Kāinga Ora
Homes and Communities

Progress

on building brighter futures

Q2
PŪRONGO IA TORU MARAMA
QUARTERLY REPORT
OCTOBER – DECEMBER 2023

Executive Summary

We put in place cost-efficiency initiatives during the last quarter that are expected to result in capital expenditure being $1,838 million lower than budget. As a result, the cumulative net operating position will improve by $506 million over the four years compared with budget. This is driven by initiatives around decreasing costs in asset management, asset maintenance and housing delivery, and reducing headcount by an initial 300 people.

There was a slight decline in interest rates this quarter. If maintained, this will help moderate the rise in borrowing costs that we have experienced and further improve our financial position. However, risk remains around how inflation will impact our expenses.

Approximately 600 of our homes are vacated every month and circa 250 added to our total stock. We are continually improving our processes to turn homes around faster and place new customers into homes.

These include:

- Designating more repair jobs as occupied repairs. This means the repair work can be undertaken safely after a home has been occupied or before the previous tenant moves out.
- Working with emergency and transitional housing providers, where those providers have triaged (and stabilised) households, to support a more streamlined matching process of customers to new homes and locations.
- Batch-matching customers to homes using a new technology tool we have developed. It provides a weekly optimised list of recommended matches for homes against the location, size, urgency, and accessibility needs of households on the Ministry of Social Development (MSD) waitlist and our internal transfer tenants.

We have focused on the above improvements, and the resulting marginal increase in occupancy has been encouraging. 98%[1] of our public homes that are available for letting were occupied as of 31 December 2023. Of the vacant 1,299 homes, 559 homes were 'ready to let' and in the process of being matched to a suitable customer. 456 homes were under repair and being upgraded before new customers move in. A further 284 new homes were receiving final completion works before being ready to occupy.

The New Zealanders we house are receiving the support they need to help them live well and independently in their homes and communities. We have recorded an all-time high result for the Statement of Performance Expectations' (SPE) measure of customers receiving Support to Settle In at 94 per cent, exceeding the 85 per cent target. If those customers require our support, the Customer Service Centre's average answer speed exceeds the SPE target also, at a recorded impressive 33 seconds.

Our organisation takes disruptive behaviour seriously and responds quickly when issues are raised. We have been developing new processes and operational policies that will strengthen the management of disruptive tenants. In December, the Kāinga Ora Board considered options and agreed to additional work being undertaken on approaches that will accelerate the process of tenancy termination for severe and persistent cases.

Total rental arrears were $21 million as of 31 December 2023, with around 85 per cent of our customers submitting their rental payments on time. There are some who struggle to do so intermittently, and we work with them to return them to their payments being up to date. Almost three-quarters of the customers with rent arrears are actively making efforts to reduce them.

There are some who will not engage and we are acting to both recover the money and, in some cases, end the tenancy. This does require a multi-agency approach as in most situations the customer has few other housing options outside emergency housing.

We are currently demolishing homes unsuitable for their intended purpose as part of our urban planning and development efforts. This is the initial step in our plan to meet the housing demands of our community in the coming years and the land will be specifically used for large-scale projects to support significant housing delivery.

Performance measure results remain broadly in line with expectations, and we expand on these in the second half of this report.

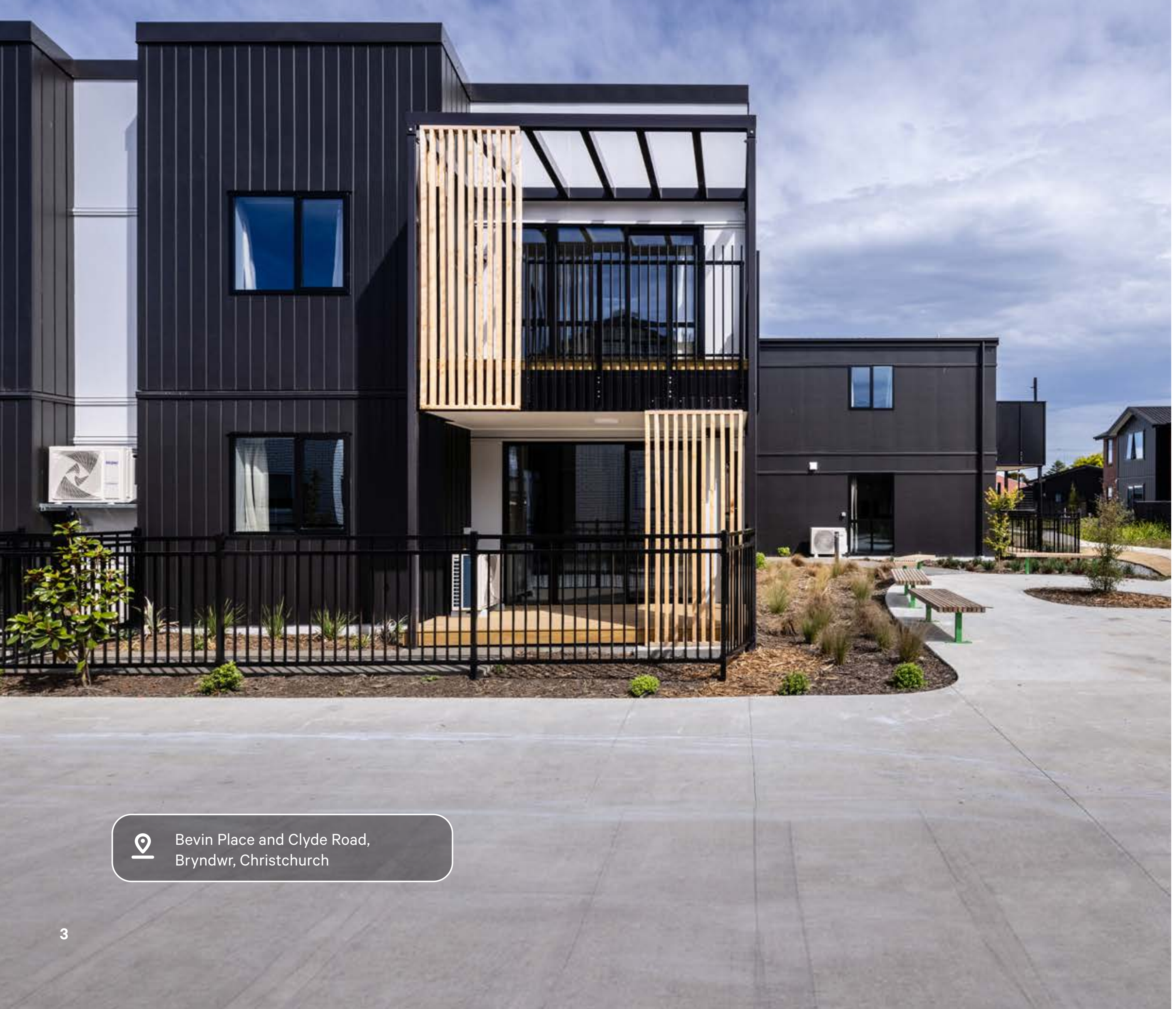
1 Note our current SPE occupancy measure (SPE 2.9) shows a result of 95%. However, this result includes homes that have been 'removed from service' for redevelopment, renewal, and major repairs. The way we measure occupancy was established when our renewal and redevelopment activity was relatively small scale. and now does not fairly represent our occupancy rate. We will be making changes to this SPE measure in 2024/25 so it represents our true occupancy rate in relation to public homes that are available to let.

Contents

This document has been formatted to allow easy accessibility for all people, as described in the Ministry of Social Development's *Accessibility Guide.*

Introduction

This section provides a look at who we are, what direction the Government has set for us, and shows how our work benefits New Zealanders.



Bevin Place and Clyde Road, Bryndwr, Christchurch

Purpose of this report

This report provides an update on our progress towards meeting the commitments outlined in the Statement of Performance Expectations (SPE) 2023/24, Statement of Intent 2022–2026 and the Ministry of Housing and Urban Development (HUD) Public Housing Plan, at the end of Quarter 2 (31 December 2023). All results are year to date from 1 July to 31 December 2023.

Our role

Our role is to deliver the Government's housing and urban development policies and objectives. We build and maintain housing for the people who need it most and provide ongoing support to help them live well and independently in their homes and communities. We are here to help New Zealanders become homeowners for the first time. We look for the most efficient housing solutions to maintain the scale of delivery we require. We partner with others to create sustainable and inclusive communities across New Zealand.

For more information, please visit **kaingaora.govt.nz**.

Our key focus areas

We have identified key current focus areas that we need to consider in order to meet government expectations and deliver on our commitments.

Supporting the independent review

The Honourable Chris Bishop announced an independent review of Kāinga Ora in December 2023. Our management team and Board are participating and have provided significant information to the review team. We will continue to work closely with them to ensure accurate and timely responses.

Strengthening our approach to managing disruptive tenants

Our Board is considering options for strengthening our approach to the management of disruptive tenants due to ongoing concerns. We will continue to use the existing tools available under the Residential Tenancies Act (RTA) – as amended in 2020 – such as formal warning notices, to prompt behavioural change for moderate or one-off situations of disruptive conduct.

We will accelerate the tenancy termination process for severe and persistent cases. If a customer is willing to move, we can do this without using any tools available under the RTA. A total of 121 households were relocated by agreement due to disruptive behaviour between 1 July and 31 December 2023.

If a customer is unwilling to vacate the premises, we can use section 53B of the RTA to end the tenancy and transfer the customer to another home. We relocated 2 households in this way between 1 July and 31 December 2023.

In severe, persistent or threatening situations, we will terminate a tenancy under section 55 of the RTA and not provide them with another Kāinga Ora home.

Continuing to focus strongly on financial sustainability

We are focused on financial sustainability and expenditure control through our Financial Sustainability Programme and cost-efficient initiatives. The Board approved several measures in December that reduce forecast capital expenditure in the budget period by a net $1,838 million. This reflects decreased housing construction costs, increased revenue from market and affordable land sales, and a re-phasing of land development programmes.

More detail about our ongoing efforts to control cost growth is provided in the Financial Performance section of this report.

Improving our portfolio utilisation

Every month, around 600 of our homes are vacated, 30 damaged, and over 300 come into service as construction or retrofit activity is completed. This reflects normal operating dynamics with customers vacating their homes, dwellings being damaged and requiring major repairs (20 are affected monthly by fires), and code of compliance certificates being received for homes following construction or renovation. We are focused on the speed of repair or construction and then tenanting these homes.

The number of homes not occupied has been reducing and decreased by 301 to 1,359 during this quarter.

		Vacant homes				Vacant homes – total
		Vacant homes - being made available to let			Vacant homes – unavailable for letting	
Month-end date	**Agreed asset use**	**Coming into service**	**Ready to let**	**Under repair**	**Pending decision**	
31-Dec-23	State Housing	284	559	456	60	**1,359**
	Community Group Housing		13	15	5	**33**
31-Dec-23 Total		**284**	**572**	**471**	**65**	**1,392**

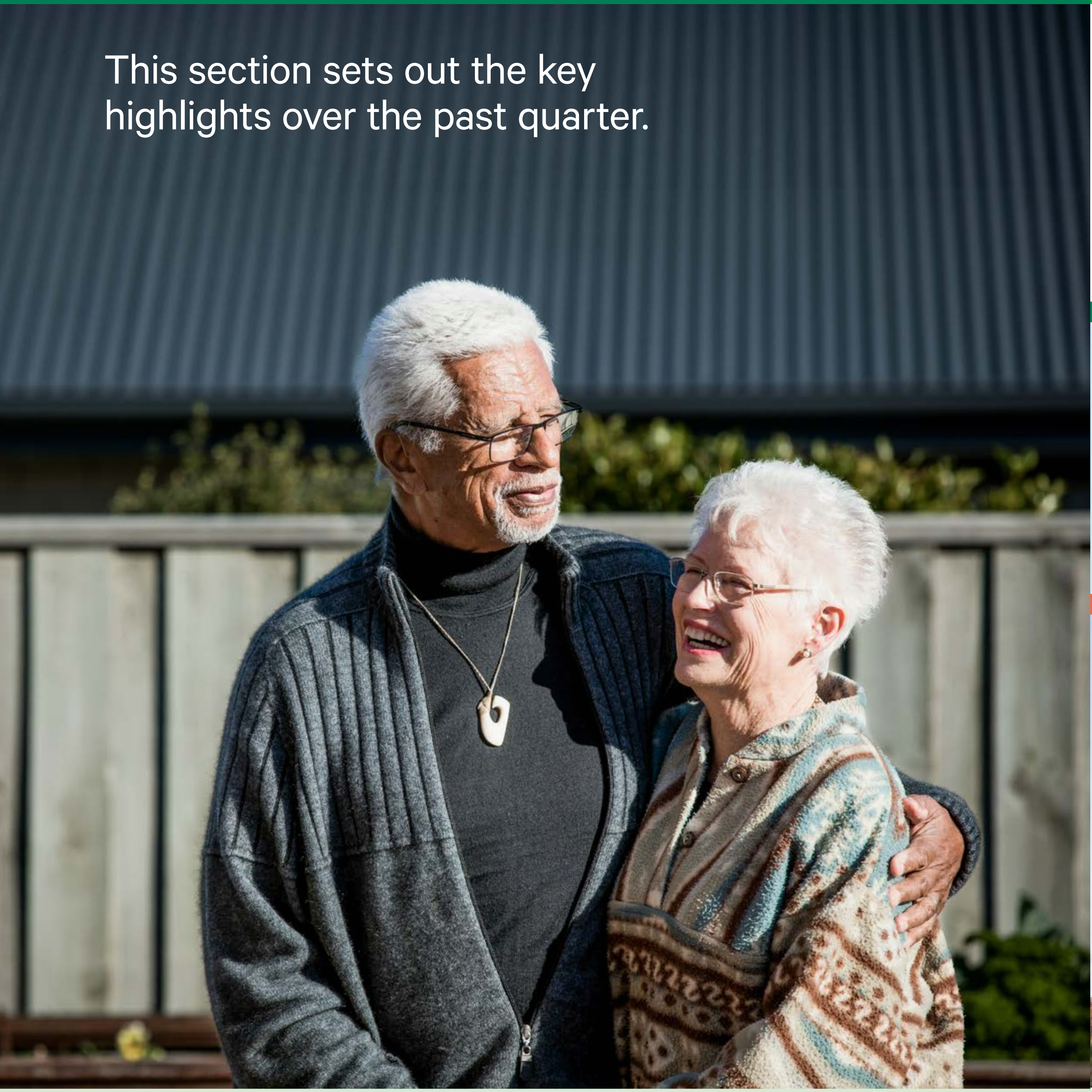
We also have sites and homes that are removed from our letting portfolio, as they are emptied for demolition so we can redevelop sites and have the homes completely upgraded and renewed (retrofitted), sold or returned to their private owners as leases expire. We also have over 6,000 homes under construction, which are unavailable for letting. While these programmes are underway the number of sites and homes affected varies according to the timing and number of work programmes.

		Homes removed from service					Homes removed from service – total
		Homes in construction		Redevelopment / Disposal			
Month-end date	**Agreed asset use**	**Major repairs**	**Retrofit process**	**Redevelopment process**	**Demolition process**	**Sales and lease expiry**	
31-Dec-23	State Housing	335	732	484	562	87	**2,200**
	Community Group Housing	1	3		2	1	**7**
31-Dec-23 Total		**336**	**735**	**484**	**564**	**88**	**2,207**

We have recently introduced a new Housing Delivery System to accelerate the process of building new public houses. The design phase for a project (average five homes) has been shortened from 17 months to just six weeks, and construction times are now consistently under 16 weeks. This means we are currently able to demolish old homes and construct new ones in significantly less time.

We are also improving our asset management and maintenance delivery processes to reduce the cost and time taken to repair a home that has been vacated. There are several operational initiatives in progress in high-vacancy regions to reduce vacancies and decrease the time homes are unavailable.

Key highlights



This section sets out the key highlights over the past quarter.

$1.8B ↓

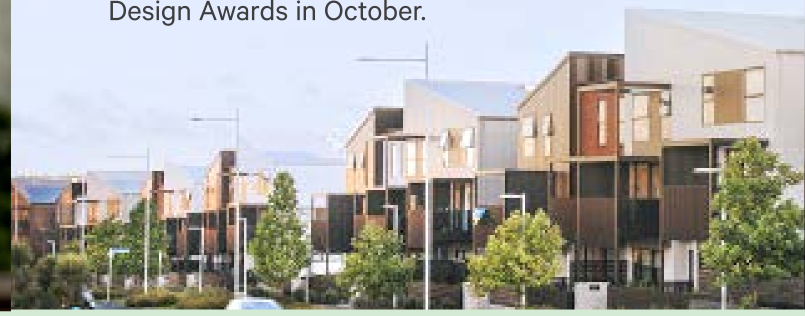
REDUCTION IN CAPITAL SPEND forecast for the next four-year budget period.

$506M ↓

REDUCTION IN OPERATING COSTS forecast for the next four-year budget period.

SUPREME AWARD

FOR TE URU TERRACES IN HOBSONVILLE POINT received at the 2023 National Resene Architectural Design Awards in October.

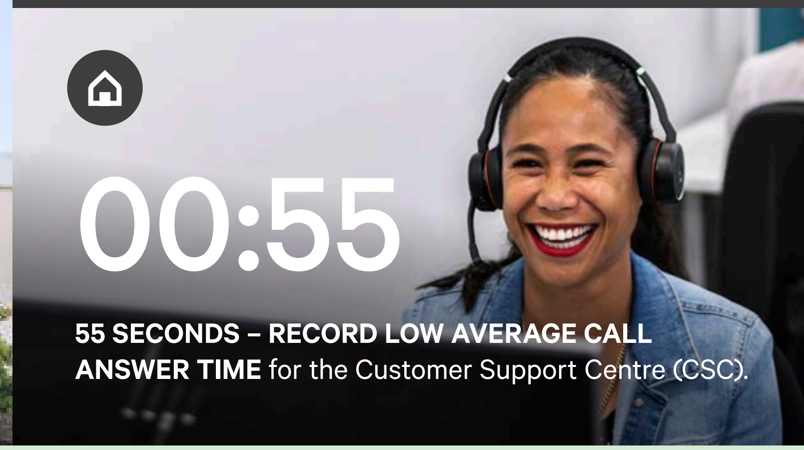


98.7%

HOUSING PORTFOLIO THAT MEETS HEALTHY HOMES STANDARDS. The remaining 0.6 per cent is in progress and we expect to achieve out 100 per cent full-year target.

94%

OF NEW CUSTOMERS RECEIVING SUPPORT TO SETTLE IN within their first 12 weeks of tenancy.

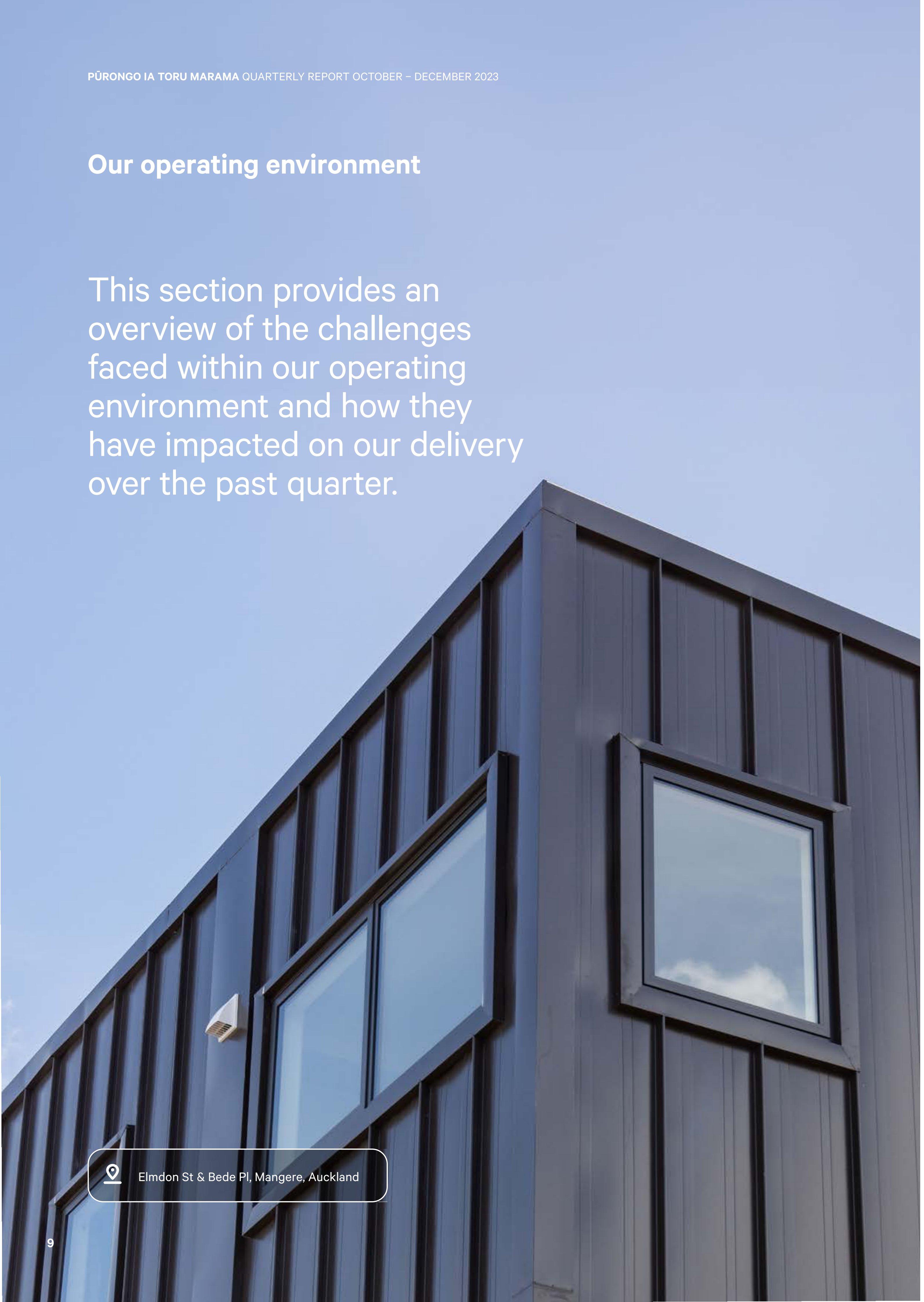


00:55

55 SECONDS – RECORD LOW AVERAGE CALL ANSWER TIME for the Customer Support Centre (CSC).

Our operating environment

This section provides an overview of the challenges faced within our operating environment and how they have impacted on our delivery over the past quarter.



Elmdon St & Bede Pl, Mangere, Auckland

This quarter, Kāinga Ora has been delivering against a dynamic operating environment of still-high inflation, a slower global and local economy, and changing interest rates.

Cost increases faced by Kāinga Ora

We are still experiencing cost increases within our operating environment. Insurance costs have risen as a result of extreme weather events and a tightening of the global insurance market. Council rates are forecast to also increase significantly, more than offsetting the extra income received from increasing rental levels. Cost-saving initiatives are being delivered that will improve our financial results.

Falling interest rates will reduce interest costs relative to Budget Update

Interest rates in the global market rose significantly in 2023 due to stronger-than-expected economic growth and inflation. However, rates fell in November and December as markets experienced a softening economy. We borrow money at the New Zealand Government's yield rates plus a margin, and the decline in interest rates will help reduce the increase in borrowing costs caused by our significant capital expenditure programme.

2023/24 debt drawdowns on track

We have borrowed $2.8 billion to finance the building of new homes, purchase of land and land development. The average cost of that new debt is 4.95 per cent (4.35 per cent for 2023/24). The overall cost of funds for our entire debt portfolio of $15.0 billion remains lower at 3.61 per cent, as most debt has fixed rates set in lower interest rate periods. The 4.95 per cent average draw-down rate for the year is a significant accomplishment, with the mean 7-year and 10-year New Zealand Government rates during this period 5.05 per cent and 5.11 per cent, respectively (including a margin of 15 basis points). We expect to end the 2023/24 financial year with a weighted average financing cost for our new debt of less than 4.9 per cent; however, the overall portfolio cost may rise to 3.7 per cent.

Risk management

Our risk governance framework helps to integrate risk management across the organisation by supporting the Three Lines of Defence model that enables senior leaders and the Board to have a single view of material risks to the performance of our organisation.

Our top risks are classified as ones that may significantly impact the ability to achieve our strategic objectives, outcomes and commitments. These include both strategic and top operational risks that are made up of potential opportunities and challenges. Examples of our top organisational risks include the impact of climate change, technology, complying with our legislative requirements, and workforce capacity and capability. Our Board reviews these on an ongoing basis.

Quarterly delivery

This section discusses our quarterly delivery performance outlined in our 2023/24 SPE. Factors affecting delivery include the operating environment and focus areas mentioned in previous sections of this report.

Riccarton Road, Christchurch

Progress towards achieving our outcomes

OUTPUT CLASS 1

Supporting our customers to live well with dignity, stability and connectedness.

What we do	Link to outcomes (per SPE)
We aim to provide quality public and supported housing through good asset stewardship, ensuring our homes are safe, warm, dry and healthy and designed to support a diverse range of needs and choices.	Customer wellbeing Thriving communities Māori aspirations Housing access

Expected seasonal decrease for customers in rent arrears with working repayment arrangement

Approximately 85 per cent of our customers pay their rent each week and are up to date with their rental payments.

Rent arrears should be viewed in the broader context of increasing government debt. For example, debt to Inland Revenue for Working for Families overpayments has risen by more than 25 per cent during the 2021 and 2022 period, with an increase of $52 million as of June 2023 (up 27 per cent from the previous year and 79 per cent since 2018).

Our customers were in arrears in their rent by a total of $21 million as of 31 December 2023 and this amount has increased over the last few years. When a customer falls behind on their rent, we work closely with them to address the arrears and establish a repayment arrangement that is both manageable and sustainable for the household.

The percentage of customers in rent arrears with a working repayment arrangement reduced for the first time this financial year, reducing from 77 per cent at the end of the first quarter to 76 per cent at the end of the second quarter. This is an expected seasonal decrease, as customers face additional expenses and financial difficulty during the December and January holiday period. We are currently continuing to achieve the 75 per cent target. However, based on previous years, we expect the number of customers in arrears (or not meeting repayment arrangements) to increase in January, before returning to usual levels and improved measure results in later months.

	Performance measure	Target	Year-to-date Result	Year-end Forecast
1.1	Percentage of new customers to receive Support to Settle In within the first 12 weeks of commencing their tenancy	85%	**94%**	95%
1.2	Tenant satisfaction with tenancy and Customer Support Centre (CSC) interactions *The quarter's result shows minor improvement from the first quarter's 76% result and is within the survey margin of error. We remain on track to achieve the target. This measure combines customers' opinions of their Housing Support Managers; our consideration of customers' individual circumstances; and satisfaction with services provided by the CSC.*	78%	**77%**	78%
1.3	Percentage of customers in rent arrears with a successful working repayment arrangement	75%	**76%**	77%
1.4	Percentage of customers who are satisfied that their interactions with Kāinga Ora are culturally appropriate *The overall survey results for this measure improved 4.5% quarter on quarter, increasing the year-to-date result to 74%, within the survey margin of error.*	75%	**74%**	75%
	Who identify as Māori	75%	**76%**	76%
	Who identify as Pacific peoples *The result for Pacific peoples was better than the same time last year (69%); however, it showed a similar quarter-on-quarter decrease. This reduction can be explained by a smaller volume of Pacific peoples answering the survey; therefore, just a few people can impact the results significantly. We expect this to follow the previous year's trend and improve over the remaining quarters, but we will monitor to ensure the results do not continue to decrease.*	75%	**71%**	73%
1.5	Customer Support Centre (CSC) average speed to answer telephone calls (seconds)	≤3 minutes	**1 min 1s**	1 min 4s

OUTPUT CLASS 2

Growing, renewing and maintaining our homes

What we do	Link to outcomes (per SPE)
Ensure that public and supported housing customers have access to warm, dry and safe homes. This includes renewing and growing our existing portfolio of homes, delivering growth in the right volume, quality and place, matched to our customers' and their whānau needs.	Customer wellbeing Thriving communities Māori aspirations Housing access

Forecast to meet our six-year Public Housing Plan (PHP) commitments in early 2024/25

We have delivered a net 8,319 public and supported homes since the beginning of the six-year PHP in 2018/19 (13,493 gross). We are well on track to meet our net 11,512 PHP target, with only 3,193 (net) homes left to be delivered by early 2024/25. We are exceeding our year-to-date expectations for SPE 2.1 (newly constructed homes).

We are confident that we will be able to meet our commitments by early 2024/25 given the current level of activity in our pipeline, while also maintaining an ongoing source of future work. We already have 4,050 homes committed (in the construction and contracted stages, or already delivered) and an additional 50 are in the pre-construction phase. Our main priority is to ensure we deliver our commitments on time.

Continued highs in the maintenance area for customer satisfaction

Our customer satisfaction results for maintenance increased to 79 per cent in December 2023, up from 70 per cent a year earlier, against the SPE target of 75 per cent. The results for the September and December quarters are the highest we have achieved under the Te Mahi Ngātahi contract that began in July 2020.

While the increase can be attributed to a range of influences, in the past year we have undertaken a greater level of maintenance work on our customers' homes, reducing our maintenance work in progress that had built up because of COVID-19 restrictions. The work has been completed in a more timely manner, as shown by the reduction in urgent health and safety response time, and an improvement in the public housing customer maintenance requests completed within the agreed service level targets. The volume of complaints raised as a percentage of work orders during this period has continued to trend downwards.

CASE STUDY

Kāinga Ora Homes in Invercargill bring residents together and improve their wellbeing.

The residents of a street in Invercargill are grateful for their Kāinga Ora homes, which have brought them together and improved their wellbeing. These eight accessible two-bedroom homes have provided the residents with a sense of community and support network they didn't expect. Tracy, who uses a wheelchair, has found her new home to be life-changing, as it has given her a safe and secure place in which to recover. Shona, her neighbour, has moved closer to her family. Joyanne has experienced a positive change since moving into her new home too, thanks to her neighbours.

Read the full story of how our work supports this type of connectedness at kaingaora.govt.nz/news/new-homes-create-a-community-of-more-than-just-neighbours.

Performance measure		Target	Year-to-date Result	Year-end Forecast
2.1	Newly constructed homes:	4,500 – 5,300	**1,490**	4,500
	That are public homes	4,385 – 5,185	**1,403**	
	That are supported homes *We are on track to meet both this measure and the net increase measure this year.*	115	**87**	
2.2	Increase in the overall number of Kāinga Ora public and supported homes (net increase):	3.500 – 4,300	**715**	3,500
	That are public homes	3,370 – 4,170	**593**	
	That are supported homes	130	**122**	
2.3	Percentage of new public and supported homes built to the 6 Homestar v 4.1 standard and the Kāinga Ora 6 Homestar v5 transition standard or higher	90%	**100%**	95%
2.4	Percentage of eligible newly constructed Kāinga Ora public homes meeting full universal design standards	15%	**15%**	15%
2.5	Percentage of new homes adopting Offsite Manufacturing solutions *Use of Offsite Manufacturing (OSM) has continued to trend at 11% of redevelopment homes delivered for the year to date. The total number of homes in the OSM pipeline for the year has declined to approximately 450 due to several factors and this trend is expected to continue into Quarter 3. Our ability to meet the 12% full-year target is dependent on total contribution from both Traditional Delivery and Housing Delivery System.*	12%	**11%**	12%
2.6	Time taken to design and build a new public or supported homes :			
	That are houses	≤32 months	**27**	28
	That are apartments *This measure is new this financial year and while the result for houses is on track, the result for apartments is unlikely to achieve target. We are looking into this further as some legacy projects included in the measure are potentially not applicable. In addition, the forecast was set before the full effects of the flooding and Cyclone Gabrielle were known and it assumed a specific balance between our delivery methods.*	≤46 months	**51**	58

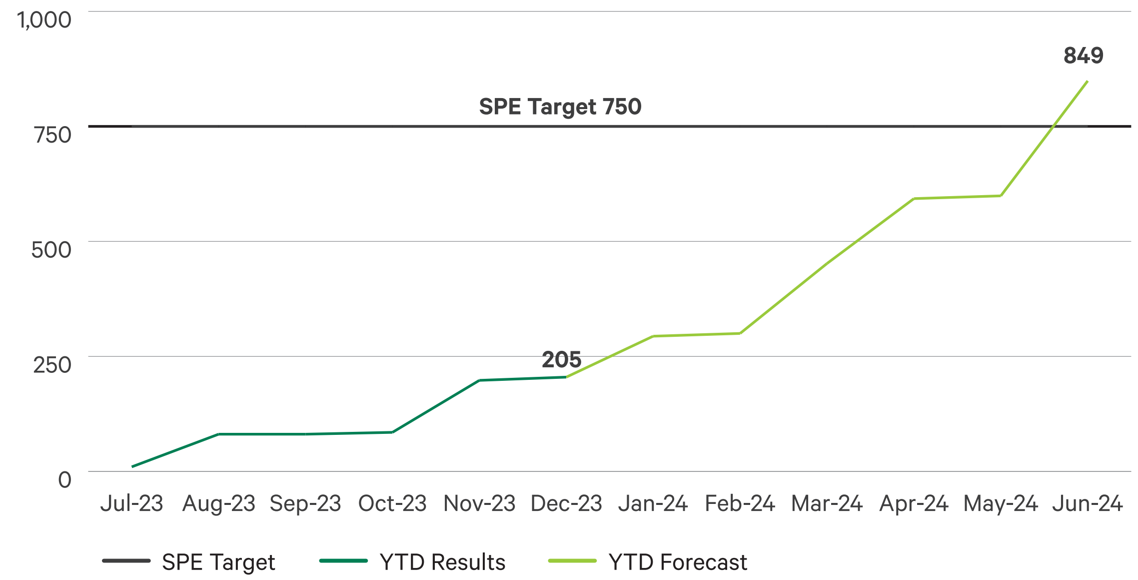
	Performance measure	Target	Year-to-date Result	Year-end Forecast
2.7	Number of new trainees in our construction apprenticeship or cadetship programme	125	**32**	125
	Who identify as Māori	25%	**31%**	25%
	Who identify as Pacific peoples	25%	**25%**	25%
2.8	Percentage of public homes in areas identified for future redevelopment that are saved from demolition and relocated to non-Kāinga Ora land for home ownership and training apprenticeship pathways	10%	**13%**	10%
2.9	Percentage of public homes that are let (occupied days) *This result reflects our significant renewal activity, as well as significant home delivery and the delivery of large complexes at the end of 2022/23. This increased the time required to place our customers in homes, along with our deliberate phasing of moving customers into new, large complexes. Results are up to 95% this quarter (target 96%) and will improve as the impact of these factors decreases.*	96%	**95%**	94.5%–95.5%
2.10	Average number of days from a public home becoming vacant to being "ready to let"	≤23 days	**21.6 days**	22–23 days
2.11	Percentage of public housing customers satisfied with repairs and maintenance	75%	**77%**	75%
2.12	Timeliness of maintenance response expressed as a percentage	90%	**91%**	91%
2.13	Percentage of our housing portfolio compliant with the Healthy Homes standards	100%	**98.7%**	100%

OUTPUT CLASS 3

Delivering and facilitating urban planning and development

What we do	Link to outcomes (per SPE)
We contribute to sustainable, inclusive and thriving communities by providing quality urban development and regeneration through leadership, innovation and collaboration. We enable affordability and accessibility of housing, leveraging our land and scale.	Customer wellbeing Thriving communities Māori aspirations Housing access

New homes enabled through partnerships on track



We sell 'super-lots' to the market as they are produced from our land development programmes (primarily Large-Scale Projects). Market delivery of almost 400 homes is at risk of being delayed to 2024/25 due to slow negotiations on the sale of market super-lots. Negotiations on 320 homes are taking longer than expected, or are being renegotiated, as the original build partners are experiencing funding issues. It is unlikely these homes will be enabled by June 2024 due to the timing. We are also having to look at different ways of packaging 75 sites in a less-attractive location so that they appeal to build partners

CASE STUDY

Hobsonville Point's Te Uru terraced homes take out the Supreme Award at the 2023 National Resene Architectural Design Awards.

The Te Uru walk-up terraced homes won the Supreme Award at the National Resene Architectural Design Awards. They are part of the Kāinga Ora Hobsonville Point development and contribute to SPE 3.6 (Housing developments that meet Urban and Landscape Design Quality expectations). The terraces were designed by Construkt Architects and the Fletcher Living team, providing one-bedroom units to meet affordability targets.

	Performance measure	Target	Year-to-date Result	Year-end Forecast
3.1	Hectares of land developed by Kāinga Ora *We are on track to meet this measure with the risks being monitored.*	14.6ha	**2.8ha**	16.8ha
3.2	Number of new homes that can be enabled on land developed by Kāinga Ora *We are currently behind target and unlikely to achieve the target for the year. Around 383 homes forecast to be delivered in June are at risk of not being completed until the next financial year.*	1,400	**189**	1,334
3.3	Number of new homes enabled through partnerships with housing developers (public housing and sales) *We are on track to meet this measure and the potential risks with future signed deals are being monitored.*	750	**205**	849
3.4	Affordable homes enabled as a percentage of total market and affordable homes enabled	40%	**48%**	49%
3.5	Percentage of project milestones met as per Large-Scale Project (LSP) plans *We are currently behind target and unlikely to achieve the target for the year as two baseline civil start dates are forecast to start later than originally planned.*	80%	**50%**	50%
3.6	Percentage of Kāinga Ora housing developments that meet expectations, as defined in the "Kāinga Ora Urban and Landscape Design Quality Outcomes Matrix", based on a representative sample of building activity	80%	**Annual**	80%
3.7	Number of projects that have been assessed as potential Specified Development Projects (SDP) under the Urban Development Act 2020 *Both the Porirua Northern Growth Area and Tauranga Western Corridor are in the assessment phase of the SDP process, and we expect to meet this target. We will provide final assessment reports with recommendations to the Kāinga Ora Board by April 2024.*	2	**–**	2
3.8	Number of newly constructed homes with delivery managed by Kāinga Ora on behalf of TRC (Tāmaki Regeneration Company)	180	**173**	220

OUTPUT CLASS 4

Supporting Crown housing infrastructure and home-ownership initiatives for New Zealanders

What we do	Link to outcomes (per SPE)
We contribute to supporting first-home ownership through the delivery of affordable home-ownership products.	Customer wellbeing
	Thriving communities
	Māori aspirations
	Housing access

	Performance measure	Target	Year-to-date Result	Year-end Forecast
4.1	Number of new applications assessed for eligibility: • First Home Grants • KiwiBuild • First Home Partner (progressive home ownership)	Demand driven	**17,007**	35,000
4.2	Average number of days taken to assess a completed First Home Grant, KiwiBuild or First Home Partner application	≤5.0	**2.4**	2.5
4.3	Percentage of applicants gaining full pre-approval for First Home Partner who are part of the following groups:			
	Māori	Monitor	**11%**	11%
	Pacific peoples	Monitor	**5%**	5%
	Families with children	Monitor	**53%**	53%
4.4	Number of First Home Loan mortgages underwritten* *We are funded by an appropriation up to a maximum of approximately 3,600 First Home Loan underwrites based on an average loan value of $427,000.*	Demand driven up to 3,600*	**1,550**	2,900
	Applicants that are Māori		**203**	400
	Applicants that are Pacific peoples		**60**	120
4.5	Percentage of completed underwritten KiwiBuild homes acquired by the Crown as part of the Buying off the Plans initiative	≤25%	**12%**	14%
4.6	Percentage of infrastructure milestones completed on time under the Infrastructure Acceleration Fund (IAF) *Twelve of the 50 milestones recorded in IAF Funding Agreements scheduled to be achieved in Quarters 1 and 2 are now complete. Sixteen of the 38 milestones that were not achieved on time are within areas affected by Cyclone Gabrielle. Milestone dates were recorded into IAF Agreements very early in planning, in advance of detailed designs being completed. Not meeting a milestone does not result in termination of an IAF Funding Agreement: the milestones are a mechanism to ensure councils remain accountable for the accelerated timeframes they have agreed and to protect IAF funding from being paid until activity is finished. We are working closely with councils to vary milestone dates where sufficient progress has been made and they can be more accurately forecast.*	80%	**24%**	To be reported in Quarter 3

Financial performance

This section provides insight and commentary on our financial performance.

Colenso Street, Sumner

Financial measures		2023/24 Forecast	Current Forecast
Fin 1.1	Net operating costs of managing our housing portfolio per housing unit (excludes depreciation)	$21,467	$21,505
Fin 1.2	Adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) as a percentage of total income	18%	17%
Fin 1.3	Total debt to non-sales adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) ratio	38.2	40.1
Fin 1.4	Non-sales adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) to interest costs	0.8	0.8

Close to $1.0 billion invested in new housing supply in the December quarter

At the halfway point of this financial year, investment in new housing supply is closely aligned to budget expectations, with over $1.7 billion invested as at the year to date. This includes approximately $1.0 billion in the December quarter. Redevelopments and new acquisitions accounted for most of the total housing supply spend during the quarter and are expected to do so for the full year also.

The $159 million year-to-date capital spend on the retrofit programme exceeded budget by approximately $27 million as the programme started to deliver work faster. This overspend is partly offset by an underspend in other maintenance programmes.

The full-year forecast for capital spend on urban development was reduced as part of the December 2023 Budget Update (from $721 million down to $435 million). The updated numbers reflect the postponement of several neighbourhood business cases and the re-phasing of land purchase spend as part of the Kāinga Ora Land Programme. Activity increased in the December quarter when compared to the one prior, driven by urban development of land for state and market homes (the largest category), with total urban development year-to-date spend lifting from $54 million in September to $130 million in December.

Budget Update approved by the Kāinga Ora Board in December 2023

Cost-efficiency initiatives proposed in the Budget Update helped drive total capital expenditure at $1,838 million lower than budget and improve the cumulative net operating position (discussed further below) by $506 million over the four-year period. The improvements focused on asset management and maintenance, housing delivery, and removal of vacant full-time equivalent (FTE) positions.

These net improvements included cost pressures relating to people, retrofitting, local authority rates, and the implementation of costs related to system transformation. The net impact of these cost efficiencies is improved financial performance over the four-year period, continuing through to the 50-year projection period, to support greater financial sustainability.

Capital expenditure

($m)	Year-to-date Actual	Year-to-date Budget	Year-to-date Variance	Full-year Budget
Public redevelopments	861	858	(3)	2,084
Public Acquire new	665	666	–	1,386
New supported housing	60	66	6	93
Home builds	**1,587**	**1,590**	**3**	**3,562**
Acquire existing	40	52	12	206
Strategic land purchases	50	51	2	105
Other programmes	35	37	2	76
Other home additions	**124**	**140**	**16**	**387**
Total housing supply spend	**1,711**	**1,730**	**18**	**3,949**
Retrofit programme	159	132	(27)	234
Other maintenance programmes	125	132	8	272
Maintenance programmes	**283**	**265**	**(19)**	**506**
Infrastructure assets & projects total	**6**	**10**	**4**	**36**
Urban development land (state and market)	85	82	(4)	252
Urban development Tamaki	16	16	–	50
Urban greenfields & complex	27	27	–	69
Land purchase fund ($2b over 10 years)	1	1	–	65
KiwiBuild (Construction & Innovation Group)	–	–	–	–
Urban Development	**130**	**126**	**(4)**	**435**
TOTAL CAPITAL EXPENDITURE	**2,131**	**2,131**	**(1)**	**4,926**

Note: The revised full-year budget numbers were approved by the Board in December 2023. The full-year forecast is the same as the budget as of 31 December 2023.

Ongoing insurance claim for Auckland Anniversary flood remains between $47million and $67 million

We formally initiated the claims process with insurers on 6 April 2023. This is ongoing and may take up to 12 months to fully settle. The external loss adjustor has refined the estimate of the claimable sum to be between $47 million and $67 million (gross basis including $20 million deductible) and our internal claim estimate currently sits just beneath this range. We continue to target settlement by 31 March 2024; however, this is subject to change depending on the progress of data validation by the insurers.

Rental revenue driving income growth, with more occupied homes and strong prices

Rental revenue for the first half of the financial year was $884 million and it continues to grow strongly, reflecting strong rental price growth, increased numbers of homes and greater utilisation of these homes. The result was broadly in line with expectations and the key driver of our total full-year income forecast of just over $2 billion.

Appropriation income of $32 million was below the $52 million we expected at budget, but this is a timing issue as we await final approval from the Ministry of Housing and Urban Development (HUD) for the funding agreement governing Auckland LSPs and associated financial delegations. This is currently being worked through with the Minister of Housing.

Key expenditure items remain in line with overall budget

The repairs and maintenance spend of $343 million in the year to date (the largest expenditure item) is broadly in line with budget. The year-to-date overspend of $8 million is a result of increased activity in the retrofit programme (also referred to in the commentary on capital expenditure) as we upgrade our existing homes to be warmer, drier and healthier.

Other large expenditure items (people costs and other direct expenses) were as expected. The $31 million spent on consultants/contractors for the year to date was $5 million under budget. The driver for the consultants/contractors spend tracking below budget was due to strategic initiatives being paused or slowed, and pending further direction from the new government.

Asset write-offs (a non-cash item) were $78 million for the year to date as we continue to ramp-up demolition activity (clearing sites as part of the redevelopment programme) to invest in new homes being constructed. A review of the demolition plan has been initiated within the organisation to enable us to better understand the risks to achieving the full-year budget.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) was $42 million in the December quarter and $42 million below budget for the year to date. This reflects the revenue undershoot and expenditure overshoot as discussed above.

We recorded a net deficit after tax of $307 million in the quarter. This was $43 million under budget and reflects the delay in appropriation income (which was forecast) and higher-than-expected asset write-offs (a non-cash item). There were no material net variances from interest, taxes or depreciation.

Looking ahead, we expect revenue to continue growing strongly, with occupancy rates rising as newly built homes are delivered and operational efficiency measures are further improved. Overall, we remain focused on slowing expenditure growth and, as identified in the Budget Update, an additional $1.8 billion of capital expenditure savings and $500.0 million operating savings over this current fiscal year and the following three years.

Risks remain around how inflation flows through the various lines of revenue and expenditure, and the profile of market interest rates that impact on new borrowing.

Statement of Financial Performance

($m)	Year-to-date Actual	Year-to-date Budget	Year-to-date Variance	Full-year Budget
Rental revenue	884	887	(3)	1,864
Appropriation income	32	51	(19)	101
Other income	47	46	1	78
Financial products contribution	2	1	1	4
Affordable homes contribution	4	2	2	2
Total income	**969**	**987**	**(18)**	**2,050**
Repairs and maintenance	343	335	(8)	639
Other direct expenses	239	239	–	465
People costs	180	182	2	366
Consultants/contractors	31	36	5	73
Other indirect expenses	56	59	3	119
Asset write offs & (gain)/loss on sale	78	51	(27)	185
Total expenses	**927**	**903**	**(24)**	**1,847**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**42**	**84**	**(42)**	**203**
EBITDA as percentage of total income*	**12%**	**12%**	**–1%**	**16%**
EBITDA to interest costs	**0.2**	**0.4**	**(0.2)**	**0.4**
Depreciation and amortisation (properties)	194	187	(7)	374
Depreciation (infrastructure)	12	10	(1)	20
Earnings before interest, tax (EBIT)	**(164)**	**(114)**	**(50)**	**(190)**
Net interest	214	216	3	473
Tax	(70)	(66)	4	(105)
NET OPERATING PROFIT AFTER TAX	**(307)**	**(264)**	**(43)**	**(558)**

Contributions are net income and expenses of the Financial Products and Affordable Homes programmes.

** EBITIDA % is exclusive of asset write offs and affordable homes contribution. Total income is exclusive of affordable homes revenue.*

Note: The Budget Update numbers used were approved by the Board in December 2023. The forecast is the same as the budget numbers this quarter and are therefore not included in the above table

Statement of Financial Position

($m)	Year-to-date Actual	Year-to-date Budget	Year-to-date Variance	Full-year Budget
Assets				
Cash and cash equivalents	222	100	122	100
Short-term investments	700	933	(234)	779
New Zealand Government Bonds	–	–	0	0
Payments and receivables	277	385	(109)	581
Properties held for sale	**19**	**19**	**–**	**19**
Properties under development	544	526	18	627
Mortgage advances	12	22	(10)	22
Interest rate derivatives	115	(8)	123	(8)
Income tax receivable	77	71	6	–
Intangible assets	37	36	1	28
Property, plant and equipment	45,371	45,367	4	46,797
Total Assets	**47,372**	**47,451**	**(79)**	**48,797**
Liabilities				
Accounts payable and other liabilities	479	499	19	502
Income tax payable	–	–	–	2
Provisions	–	64	61	60
Mortgage insurance scheme	57	59	1	72
Interest rate derivatives	26	16	(10)	16
Crown borrowings	7,094	7,063	(31)	8,894
Marketing borrowings	7,654	7,658	4	7,648
Deferred tax liability	1,774	1,778	3	1,970
Total liabilities	**17,086**	**17,135**	**49**	**19,764**
Equity				
Equity attributable to the crown	**3,781**	**3,801**	**20**	**4,412**
Retained earnings	**242**	**233**	**(9)**	**32**
Revaluation reserve	**26,270**	**26,278**	**8**	**25,334**
Hedging reserve	**(6)**	**4**	**10**	**4**
Total Equity	**30,286**	**30,316**	**29**	**29,782**

Organisational performance

The following measures reflect our Statement of Performance Expectations measures on capability areas for 2023/24 on people and governance, Māori interests and obligations, and the environment.

Organisational measures		2023/24 Target	Year-to-date Result
Org 1.1	Health and safety maturity score	Establish baseline	**–**
Org 1.2	Percentage of invited People Leaders who complete Waka Tangata leadership programme by June 2024 *The Waka Tangata leadership programme is currently on hold; the result shown is from Quarter 1.*	70%	**64.5%**
Org 1.3	Ministerial correspondence, parliamentary questions and Official Information Act requests delivered to meet the agreed deadline	95%	**99%**
Org 1.4	Ministerial services delivered meet the quality criteria	95%	**100%**
Org 1.5	Percentage of supplier contracts and agreements with Māori businesses *Following a large system change we are currently unable to report on our progress on volume/number of contracts on a quarterly basis but can report on year-to-date spend with Māori suppliers. We are investigating how we can adapt our systems to provide greater granularity in future. The percentage of spend with Māori suppliers is currently sitting at 6% (financial year-to-date spend).*	8%	**–**
Org 1.6	Number of staff who have completed Mātauranga Māori pilot programmes	1,200	**607**
Org 1.7	Percentage of Māori businesses and suppliers who are satisfied or very satisfied with their ongoing commercial relationship with Kāinga Ora *We had a very low response rate for the survey and are considering other ways to measure satisfaction levels.*	>75%	**Results measured annually**
Org 1.8	Tonnes of carbon dioxide equivalent emissions (tCO_2e) resulting from corporate activities – gross *We currently measure corporate emissions annually, so no result is available at this time. A project is underway to reduce corporate emissions with a focus on reducing emissions from the purchase of new fleet vehicles, business travel and staff commuting. We expect to see some reductions late in 2023/24 as initiatives begin to be implemented.*	Calculation completed year end	**Results measured annually**
Org 1.9	Tonnes of carbon dioxide equivalent emissions (tCO_2e) resulting from corporate activities – per FTE *Refer to the commentary in Org 1.8 above*	Calculation completed year end	**Results measured annually**
Org 1.10	2025 and 2030 gross emissions reduction targets established in line with Carbon Neutral Government Programme requirements	Pass	**Yes**

www.kaingaora.govt.nz

Kāinga Ora
Homes and Communities

Te Kāwanatanga o Aotearoa
New Zealand Government