore opportunities to accelerate some delivery, it is highly likely that existing commitments will need to shift into FY2024/25.
26. There will also be financial implications. The organisations' capex requirement is expected to be down circa \$1billion across FY2021/22 and FY2022/23. However, it is anticipated that there will likely be cost escalation as a consequence of the delays and increasing material and land costs (currently modelled at 10 percent). A full reassessment of the timing and value of our financing (and debt) requirements should follow any rephased delivery targets and will have implications for the timing of debt protocol needs.

Large Scale Projects

27. The Large-Scale projects (LSP) activity is primarily focussed on infrastructure and land development works to enable housing and broader outcomes. Current analysis has identified that in these areas as a direct result of Alert Level 4 restrictions approximately:

- 6,000m³ of earthworks were not cleared;
- 2.5kms of new streets were not built;
- 10kms of new pipework were not laid, and
- 7,000m² of land has been unable to be remediated.

28. At Alert Level 3 the Auckland LSP sites are back up and running at 80 percent of their capacity, given the Level 3 protocols. This means that for every week we work in Level 3 restrictions, one working day per week will be lost.
29. These restrictions also mean that Kāinga Ora is unable to carry out tenant relocations, impacting house removal, which in turn has a domino effect on the land development programme likely impacting out-years of public, market and affordable supply.
30. Supply and resource constraints, such as the availability of trucks, will have further significant impacts on the LSPs and delays are also anticipated with partners such as Watercare as they work through their own backlogs.

Healthy Homes

31. As at 30 September 2021, 25.3 percent (16,597) of the portfolio has been confirmed as meeting the Healthy Homes Standards. The programme was impacted by previous lockdowns, so had a shortfall of 1,933 against targets. It was allocated additional resource in May 2021 to bring it back to on track, and prior to this latest lockdown it was exceeding delivery expectations, steadily reducing the shortfall.
32. The planning and resourcing in place should help the programme to remobilise quickly out of lockdown, but there is a considerable risk that the organisation will not meet the compliance date of 30 June 2023. The same supply chain, product distribution and trade capacity issues that face the construction programme will present significant challenges to this programme.
33. There is very little capacity left in the sector for Kāinga Ora to grow the number of suppliers delivering the programme. It is likely that the Healthy Homes programme will be competing with the private sector for the same resources as too look to get their compliance programmes back on track (noting they were also struggling to make up ground lost in previous lockdowns).
34. The programme is primarily carried out in homes that are occupied. It requires customers to be comfortable with contractors and employees entering their homes, and suppliers and employees to be comfortable going into those environments too. At Alert Levels above 1 there is heightened apprehension from all parties about entering homes, and the current Delta outbreak and vaccination discussions will only exacerbate this.

Retrofit

35. As identified in BN 21 026, many of the uncertainties identified in the programme business case relating to limited rehousing, design and builder capacity have been realised as challenges to the retrofit programme over the past year. These uncertainties have slowed the pace of the programme with over 994 units being required to be delivered this financial year in order to meet the target of 1,500 retrofits by June 2022.
36. While a number of steps have been put in place to mitigate these challenges (including the addition of further resource, the development of a revised approach to managing retrofit rehousing that complements that of our redevelopment rehousing approach, and internal improvements around pipeline and reporting); there is risk to the delivery of this target which has been compounded by COVID-19 alert level changes. This risk extends beyond just the lost weeks of productivity in lockdown and supply chain limitations with delays to individual projects having a compounding effect on future projects that rely on the same tenant decanting a property.

Strategies to reduce risk

37. Kāinga Ora is closely monitoring onshore and offshore developments in supply chains, tracking international trends and considering their impacts on New Zealand supply and costings. Categories under particular pressure change regularly, with many seeing lead-times extend from six weeks only a few weeks back to 12-16 weeks depending on product and volume, including steel products (especially mesh) and some timber products.
38. To support our building services suppliers and supply chains, Kāinga Ora is:
- Encouraging forward ordering of materials as far in advance as possible
 - Extending the existing aggregated materials supply arrangements
 - Expanding coverage to support a wider number of our maintenance and construction services partners (where desired)
 - Increasing the categories of materials covered including products and supply chains that will assist transition to lower carbon emission construction
 - Working with independent advisors to ensure robust thinking and scenario planning.
39. The organisation is also putting significant effort into improving its processes to shorten its timeframes for delivering homes, which it is anticipated, will help address the backlog created as a result of the alert levels. This includes:
- Project Velocity – which is focussed on reducing the timeframes for house delivery
 - Off-site Manufacturing – the provision of circa 1,200 homes by third quarter of 2023 alongside business as usual, with the aim of reducing delivery times from 24 months plus to 13 months.
 - Consentium –
 - Work is underway with both offshore and local partners to facilitate MOUs in order to streamline the consenting pathway for Off-Site Manufacturing.
 - Options are also being considered around expanding its scope to include builds up to and including five levels, New Build homes (new homes and land purchased from the market on a turnkey basis), Community Group and Supported Housing. This will enable Kāinga Ora to consent more of the construction pipeline more efficiently in a much shorter timeframe.
 - Standing-up additional Customer Programme resources next year which will help us recover some of the customer facing targets (but not before year end).
40. Kainga Ora is confident that these initiatives (see Appendix 3 for more detail) will improve our efficiency as an organisation, however it is unlikely that they will be able to mitigate the extent of the impact we are forecasting at this point in time and therefore the impact on our multi-year commitments and SPE targets. The sections below propose options for managing this risk.

s 9(2)(f)(iv)

PROACTIVELY RELEASED

Consultation

55. The Ministry of Housing and Urban Development (HUD) were provided with an early copy of this paper and provided the following initial advice:
- Kāinga Ora does not need permission to change their SPE; however the Crown Entities Act 2004 requires this to go through a process involving Ministerial feedback. HUD would provide supporting advice to Ministers in this instance.
 - Previous advice from HUD noted that changing targets in an SPE is appropriate where there has been a substantial change in the strategic direction or functions of the entity – but less so because operating impacts (COVID-19 or otherwise) have meant those targets will be missed. This is consistent with other monitoring agencies.
 - Based on the quantum of impact highlighted in this paper HUD officials will test whether this guidance is still appropriate.

Next Steps

56. A further briefing will be provided in December 2021 assuming the impact of the current lockdowns will be better known at this point. This will focus on risk mitigations in line with preferences indicated by you via this briefing.

Appendix 1 - Potential Impact of COVID-19 on the 2021/22 SPE

It should be noted that the impact has been estimated as at early October 2021 when Auckland is still in Alert Level 3. Further assessments will be completed once the impact is more fully known.

Sustaining tenancies & communities		Full year target	Estimated COVID impact
1.1	Public housing customers that receive a welcome home visit within the first six weeks	85%	Medium
1.2	Public housing customers satisfied with Kāinga Ora Customer Support Centre	85%	Low
1.3	Calls answered in 2 minutes by Customer Support Centre	80%	Medium
1.4	Customers who feel tenancy manager treats with respect	85%	Low
1.5	Public homes that are let (occupied days)	97.8%	Low
1.6	New customers sustain tenancies for 12+ months	92%	Low
1.7	Customers in rent arrears with a working repayment arrangement	75%	Medium
1.8	Customers who feel tenancy manager takes account of circumstances	75%	Low
1.9	Tenants satisfied that interactions with us are culturally appropriate	75%	Low
1.10	...and who identify as Maori	75%	Low
	...and who identify as Pacific peoples	75%	Low
Managing & maintaining homes		Full year target	Estimated COVID impact
2.1	Average days from a public home becoming vacant to being 'ready to let'	18.0	High
2.2	Public housing customers satisfied with repairs and maintenance	75%	Medium
2.3	Average time to respond to urgent health and safety queries	4 hours	Medium
2.4	Public housing customer maintenance requests completed within agreed service level	80%	High
2.5	Public and supported homes that receive major planned interventions	13%	High
2.6	Housing portfolio compliant with Healthy Homes Guarantee Act	60%	High
2.7	Public houses completed in home renewal programmes	1,125	High
2.8	Public lettable properties meeting the asset condition scale baseline standard	94%	Medium

New housing supply		Full year target	Estimated COVID impact
	Newly constructed homes	3,400	High
3.1	...that are public homes	2,400	High
	...that are supported homes	1,000	High
	Net increase in homes	2,700	High
3.2	...that are public homes	1,600	High
	...that are supported homes	1,100	High
3.3	New public homes (redevelopments) built to 6 Homestar standard	90%	Low
3.4	Newly constructed homes meet full Universal Design standards	15%	Low
	Demolition waste diverted from landfill		Low
3.5	...in Auckland	80%	Low
	...in the rest of New Zealand	<i>Benchmark</i>	Low
3.6	New trainees in our construction apprenticeship and cadetship programme	100	Low
3.7	... percentage who identify as Maori or Pacific peoples	<i>Benchmark</i>	Low
3.8	Formal construction partners satisfied with partnership with Kāinga Ora	<i>Benchmark</i>	Low
3.9	Iwi partners satisfied with partnership with Kāinga Ora	<i>Benchmark</i>	High
3.10	Building consents granted by Consentium within 20 working days	98%	High

Urban development		Full year target	Estimated COVID impact
4.1	New homes enabled	1,600	High
4.2	Affordable homes enabled	40%	Low
4.3	Enabled homes under construction within agreed timeframes	95%	High
4.4	New public, shared equity, and built-to-rent pilot homes on behalf of TRC	95	High
4.5	New market, affordable and TRC public homes enabled to 6 Homestar standard	90%	Low
4.6	Jobs through Shovel Ready Projects (≥ 320 by June 2024)	<i>Tracking</i>	Low

First home ownership		Full year target	Estimated COVID impact
5.1	New First Home Grants assessed for eligibility	<i>Demand driven</i>	High
5.2	Average days to assess completed First Home Grant applications	5.0	Low
5.3	New KiwiBuild applications assessed for eligibility	<i>Demand driven</i>	High
5.4	Average days to assess completed KiwiBuild applications	5.0	Low
5.5	New Progressive Home Ownership applications assessed for eligibility	<i>Demand driven</i>	Low
5.6	Average days to assess completed Progressive Home Ownership applications	5.0	Low
	Applicants gaining full pre-approval for the Progress Home Ownership scheme who:		Low
5.7	...identify as Maori	<i>Benchmark</i>	Low
	...identify as Pacific peoples	<i>Benchmark</i>	Low
	...are families with children	<i>Benchmark</i>	Low
5.8	First Home Loan mortgages underwritten	<i>Demand driven</i>	High
5.9	Homes purchased with our home ownership products	<i>Demand driven</i>	High
5.10	...where the purchasers identify as Maori	<i>Benchmark</i>	High
	...where the purchasers identify as Pacific peoples	<i>Benchmark</i>	High
Crown land		Full year target	Estimated COVID impact
6.1	Residents satisfied with overall living experience at Hobsonville Point	75%	Low
6.2	Completed underwritten KiwiBuild homes acquired by Crown as part of the Buying Off the Plans Programme	25%	High

Appendix 2 – Key modelling assumptions around COVID-19 Impact

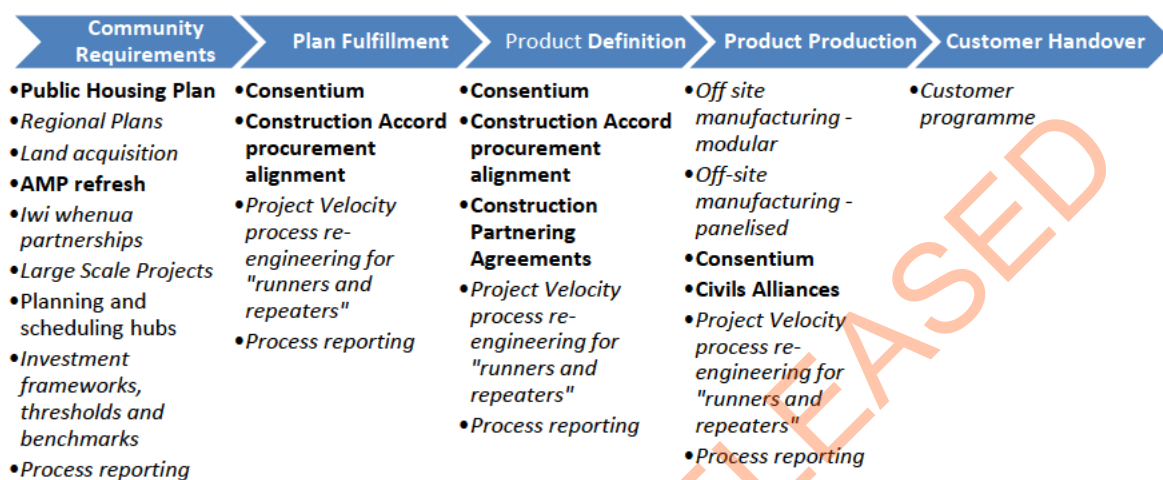
- We modelled projects based on their stage in the development lifecycle and location considering the duration in Auckland compared to the rest of New Zealand.
- The modelling assumes that we do not have any further lockdowns and the staged progression out of Level 3 in Auckland, with the overall construction productivity as yet unknown under new site safety protocols.
- At the time of the modelling, it was assumed that it would take nine weeks for Auckland to arrive at Level 1 and seven weeks for the Rest of NZ. This was based on the previous lockdown learnings; however, this is optimistic given the current state of the Delta variant and may result in longer lockdowns in Level 3 and Level 2 for Auckland.
- Unit and capex analysis focused purely on gross Redevelopment and New Builds (including OSM, counted in redevelopment).
- SPE 3.1 (target) for current year confirmed at 3,400. For outer years we have assumed the newly built target will be based on delivery against existing PHP commitments and provisions for net growth of 4,800 homes across FY2024/25 and FY2025/26.
- We have modelled a range of scenarios with the low being not meeting the PHP and the high that all units deferred will be met in FY2023/24 hence meeting the PHP.

Productivity assumptions:

- Assumptions were split into two parts - Auckland and Rest of New Zealand
- At the time of the modelling, it was assumed that it would take nine weeks for Auckland to arrive at Level 1 and seven weeks for the Rest of NZ. This was based on the previous lockdown learnings; however, this is optimistic given the current state of the Delta variant and may result in longer lockdowns in Level 3 and Level 2 for Auckland
- Foundation of the assumptions applied were estimating the percentage of sites open and their percentage of productivity during that level; i.e 10 percent sites open and 30 percent productivity
- Level 4 projects reduced to no productivity throughout New Zealand – Auckland was set to four weeks and Rest of New Zealand set to two weeks
- Level 3 assumes between 10 to 40 percent of sites opening and up to 30 percent productivity on site over the course of the Level 3 lockdown
- Level 2 assumes an increase in open sites from 40 percent up to 100 percent week by week, with productivity levels between 50 and 70 percent.
- Level 1 assumes all sites are open and normal productivity resumes.

Appendix 3 - Construction Improvement Programme

The diagram below sets out the key phases we work through to get a home built, and shows below the range of initiatives we have underway to improve performance in each phase. The initiatives in **bold** are well advanced, italics in flight and unmarked are programmed to start shortly.



Appendix 4 – Options for managing the impact on the SPE

Option	Pros	Cons
<p>1/ Not amending the SPE <i>Kāinga Ora would not amend the SPE targets but aim to explain the difference of performance in its Annual Report at the end of the year.</i></p>	<p>No need to enter the amendment process</p> <p>Only one set of formal SPE targets to track and report against</p>	<p>HUD and Minister do not have visibility on impact for target achievability, the difference of the forecasts in performance reporting against a large number of formal SPE targets would not be meaningful</p> <p>Lack of transparency on the known impact of performance expectations for public accountability</p> <p>Given the scale of known impact, Kāinga Ora may be subject to the risk of non-compliance with legislation which requires the entity to amend its SPE if its intentions and undertakings are significantly affected by the change in the operating environment</p> <p>Annual report may not be able to capture the full picture of COVID impact on both target-setting and performance reporting</p>
<p>2/ Shadow targets <i>Kāinga Ora would not formally amend the SPE targets, but try to establish a shared understanding with HUD and the Minister on what may be reasonably achievable in the impacted areas</i></p> <p><i>Kāinga Ora would explain the COVID performance impact in the Annual report</i></p>	<p>No need to enter the amendment process</p> <p>HUD and Minister have better visibility on impact for target achievability; forecast reporting against “shadow targets” can provide some visibility on performance against revised targets</p>	<p>Lack of transparency on the known impact of performance expectations for public accountability</p> <p>Given the scale of known impact, Kāinga Ora may be subject to the risk of non-compliance with the legislative requirements which requires the entity to amend its SPE if the intentions and undertakings are significantly affected by the change in the operating environment</p> <p>Two sets of targets potentially create confusion for tracking and monitoring</p> <p>Establishing shared understanding of “shadow targets” with HUD and Minister gives Kāinga Ora less control over our performance targets (for Board to consider only, take out before going to HUD)</p>
<p>3/ Formally amending SPE Under 149K of CEA.</p> <p>Reset current fixed targets</p>	<p>Provide the transparency on known impact for public accountability.</p> <p>Allows for change controls to focus on non-COVID impacts.</p> <p>HUD and Minister have good visibility of forecast against targets</p>	<p>Following the amendment process takes time and a formal process</p> <p>Further lockdowns may make any new SPE redundant. Given the inherent uncertainty of the environment, may be better to manage the implications ex-post.</p>

<p><i>Kāinga Ora formally provides the Minister with a draft amendment to the responsible Minister and the Minister must provide any comments they may have within 15 days after receiving the draft</i></p> <p><i>Kāinga Ora would re-publish its amended SPE and re-table it at the House</i></p>	<p>Mitigating the risk of non-compliance with legislative requirements for SPE amendment</p> <p>Depending on the evolving situation of COVID, Kāinga Ora might still explain the COVID impact in the Annual report, but reporting will provide a fuller picture on COVID impact on both target-setting and actual performance</p>	
<p>4/ Formally amending SPE Under 149K of CEA.</p> <p>Flexible/altered approach to target setting</p> <p><i>E.g: Targets based on ranges.</i></p> <p><i>Reduce number of targets, focusing on priority expectations</i></p> <p><i>Remove targets, and move to a pure monitoring of progress approach for 2021/22.</i></p>	<p>As above, and in addition</p> <p>Provides flexibility to manage future risks if further lockdowns mean targets should be reassessed again - reduces low value administrative burdens.</p> <p>Provides the flexibility to maximise the use of financial resources to deliver as and where opportunity emerges, without being constrained by guess based targets subject to significant external uncontrollable influences.</p>	