QUARTERLY REPORT

FOR THE THREE MONTHS ENDING 31 MARCH 2022

Kāinga Ora
Homes and Communities

Table of Contents

1. Introduction 2
2. Executive summary 3
3. The external environment 7
4. This quarter's progress towards achieving our outcomes 11
5. Our financial position 23
6. Our performance delivery 25
   6.1. Output class one - Sustaining tenancies and supporting communities 26
   6.2. Output class two - Managing, maintaining, and renewing our homes 29
   6.3. Output class three - New Public and Supported Housing Supply 31
   6.4. Output class four - Urban regeneration, development, and general housing 34
   6.5. Output class five - Supporting first home ownership for New Zealanders 36
   6.6. Output class six - Transactions relating to Crown-owned land 38
7. Our organisational performance 39
   7.1. Our People 39
   7.2. Enhancing our Māori capabilities 40
   7.3. Safety Support and Wellbeing 41
8. Focus on regional engagement 42
9. Our investment decisions 44
10. Financing 48
11. Appendices 53

Appendix one: Financial performance 54
Appendix two: Investment performance 60
Appendix three: Government policy and legislative environment 68

1. Introduction

We are Kāinga Ora – Homes and Communities. Our vision is: building better, brighter homes, communities and lives – He oranga Kāinga, he oranga hapori, he oranga tāngata.

At Kāinga Ora, we understand that a house means more than a roof over someone's head. We recognise that Kāinga represents the hopes and dreams of whānau, an essential foundation for lives, families and thriving communities. That is why we see our success as an organisation reflected not merely in terms of bricks and mortar, but also in the choices, mana, stability, aspirations and rangatiratanga realised with the communities to which we contribute.

The purpose of this report

This report is for the Minister of Housing and provides an update for the quarter ended 31 March 2022. It reflects the Board's view on our key areas of performance and activity, showing our progress towards delivering the commitments set out in our Statement of Performance Expectations 2021/22 (SPE) and our public housing commitments, and summarises our achievements, challenges, risks and upcoming milestones.

Our outcomes – what we are trying to achieve

Our output classes – how we group our activities, deliver our services and measure our performance

OUTPUT CLASS 1
Sustaining tenancies and supporting communities

OUTPUT CLASS 2
Managing, maintaining and renewing our homes

OUTPUT CLASS 3
New public and supported housing supply

OUTPUT CLASS 4
Urban regeneration, development and general housing supply

OUTPUT CLASS 5
Supporting first home ownership for New Zealanders

OUTPUT CLASS 6
Transactions relating to Crown-owned land (Housing Agency Account)

Our strategies

Te Rautaki Māori o Kāinga Ora: Kāinga Ora Māori Strategy lays a foundation for the expression and realisation of Māori aspirations for housing. Te Rautaki Māori o Kāinga Ora was designed alongside iwi and rōpū Māori.

The Kāinga Ora Strategy 2030 will outline how we plan to shape the housing and urban development system and deliver on our outcomes. It will sit alongside te Rautaki Māori o Kāinga Ora using the concept of he waka hourua, the double-hulled waka.

2. Executive summary

Overview

We are facing an extremely challenging operating environment as a result of the continuing COVID-19 pandemic (including recent lockdowns in China's major cities) and the conflict in Ukraine. These events have significantly affected global supply chains, the cost and availability of construction labour and materials, financial markets, interest rates, and increasingly, the cost of living. COVID-19 is affecting all aspects of our business, including limitations on contractors being on site carrying out maintenance work, as well as customers being understandably apprehensive about face-to-face contact. The ability of our people to deliver services has also been affected due to sickness and isolation protocols, and this has particularly affected our Contact Services Centre. COVID-19 is also placing considerable stress on our customers' financial and social wellbeing, with many experiencing sickness, as well as financial strain from the economic impacts of COVID-19.

Our people and suppliers have worked to mitigate the effects of these challenges, with some very good performance results and key milestones met. These include:

- completing the work on the Auckland Large Scale Projects business cases (with business cases approved by Cabinet in April)
- delivering 284 gross new Public and Supported homes (949 year-to-date)
- moving 1,100 households off the Housing Register
- continuing to deliver strong customer satisfaction results
- approving the Urban Development Strategy with our Board.

Delivering on our multi-year housing commitments (2018-2024)

We have a June 2024 deadline to complete the delivery of several housing programmes, which will add a net 11,780 additional homes to our Public and Supported housing portfolios. To date, we have delivered a net 4,756 homes (216 homes this quarter).

Six-Year housing plans (net volume)	Commitment 2018/19 - 2023/24	Delivered 2018/19-2020/21	Delivered Year to date 2021/22	Total Delivered	% Delivered	Remaining deliveries
Public Housing Plan 1: July 2018 to June 2022	4,480	2,890	106	2,996	67%	*1,484*
Public Housing transfer: Tenanted	142	142		142	100%	*0*
Public Housing: Refugee Housing*	364	215	16	231	63%	*133*
Public Housing Plan 2: July 2022 to June 2024	4,800				0%	*4,800*
Transitional Housing: PERM 530-650	404	404		404	100%	*0*
Transitional Housing: Budget 2020	1,400	465	491	956	68%	*444*
Community Group Housing	126	20	-24	-4	-3%	*130*
Corrections Department	64	24	7	31	48%	*33*
Total	**11,780**	**4,160**	**596**	**4,756**	**40%**	***7,024***
Public Housing	9,786	3,247	122	3,369	34%	*6,417*
Supported Housing	1,994	913	474	1,387	70%	*607*

The programmes includes better utilisation of our existing land holdings and taking advantage of the construction activity to renew old homes, with construction of almost 16,000 homes required to offset the demolition or disposal of homes that are no longer fit for purpose. Our build programme has completed over 6,200 gross new homes, and we have more than 11,000 Public and Supported homes opportunities identified and moving through the pre-construction and construction processes. At the end of March, 48 percent of our targeted redevelopments for 2021/22 were contracted or in construction (51 percent for 2022/23 and 23 percent for 2023/24.

PIPELINE TRACKER *(as at 31 March 2022)*

Quarterly targets are targets for the amount of progress Kāinga Ora is aiming to make by the end of this quarter

	FY22			FY23			FY24		
	Last montl	**Current**	*Q4 Target*	Last montl	**Current**	*Q4 Target*	Last montl	**Current**	*Q4 Target*
Redevelopment									
% of target in Delivered	42%	**47%**	100%						
% of target in Construction or Contracted	54%	**48%**		46%	**51%**	> 80%	18%	**23%**	> 40%
% of target in Procurement	5%	**2%**		45%	**42%**	> 10%	24%	**18%**	> 10%
% of target in Feasibility	0%	**0%**		13%	**10%**	< 5%	51%	**54%**	< 25%
% of target in Planning	0%	**1%**		2%	**2%**	< 5%	40%	**40%**	< 25%
Acquire New									
% of target in Delivered	45%	**54%**	100%						
% of target in Construction or Contracted	60%	**45%**		59%	**69%**	> 70%	3%	**7%**	> 10%
% of target in Procurement	1%	**1%**		20%	**6%**	< 10%	0%	**11%**	> 10%
% of target in Forecast	-6%	**0%**		21%	**25%**	< 20%	97%	**82%**	< 80%

Kāinga Ora has about 18 months to progress as much of the pipeline to construction as possible. Kāinga Ora has a significant number of *acquire new* yet to be contracted for FY23, and significant amount of *redevelopment* work in procurement for FY23, this will be a focus for the business over the coming months, in addition to moving planning and feasibility work through the *redevelopment* pipeline, particularly for FY24

We have sufficient opportunities available to meet our commitments; our challenge is to recover from more than six months of lost time in the past two years due to COVID-19 lockdowns and isolation measures, within a sector experiencing labour and material shortages.

We continue to look for ways to increase the pace, scale and efficiency across our build programme. There are key initiatives underway to reshape our organisation and build capability to manage a pipeline of this scale efficiently and effectively. These include:

- developing new construction processes and a new construction operating system that deliver greater speed and reliability (Project Velocity)
- using faster on-site construction processes using offsite manufacturing
- pre-securing construction labour and building expertise through our Capacity Partnership Agreements
- embedding new contractual terms and procurement processes aligned to the principles behind the Construction Accord
- delivering a more reliable and faster building consenting service through the establishment of our own Building Consenting Authority – Consentium.

Progress on several key urban development initiatives

We have made good progress on key urban planning and development initiatives, including:

- *Business cases completed on Auckland Large Scale Projects (LSP)* – The business cases for the five LSP in Auckland (Northcote, Oranga, Tāmaki, Roskill and Māngere) were completed in partnership with the Ministry of Housing and Urban Development (HUD) and the Treasury, and approved by Cabinet in April. The funding was announced in May.

- *The Infrastructure Acceleration Fund unlocking housing development* - 77 successful applicants submitted Request for Proposal responses in December, and these are now being evaluated to move to the negotiation stage. Most negotiations will occur later this financial year and in the first half of 2022/23.

- *Kāinga Ora Land Programme (KOLP)* - We have identified strategically important areas within high priority regions where we will focus our acquisition efforts.

The challenging operating environment has placed pressure on achieving some of our service performance targets

We are delivering homes and providing for our customers while operating in a challenging environment that affects our build partners and our own operations. This means that we are unlikely to achieve several of our SPE measures this year, with our latest forecast indicating that we will achieve 18 of the measures, 12 will not be achieved, and there are four where the results are not yet clear. A separate briefing to the Minister (Briefing Note 22 003 - Update on key Kāinga Ora Delivery Commitments) detailed the continuing effects of COVID-19 on our delivery commitments.

Reduced capital spend resulting from supply chain disruptions

Our capital programmes for 2021/22 have been reduced, with disruptions in supply chains and in access for people working onsite. As a result, our full-year capital expenditure forecast ($2,617m as of April 2022) is significantly lower than the annual budget ($4,058m). Our year-to-date earnings before interest, tax, depreciation and amortisation (EBITDA) is $342 million, $21 million higher than forecast, meaning we are generating the expected operational cash flow to support activities. Although we forecast full year EBITDA to be $62 million lower than was originally forecast, the positive operating cash flow of $306 million combined with our borrowing programme provides the cash to deliver on our capital programmes.

However, the current challenges are placing considerable pressure on our longer-term financial outlook. Our current internal budget (2022/23 to 2025/26) and the longer-term financial position are a significant focus for us. Separate briefings have been prepared for the Minister to detail further the longer-term projections and the options for delivery (Briefing Note 22 015 – Update on Kāinga Ora Financial Sustainability). We are also in conversation with HUD on the next steps to ensure all urban development activities are within funding constraints.

Our continued commitment moving into the final quarter

We face a challenging final quarter of the year, but our management and the Board are committed to doing everything possible to ensure we deliver on as many of our performance commitments as possible, and we continue to make good progress on the delivery of our outcomes.

Quarterly highlights

Customer wellbeing

People in our homes live well, with dignity, stability and the greatest degree of independence possible

- We support 188,000 customers in our homes.
- We helped more than 1,100 households to move off the Housing Register, with another 350 families moved within our portfolio to warmer and drier homes.
- We maintained strong Customer satisfaction levels, with the measure *tenancy manager treats with respect* rising 4 percent to 89 percent.
- We have increased our front-line services capability and capacity to match our customer strategy objectives.
- We delivered 284 new Public and Supported homes in the quarter, 949 for the year to date.

Housing access

Enabling homes that meet diverse needs and are safe, affordable and healthy to live in

- We made available 185 Transitional Housing places to the Ministry of Social Development (MSD) for referral.
- We enabled 404 new homes, half of which were affordable. All homes enabled were to the 6 Homestar standard.

System transformation

Land use, infrastructure and housing supply is integrated, efficient, effective and responsive to demand

- We are increasing the use of offsite manufacturing to support growth in the capacity and scale of the wider urban development and construction sectors.
- Project Velocity is already delivering time savings, reliability and improved quality outcomes for us, our build partners and our customers. The first four-home development using the new process got underway in Christchurch in mid-March.
- There are over 900 homes in our offsite manufacturing pipeline. Two-thirds of these have already been matched to suppliers and will be delivered in 2022/23.
- We worked with HUD and Treasury on their feedback on the Auckland Large Scale Projects, with the business cases approved by Cabinet.
- The Infrastructure Acceleration Fund (IAF) received final input from the Cross Agency Reference Group to proceed to the Requirement for Proposal Stage – a major milestone.

Māori aspirations

Investment in housing solutions that build capability and support whānau wellbeing

- Te Kurutao supported our commercial teams who evaluated the Infrastructure Acceleration Fund Request for Proposal responses and played an integral role in testing the integrity of Māori interests that have been included in the responses.
- The Whenua Māori Development Team completed nine preliminary assessments and have another four underway.
- We continue to support the cross-agency response to the Housing Policy and Services Kaupapa Inquiry (WAI2750) at both the working group level and governance level.

Thriving communities

Inclusive and sustainable communities with access to employment, education, social and cultural opportunities

- We created 84 jobs through Shovel Ready projects.
- The Urban Development Strategy was endorsed by our Board.
- The Otago Regional Council joined the Grow Well Whaiora (Queenstown Lakes) partnership, with progress on an economic diversification strategy.

Environmental wellbeing

Sustainable and resilient operations, assets and communities

- Placement of the precast foundation systems began in February at Bader Ventura, our first Passive House pilot development.
- Began work with Tonkin and Taylor on how we can improve the flood risk data and knowledge, to establish a climate risk decision-making framework for our new and existing assets.
- We have identified projects to be considered for construction using the New Zealand Government Procurement Guide to Reducing Carbon Emissions in Building and Construction recommendations.

3. The external environment

The external environment is significantly affecting all aspects of our operations

Like any other public or private organisation, we are managing the external and domestic challenges, but they are significant. The COVID-19 pandemic and the Russian invasion of Ukraine have affected the global supply chain, financial markets, interest rates, labour availability, and increasingly the cost of living.

Housing market continues to slow; dwellings consented increasing, while construction and labour costs also increase

The number of house sales in New Zealand continued to slow during the quarter, with a soft market and interest rates suppressing the number of decisions to buy. Sales reduced by more than a third compared to 2021, and so the number of properties available for sale nationally increased 32 percent (from 19,437 in March 2021 to 25,659).

House prices have continued to rise over the last year, hitting a median asking price of $890,000 by the end of March, a 7.9 percent increase from $825,000 in March 2021. However, in the shorter term, we are starting to see decreases. Between February to March 2022 the seasonally adjusted figure showed a decrease of 4.8 percent.

For the 12 months to February 2022, the actual number of new dwellings consented was 49,773, up 25 percent from February 2021. The annual value of non-residential building work consented was $8.3 billion, up 16 percent.

Prices for home rentals and the construction of new dwellings have increased from the previous year by 7.2 percent and 18 percent respectively. Earlier in the year, Corelogic's Cordell Construction Cost Index showed an annual increase of 7.3 percent (to quarter one 2022), a new record and eclipsing quarter four 2017's cyclical peak of 6.9 percent.

With New Zealand close to full employment, there is greater competition for labour. The seasonally adjusted unemployment rate remained low at 3.3 percent in the March quarter, compared with 3.2 percent the previous quarter – these are the lowest unemployment rates since records began in 1986. The Reserve Bank estimates that the unemployment rate will remain low until the end of the calendar year and increase slightly to reach 4 percent in early 2024.

House prices: ↑

The national median house price was $890,000 increasing from 7.9 percent in March 2021, but dropping 1.7 percent compared to $905,000 in December 2021.

Rents: ↑

The national mean weekly rent was $524 in February, up 3.4 percent in the past three months and up 7.2 percent in the past year.

Affordability: ↓

Mortgage servicing continues taking up more of households' incomes, as interest rates increase. Recent increases in the cost of living reduce householder's affordability

Inflation: ↑

At the highest level in 30 years. Annual inflation is 6.9 percent.

Public Housing Register ↑

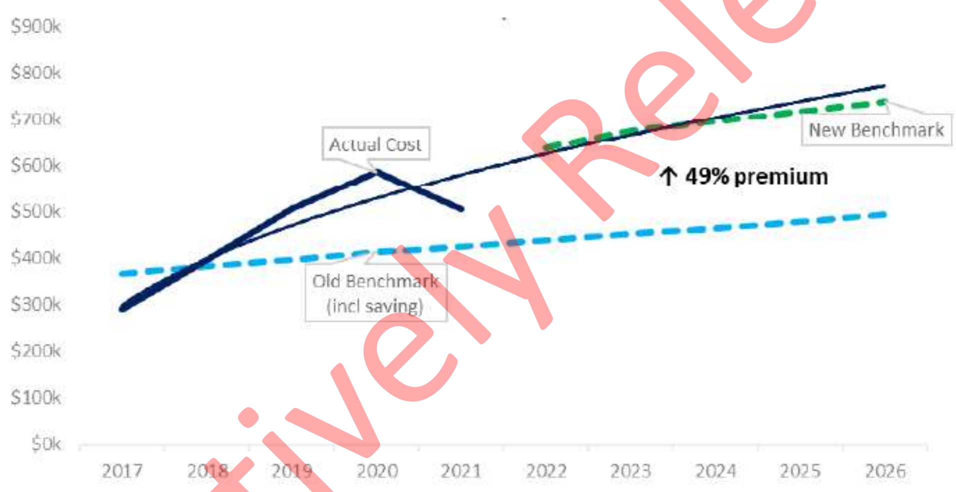
Applicants on the housing register increased by 5.4 percent in the quarter and 13.4 percent in the past year, to 26,864

Cost pressures are significantly affecting our construction

Cost pressures are placing significant pressure on our own construction costs. As shown below, construction prices from 2020 onwards have risen significantly above the previous sustainable benchmark, with future-contracted builds almost 50 percent higher. This is driven by:

- accelerated cost escalation (35 percent for new builds) - due to labour and material shortages and inflation
- changes in bedroom mix (9 percent) – as we move more customers than originally anticipated off the housing register, we see there is a greater need for larger homes. These larger homes cost more but do generate higher rents, offsetting the additional cost
- scope changes (5 percent) - increases to the quality of the homes we are developing beyond building code standards.

Construction costs – All developments



As a result of these increases, we have updated the cost benchmark to reflect the sustained pressure in the construction sector. We are also pursuing construction opportunities through Project Velocity, lifting build delivery efficiency, and increasing our capacity to meet public housing commitments (detailed in the Our Performance Delivery chapter).

Cost pressures also contribute to significant increases in our maintenance expenses

The increases in construction costs are also seen in our maintenance expenses (increasing from an average annual cost of $7,500 per home to $8,500 per home) and retrofit costs increasing by approximately 25 percent.

The following table outlines the increases in labour rates between 2019 and 2022.

Maintenance category	Price increase	Maintenance category	Price increase
Carpentry	45%	Cleaning	17%
Decorating	27%	Plumbing	36%
Electrical	42%	Roofing	44%
Flooring	30%	Gas	34%
Glazing	28%	Heaters	18%
Overall			**33%**

COVID-19 is affecting all aspects of our business

The impact of COVID-19 is not just limited to increasing the costs of our construction and maintenance programmes – it is affecting all aspects of our business. This includes our:

- ability to have contractors on site undertaking maintenance works
- customers being naturally apprehensive about face-to-face contact and reluctant to have contractors entering their homes
- staff not being able to physically inspect and progress work on sites
- build partners' ability to remain solvent in a challenging economic environment and their general ability and preparedness to commit to new work
- ability to access materials for our supply and maintenance programmes
- build partners' ability to mitigate skills and labour shortages across the industry, exacerbated by the increased volume of work and subsequent demand for construction skills.

COVID-19 is affecting our ability to deliver services to our customers. Many of our people have either contracted COVID-19, are isolating as household contacts, or are caring for those in their household who have contracted COVID-19. For example, between 1 January and 8 March 2022, 543 COVID-19 leave days were taken, more than the combined total for 2020 and 2021.

The Customer Service Centre (CSC) and customer-facing teams are most affected. For example, in the week of 28 February to 4 March, 17 percent of the CSC workforce was affected by COVID-19, increasing to 30 percent the following week - significantly reducing the CSC operational performance.

COVID-19 continues to place considerable stress on our customers

Supporting our customers has never been so important, with health, financial and wellbeing pressures resulting from the ongoing impact of COVID-19. Many of our customers have experienced health effects, or financial strain from the economic and social impacts of COVID-19, including loss of employment or being unable to work due to illness or isolation requirements.

Central banks tightening monetary policy and increasing interest rates

The key theme of the global economy and financial markets over the March quarter has been the start of central banks tightening, and a significant rise in interest rates across the yield curve to respond to the inflation increase. Strong inflationary pressures continue across the globe, with the Russian invasion of Ukraine only putting more pressure on supply chains, commodity prices, and the cost of living.

Higher-than-expected inflation in New Zealand also led the Reserve Bank of New Zealand (RBNZ) to continue to raise the Official Cash Rate (OCR), with a 0.25 basis point increase in February and a 1.5 basis point increase in April. The RBNZ sees the peak OCR at around 3.4 percent, with the majority of increases expected to occur in 2022. The higher rates and the greater market uncertainty means organisations will have to be more assertive in debt issuance, taking advantage of pockets of demand for different types of debt and maturities.

We continue to deal with the opportunities and risks of these external factors. There are some activities in the government policy and legislative environment that have, or are likely to, influence our own operations and deliveries, such as:

- Government Policy Statement – Housing and Urban Development
- Reform of the Resource Management Act
- Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021
- Residential Tenancies Act change
- The MAIHI Ka Ora National Housing Strategy
- Carbon Neutral Government Programme
- Waste minimisation Amendment
- Building Code Review and Building supplies
- Disability Action Plan (New Minister)
- Homeless Action Plan (Review)
- Three Waters infrastructure and delivery reform.

Further details on these Government Policy and Legislative Environment activities are provided in appendix three.

4. This quarter's progress towards achieving our outcomes

Customer wellbeing

People in our homes live well, with dignity, stability and the greatest degree of independence possible

We take a customer-centred approach to tenancy management

We place the wellbeing of our customers at the centre of our work and take a customer-centred approach to tenancy management, assisting our customers to access the support services they may need, to stay connected to their communities, and to lead their lives with dignity and the greatest degree of independence possible.

Despite the disruptions of COVID-19, we helped more than 1,100 households to move off the Housing Register, with another 350 families moved within our portfolio to warmer and drier homes.

Customer Programme delivering systems tools for customer-facing teams

The Customer Programme has moved into the second part of implementation, delivering the systems and tools required for our new operating model. The programme is now focussed on the delivery of learning modules, guides and tools for our customer-facing teams.

Continued improvement in customer satisfaction levels

Our ongoing focus on the 188,000 customers in our homes has resulted in continuing improvement year on year in customer satisfaction with the homes and services we provide.

Customer satisfaction levels are either steady or improving upon prior years, with the Statement of Performance Expectations (SPE) measure of *satisfaction with customer support centre* remaining above target, and *tenancy manager treats with respect* rising by more than 4 percent (and increasing beyond the 2.5 percent margin of error). The new measure of *interactions with us are culturally appropriate* remains strong, with a result of 78 percent against the target of 75 percent.

We have delivered 949 new warm and dry homes housing more than 2,800 customers

We delivered 284 new Public and Supported homes in the quarter. This takes us to 949 for the year to date, with a net increase after demolitions and other disposals of 596.

We remain dedicated to achieving our six-year Public Housing Plan commitment, and to date we have delivered a net of 4,756 homes (216 net in the quarter). We have sufficient pipeline and plans to deliver to our commitments and are working to move as much work into construction as quickly as possible.

Healthy homes programme - over 80,000 customers are now living in warmer drier homes

By 1 July 2023, we must make all our homes compliant with the Government's Healthy Homes standards for heating, insulation, ventilation, moisture and drainage, and draught stopping. Of our total portfolio, 41 percent (27,018 homes) now meet the standards, with a further 9,061 homes that have Healthy Homes maintenance work in progress. This means approximately 80,300 of our customers are now living in warmer and drier homes.

Our ability to meet the compliance deadline faces similar challenges as the rest of the business, such as limitations on contractors entering homes due to COVID-19 lockdowns, heightened customer anxiety, interrupted supply chains, intense competition, price escalations, and lower than expected vacancies of our homes. We estimate these challenges have set our Healthy Homes completions back by approximately six months (a loss of 240,000 direct labour hours), and they have compressed a significant amount of the programme activity into the final year before the compliance deadline.

A reset of the programme was approved by the Board, aimed at mitigating constraints in labour and materials, choice around legislative exemptions, and increasing capacity. Despite this, it remains a challenge. Depending on progress over the next several months, Healthy Homes completions will need to increase to 700-800 homes per week for the next year – equating to approximately 950,000 direct labour hours to deliver the balance of the programme.

System transformation

Land use, infrastructure and housing supply is integrated, efficient, effective and responsive to demand

Innovation and construction productivity

System transformation requires revolutionary thinking, leadership and a willingness to share risks and learnings with the construction industry. We are leading innovation in the construction sector through new approaches, systems, products and materials to deliver more and better-quality housing, and we want to support the scale-up of more home-grown innovations.

The Infrastructure Acceleration Fund unlocking housing development

The Infrastructure Acceleration Fund is designed to allocate funding to new or upgraded infrastructure (such as transport, water, and flood management) that unlocks housing development in the short to medium term.

On 30 March, final input was received from the Cross Agency Reference Group on the portfolio of proposals to proceed to the Request for Proposal stage. This was a major milestone ahead of meeting with the Board for approval on 1 April, and with the Minister of Housing on 11 April. Once approved, we will target making public announcements in early May, and will coordinate this with HUD and the Minister's office.

Te Kurutao personnel sat in each of the four commercial teams who evaluated the Request for Proposal responses and played an integral role in testing the integrity of Māori interests that was included in the responses. This will mean that when the evaluation process is completed there will have been a robust analysis of responses that are either co-led with Māori or involving Māori as key partners.

Large Scale Projects (LSP) - draft business cases approved by our Board

We have six current LSP: five in Auckland (Northcote, Oranga, Tāmaki, Roskill and Māngere), and one in Porirua. These projects are in areas with large numbers of public houses that are reaching the end of their useful life, no longer match the needs of our customers, and sit on poorly

A productive quarter for the Urban Growth *Partnership programme* in all areas:

Auckland
Auckland Light Rail moved to a detailed planning phase.
The initial stages of the Future Development Strategy began.

Hamilton-Auckland
Hearings were held for the Futureproof Strategy, aiming to set out settlement patterns in Waikato.

Tauranga-Western BOP
A project plan for a model urban settlement south of Te Puke was completed. A work programme ensuring projects are appropriately resourced is being developed by the Smartgrowth team.

Wellington-Horowhenua
Criteria for selecting Priority Development Areas was discussed. Aimed towards new opportunities.

Greater Christchurch
We will become a member of the urban growth partnership once the Crown joins. The partnership reviewed the progress of the housing action plan and the metropolitan spatial and transport plans.

Queenstown Lakes
Otago Regional Council joined the Growing Well Waihora partnership. Progress was made on an economic diversification strategy.

used but strategically-located land. During the quarter, we completed work with HUD and received Treasury feedback on the Auckland Large Scale Projects, which were approved by Cabinet in April (this report was completed after approval).

Key components of the LSP business cases:

- Five Auckland suburbs will receive improved infrastructure to boost supply of new housing, and support existing homes.
- The Mt. Roskill site preparation work includes land decontamination, an upgrade of water infrastructure, and addressing flooding issues on 62.8 hectares, enabling approximately 5,400 homes.
- The Tāmaki site includes decontamination work, transport, and water and storm water upgrades across 90 hectares, for around 4,400 homes. Mana Whenua from the Tāmaki region meet monthly to be informed and to discuss high-level information within these projects, to feedback on actions and an opportunity for the project teams to request further in-depth workshops, to enable a working partnership with Mana Whenua in project delivery.
- Māngere work includes decontamination work and water and storm water upgrades across 68 hectares for around 3,800 homes.
- Northcote upgrades across 8.2 hectares will create build-ready land for around 1,200 homes.
- Oranga infrastructure work across 15.6 hectares includes transport upgrades (including walking and cycling) to create build-ready land for around 1,000 homes.

Funding support for continuation of large-scale programmes

Tranche 0 ($396m of costs incurred before April 2021) and Tranche 1 ($431m of costs incurred between April 2021 and June 2022) form part of the Programme Business cases approved by the Board in December 2021, and approved by Cabinet in April 2022. We are working through the governance and monitoring framework with HUD, outlining project tolerances, change controls, reporting requirements, sequencing of neighbourhood business cases, risks of cost escalation, treatment of contributions from Council Controlled Organisations, and implications of Auckland Light Rail on the proposed plans for particular neighbourhoods.

We have developed reporting on Tranche 1 funding and outcomes, and HUD has reviewed this first draft, with minor feedback to be incorporated in the next report. A summary of our shovel-ready projects is provided in the table below.

s 9(2)(g)(i)

[redacted]

s 9(2)(g)(i)

[redacted]

Good progress made on Porirua programme business case

Progress is continuing on the Porirua programme business case. The draft has been shared with HUD, with a workshop held to support the HUD review process. Broader reporting requirements to track LSP outcomes outlined in the business cases are also being developed with HUD. Project by project workshops are held monthly for our development teams and Mana Whenua to work together and engage on all our projects.

Kāinga Ora Land Programme (KOLP)

We are drafting an Urban Development Land Acquisition Strategic Plan, which will identify strategically important areas within high priority regions, and provide guidance to the Land Supply team on where they should be focussing their acquisition efforts. The Plan will also identify strategic partnerships that will be important to the success of the Programme. These partners will include iwi, local and nationwide delivery partners, and other central and local government organisations.

We continue to work closely with HUD on agreeing the content and format of monthly performance reporting with more detailed information. We aim to include items such as high-level details of opportunities being assessed; the potential timeframes for decision points; opportunities that we have decided to no longer pursue; where in the Investment Management Framework lifecycle opportunities are; and estimates of project outcomes for each opportunity.

Working with the sector and our partners to mitigate external environment challenges

Procurement and partnering agreements

The significant construction cost increases and disruptions to supply chains for materials during the last year continues to affect us, and these issues will likely continue in the medium term. We are taking steps to deliver our work programmes and support our build partners including:

- identifying acceptable alternative materials that meet our performance standards. For example, in April we completed technical verification on alternative fibre cement and plasterboard products.

- building and maintaining close relationships across the supply chain network to help build partners' mitigate risks. For example, we are working with builders to ensure they are forward-ordering certain materials.
- In February, we renegotiated our National Supply Agreements (which provide purchase terms for most key materials) and achieved a 12-month fixed price, providing cost stability and avoiding $3 million of cost increases.
- advocating for build partners to leverage our National Supply Agreements to access materials inventories and mitigate price increases.
- adding cost fluctuation clauses into contracts, allowing recovery of reasonable cost increases (but with no allowance for margin increases).

We continue to investigate options to improve our certainty of supply, and focussing on where we are best placed to support those options.

Project Velocity

We are working with the residential construction sector to develop a system-wide approach to improving construction productivity. Project Velocity aims to increase speed, reduce cost, and improve the reliability of housing delivery. The findings of the project will not only benefit us, but the sector overall.

Our Christchurch Integrated team has been using our new system on design and consenting processes, while the project team have moved into training our construction partners. The system is already delivering significant time savings, reliability and improved quality outcomes for us, our build partners and our customers, with the cost savings and productivity improvements being quantified with our partners.

The first three-home development using the new process got underway in Christchurch in mid-March, with several more developments expected to get underway by June.

Offsite manufacturing

As previously advised, we are committed to pursuing every option in order to meet our commitments. We 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 deliverables.

- *Increasing the use of offsite manufacturing*
    - We are increasing the use of offsite manufacturing (OSM) to support growth in the capacity and scale of the wider urban development and construction sectors.
    - There are over 900 homes in the pipeline, scheduled for delivery completion by 2023/24. Two-thirds of these have been matched to local and overseas suppliers and will be delivered in 2022/23.
    - There are delays in manufacturing from overseas suppliers due to COVID-19 lockdown and isolation requirements, as well as shipping constraints extending delivery times. Discussions are continuing with additional offshore suppliers, and we continue to support and enable local suppliers.

- We are working with three main offshore suppliers and have contacted over 45 domestic suppliers. We continue to develop these relationships through site visits and interviews.
- Our due diligence has reinforced to us the extent to which local suppliers have been affected by shortages in supply and labour capacity, with their initial engagement estimates now likely to be overstated. This has contributed to our decision to push out delivery of the first 1,000 homes to December 2023, six months later than planned.

- *Existing OSM development*
    - The OSM programme continues to make progress, with Ministers visiting a recently completed pilot project in March which had Cross Laminated Timber (CLT), Concision panels and bathroom pods as part of the construction. 62 percent of the OSM pipeline has been matched to a supplier and is moving through either the design or manufacture phases.
    - In this quarter, an 18 home OSM development was delivered in Taramea Street, Avondale, Auckland. The three-storey public housing development is a hybrid of OSM and traditional developments – a mix of traditional build, CLT made off-site, and bathroom pods also made offsite. The complex is the third of four developments to use these CLT and OSM techniques. The nearby Canal Road in Avondale and Busby Road in Blockhouse Bay are now complete. The final project, Woodward Road in Mt Albert, will be delivered in late 2022.

Māori aspirations

Investment in housing solutions that build capability and support whānau wellbeing

Understanding and supporting Māori aspirations

Kāinga Ora has a unique responsibility to understand and support Māori housing and urban development aspirations. To achieve this, we think and operate in ways that reflect a Māori world view and build enduring and meaningful relationships and partnerships with iwi and Māori. We place Māori interests and aspirations at the heart of what we do and work in alignment with MAIHI Ka Ora.

Whenua Māori Development

The Whenua Māori Development (WMD) team continues working on our preliminary assessment as well as laying the groundwork to define our role within Kāinga Ora and MAIHI. We have completed nine preliminary assessments in Quarter Three, with another four underway.

This quarter the WMD team has focussed on forming solid relationships with Te Puni Kōkiri and HUD staff and working in with their funding streams and programmes. Further work has also been done to ensure the WMD team is appropriately funded and resourced to assist Māori landowners to be build ready, through completing feasibility studies and consenting. This has been done in collaboration with HUD and Te Puni Kōkiri.

We are running this as a pilot project with Te Puni Kōkiri for Ngai Te Rangi at Kairua Road, Tauranga. There are more than 10 potential projects where we can use the learnings from the pilot project to embed best practices and processes.

We are working with HUD, Te Aitanga a Mahaki and our regional teams on a joint public and whanau housing development at Ormond Road, Gisborne. This is moving through our investment approval process.

Te Kurutao team input into the relocations programme continues in conjunction with Construction and Innovation teams (C&I). A new Relocations Lead will be appointed into the C&I team and will work closely with the WMD Team to manage the supply end from Kāinga Ora through to placement on Māori land. The WMD Team regularly meets to provide feedback to Expression of Interest (EOI) applications for relocatable houses (approximately 70 responses over the last two months).

Four homes were relocated to Tairawhiti at the beginning of 2022. We expect this number to rise as more applicants become build ready. Key challenges to the programme include funding for transportation and refurbishment, and matching our redevelopment programme timelines.

Kaupapa Inquiry

We continue to support the cross-agency response to the Housing Policy and Services Kaupapa Inquiry (WAI2750) at both the working group and governance levels. As the claimants' closing submissions hearing was held in the last week of October 2021 and the Crown's closing submissions hearing was held in November 2021, we are awaiting the Tribunal's report for the first stage. The Kaupapa Inquiry team continues to respond to data requests from the Tribunal.

We are committed to addressing the issues the claimants have raised and will be transparent and proactive with supplying claimant's information to support their claims throughout the Inquiry. To build our capability to do this, two learning modules were launched to provide a historic background to the Treaty of Waitangi, Māori housing, and the duty of Kāinga Ora to uphold the Treaty of Waitangi and its principles. The two modules are intended to provide context to the WAI2750 Housing Policies and Services proceedings.

Housing access

Enabling homes that meet diverse needs and are safe, affordable and healthy to live in

We facilitate good-quality, public and affordable housing choices to meet diverse and changing needs

We are delivering a range of programmes and products that deliver or facilitate good-quality, public and affordable housing choices to meet the diverse and changing needs of New Zealanders, and we are addressing the challenge in several different ways. Through our build programme, we are increasing the supply of public, affordable and market homes to deal with the housing shortage. Through our KiwiBuild programme, First Home Partner (a progressive home ownership scheme) and First Home Loans and Grants, we are helping people achieve the security of home ownership.

We have delivered 941 transitional housing units since February 2021

Transitional Housing provides short-term accommodation for people and families in urgent need of accommodation. Our targeted contribution towards the Budget 2020 commitment is 1,400 to 1,600 places (i.e. 70 to 80 percent of 2,000 places).

During this quarter, we physically completed 170 homes, and 185 places were made available to MSD for referral (which is the point at which HUD counts them).

Since the start of the Programme in February 2021, 941 units have been completed, with 801 of those so far made available to MSD. This brings the number of places made available to date to 788. For the remainder of this financial year there are 172 places (within 175 units) under contract, and another seven places (within seven units) under investigation or negotiation.

Refugee Housing commitment

Our three-year commitment for refugee housing is a target of 364 homes. 215 homes were completed up to the end of 2020/21. HUD reviewed our contribution to the refugee programme for the following two years (2021/222 and 2022/23), and factored in the pipeline of expected delivery from other Community Housing Providers. This resulted in a shift in focus for the remaining 149 homes, to primarily South Island locations.

For the year to date, 25 refugee homes have been delivered, but the majority of the remaining 149 homes have provisionally been pushed to 2022/23, in order to reduce pressure on this year and to allow for new supply to be identified.

Enabling market and affordable homes

Through our Urban Development activities, we enabled 404 homes this quarter, half of which were affordable. Year to date, 945 homes have been enabled, all of which were to the 6 Homestar standard.

Thriving communities

Inclusive and sustainable communities with access to employment, education, social and cultural opportunities

Urban Development Strategy endorsed by the Board

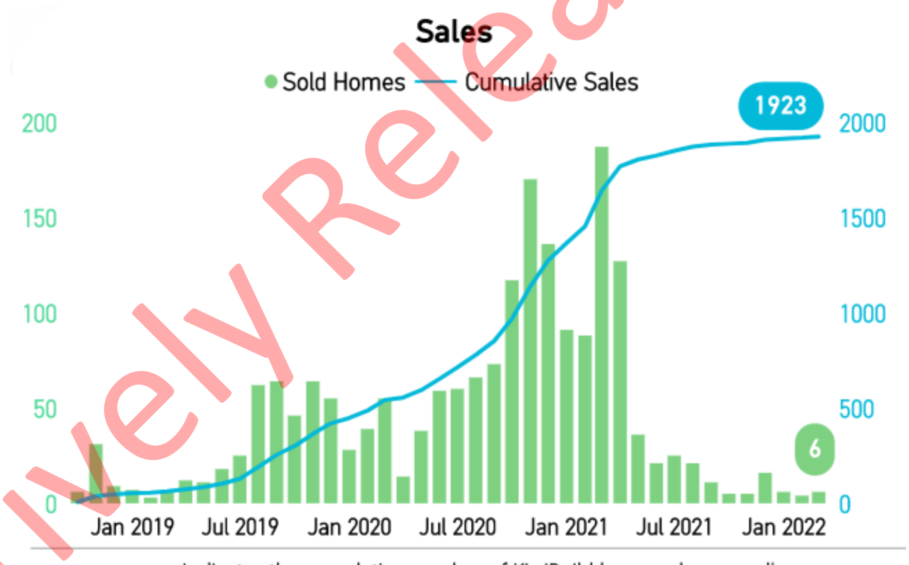
The Urban Development Strategy was endorsed by the Board, and next quarter we will be externally consulting, engaging within our organisation on the adoption of the strategy, and developing the implementation plan.

Final drafts of the Area Development Strategies (ADS) are complete for Gisborne, Napier and Hastings, and the drafts are scheduled to be presented at the Urban Development and Planning Committee's May meeting.

KiwiBuild partnering activity

Partnering with private sector developers through the KiwiBuild programme has continued to decline. Private sector developers remain reluctant to deliver KiwiBuild homes at the current price caps and market conditions.

As at the end of March 2022 the total number of KiwiBuild homes sold to eligible purchasers was 1,923 and the total number of completed KiwiBuild homes was 1,304.



Indicates the cumulative number of KiwiBuild home sales, as well as monthly sales. Sales peaked at the start of 2021, but have since then have gradually slowed

We are working with HUD on their review of the KiwiBuild programme settings, which attempts to address the challenges with the current price caps of the programme.

Environmental wellbeing

Sustainable and resilient operations, assets and communities

Our Sustainability Programme reflects our commitment to improve our environmental performance, live our values and deliver more for our customers.

We have the opportunity to lead the way: while big transformation initiatives like our Waste Minimisation Programme deliver significant change in the construction industry, we make choices every day that can move us closer towards our ambitious visions of enhancing environmental wellbeing and becoming a Carbon Neutral government agency.

Carbon neutral housing

This deals with advancing the carbon neutral housing programme to meet emissions reduction targets and catalyse performance improvements in the sector more broadly. We have identified several projects that can be considered to be designed and constructed using the New Zealand Government Procurement Guide to Reducing Carbon Emissions in Building and Construction recommendations.

Waste minimisation

This involves designing our assets, site clearance and maintenance activities in a way that minimises waste and preserves materials and components for reuse to support the cross-government waste-minimisation efforts. We are prioritising House Relocations and Deconstruction over demolition across our redevelopment site clearance operations. Our Relocations and Site Clearance Policy are due to be published in May 2022. We are also setting up our National Deconstruction Panel in May - the first of its kind in New Zealand.

Internal environment monitoring (IEM)

This concerns evaluating our innovative new build projects through monitoring the internal environment and energy consumption in our homes.

We have started to assess the data gathered from a sample of our 6 HomeStar apartments. The analysis involves applying adaptive thermal comfort criteria to identify if our customers are at risk of summertime overheating. We are also starting to plan IEM as part of an energy hardship study and to determine the benefits of the Retrofit programme.

Managing and reporting on climate risks and opportunities

We presented a summary of potential climate change scenarios to the Whangārei Area Development Strategy project team. This included information on the exposure of some areas to coastal and rainfall or river flooding. Using NIWA data we were able to show the team how much temperatures within the area might increase under different climate change scenarios. This information will be included within all Area Development Strategy documents.

We also worked with GBS (our GIS contractors) to develop solutions for climate data to be more accessible. We are determining what level of climate risk consideration needs to go into each stage of investment progression within our significant projects, including the level of guidance provided by the Sustainability Team to ensure our project and delivery teams are considering climate risk in decision-making.

We are working with Tonkin and Taylor to establish recommendations on how we can improve the flood risk data and knowledge in order to establish a climate risk decision-making framework for our new and existing assets.

Low carbon urban neighbourhoods

The Sustainability team are supporting the Ōtangarei project to ensure low carbon outcomes are included within the project from the start. This pilot will help us to understand what information is required within business cases and planning processes for other projects. At present this project is not funded, and subject to future budget bids.

Transport mode shift

We have engaged with the Institute of Geological and Nuclear Sciences (GNS) to learn about their project to analyse, measure and report real-time data and satellite imagery, in order to understand emissions at a neighbourhood scale. This research could be helpful for us to understand and monitor how our developments affect transport emissions in an area, from conception through to completion. We currently have 50 fully electric vehicles in our fleet with a further 12 on order. Fleet e-bikes have been distributed across five offices. We are awaiting the outcome of our application to secure co-funding to bring a further 141 vehicles and supporting charging infrastructure over the next three quarters.

Bader Ventura passive house

Placement of the precast foundation systems began in February at Bader Ventura, our first Passive House pilot development. This development is set to become Australasia's first Passive House funded by central government, delivering 18 three-storey homes with a reduced carbon footprint, heated and cooled for as little as $1 per day. For our customers this means around an 85 percent reduction in heating costs. The project is a pilot development and still in progress, so practical comparisons with traditional homes regarding construction and ongoing costs will be carried out only after completion. Bader Ventura is a big step towards meeting MBIE's Building for Climate Change 2035 proposed final thermal performance cap.

5. Our financial position

Current position

Our capital programmes for 2021/22 have been reduced, with COVID-19 restrictions and disruptions in supply chains setting programmes back six months. As a result, our full-year capital expenditure forecast of $2,617 million is significantly lower than the annual budget of $4,058 million.

Our operating performance improves because of this, as we will not bear the financial and accounting impact of the full capital programme. We have lower rental income forecast, but this is more than offset by reduced levels of demolition activity, contractor and consultant costs, and financing activity (interest costs).

Our year to date EBITDA is $342 million, $21 million higher than forecast, meaning we are generating the expected operational cash flows to support activities. This cash flow combined with our borrowing programme provides the cash to finance our capital programmes.

Our net operating position is driven by non-cash items – primarily asset write-downs related to demolishing homes and accounting losses on land sales against book value. We have a deficit of $82m as at March, with a forecast June position of a $211 million deficit, as land development activity ramps up and non-cash accounting expenses increase accordingly.

While our accounting operating position is in deficit, if these non-cash items and one-off adjustments are removed, the cash position of our Public and Supported Housing remains positive. Our updated modelling shows that the direction is tracking towards sustainability over the longer term. However, cost pressures will challenge our ability to absorb further shocks, and without changes to the current funding settings, the next 10 years of funding will be directed towards covering financing costs, which constrains free cash flow for further investment in portfolio growth through debt financing alone. To ensure we remain on top of our cost pressures we have implemented a financial sustainability programme aimed at improving our financial sustainability over the medium term through to 2026, slowing cost growth without slowing progress.

Financing activities

Our financial risk indicators remain stable, and we are performing better than budget on all debt ratio indicators (debt to margin, to asset and to equity ratios). Our long-term local currency credit ratings remain solid, with our AAA credit rating reaffirmed in the previous quarter by Standard and Poors. Our liquidity is strong, and we expect it to remain so given we arrange our financing well in advance of the cash outflow.

While the capital programme has slowed down, we do need to extend our borrowing protocol to enable the organisation to make long-term commitments. We expect a formal request to extend the protocol limit will be with the Minister's office by June 2022, and approval of this extension will provide certainty for us to communicate to the markets regarding our intended financing.

Several considerations affect the timing of our borrowing activities (market conditions, timing of delivery, our monthly bond tender programme, and liquidity policy parameters). We are likely to reach the $8.3b formal borrowing limit by October 2022, assuming funding for the Large Scale Programmes is received in the next two months.

Future considerations

With the continued pressure across our significant expenditure items (particularly build costs), and the intent to maintain delivery of the commitments made, the current internal budget (2022/23 – 2025/26) and the longer-term financial position are a significant focus for us. The Board is providing direction to ensure we deliver in a financially sustainable way, with a focus on identifying and managing fiscal risks.

Separate briefings have been prepared for the Minister to further detail the longer-term projections and options for delivery.

6. Our performance delivery

Our Statement of Performance Expectations sets out how we will measure our success

The Statement of Performance Expectations (SPE) set out our plans for the year and how the organisation will measure success through financial and non-financial measures. It enables responsible Ministers to participate in setting annual performance expectations, informs Parliament of those expectations, and provides a base against which our actual performance can be assessed. This section provides the results of each of our 46 measures in our SPE.

SPE performance overview – while operating in a challenging environment we have delivered some good results

We are delivering homes and providing for our customers, while operating in a challenging operating environment which continues to affect our build partners and our own operations. While the effects of the pandemic mean that several of our SPE measures are unlikely to achieve their targets, overall we now estimate that we will achieve 18 of our measures, with 12 that will not be achieved and four where the results are not yet clear-cut.

Forecast SPE results		
●	Likely to achieve:	18
●	Possible to achieve:	4
●	Unlikely to achieve:	12
	Benchmarking, demand driven or annual measures	11

A separate briefing to the Minister (BN 22003 - Update on key Kāinga Ora Delivery Commitments) detailed the continuing effects of COVID-19 on our key delivery commitments, and how our focus remains on meeting our multi-year housing commitments through to June 2024.

Summary of SPE forecast measures by output class

End of year forecast for SPE measures				
Will we achieve?		***Standout measure***	***Challenging measure***	***Reason & mitigation strategy***
Sustaining tenancies and supporting communities				
Yes	**4**	Customers feel their tenancy manager treats them with respect: 89% (target 85%)	Calls answered in 2 minutes by CSC: 40% (target 80%)	Our CSC staff were severely affected by COVID-19. Customer Channels strategy will improve operational efficiency and customer experience and choices
Possibly	**3**			
No	**4**			
Managing, maintaining, and renewing our homes				
Yes	**2**	Time to respond to urgent health & safety queries: 2.8 hr (target 4 hr)	Healthy Homes compliant: 41% (target 60%)	Our work was severely affected by COVID-19. Re-set of programme approved by the Board, implemented from April 2022: lifting capacity, mitigation of constraints in trade capacity and materials, more options for exemptions.
Possibly	**2**			
No	**4**			
Supporting first home ownership for New Zealanders				
Yes	**3**	Time to assess KiwiBuild applications: 1.3 days (target 5 days)	No significant challenges	N/A
Possibly	**0**			
No	**0**			
Public and Supported housing supply				
Yes	**5**	Demolition waste diverted from landfills in Auckland: 87% (target 80%)	Net increase in homes: 596 (target 2,700), on track to meet multiyear commitments	COVID-19, supply chain disruptions and labour market shortage. We introduced and sped up productivity initiatives such as: Project Velocity, Offsite Manufacture, Consentium, and new approaches in procurement and partnering agreements
Possibly	**0**			
No	**2**			
Urban regeneration, development, and general housing supply				
Yes	**5**	Affordable homes enabled: 50% (target 40%)	No significant challenges	N/A
Possibly	**0**			
No	**0**			
No Forecast	**11**	Benchmarking, demand driven or annual measures.		

6.1. Output class one - Sustaining tenancies and supporting communities

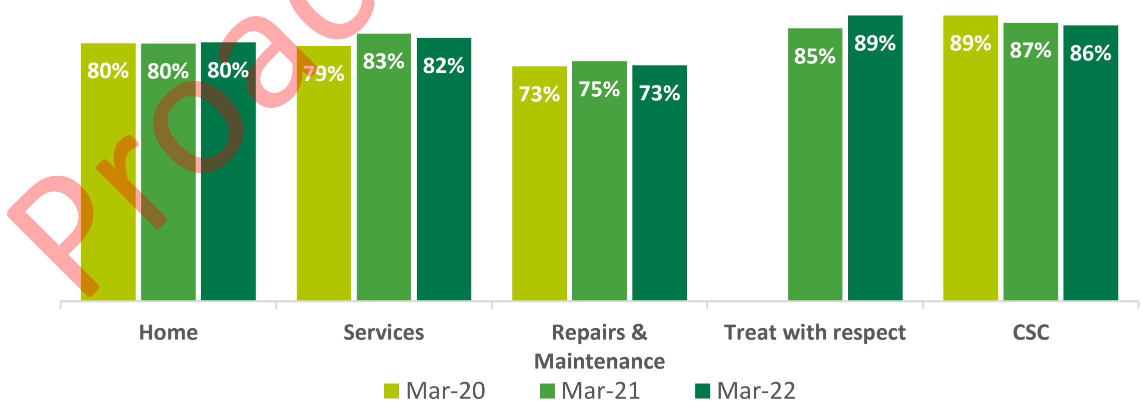
This includes all tenancy-based activities, including working with MSD to place eligible applicants from the public housing register into one of our homes, assisting them to settle in; building relationships between our customers and their communities and partnering with community providers.

Sustaining tenancies and supporting communities results

	Sustaining tenancies & communities	Original full year target	Previous quarter YTD	Current quarter YTD	Full-year forecast result
1.1	Public housing customers that receive a welcome home visit within the first six weeks	*85%*	*75%*	**77%**	77-79%
1.2	Public housing customers satisfied with Kāinga Ora Customer Support Centre	*85%*	*87%*	**86%**	86-87.5%
1.3	Calls answered in 2 minutes by Customer Support Centre	*80%*	*52%*	**40%**	45%
1.4	Customers who feel tenancy manager treats with respect	*85%*	*89%*	**89%**	88-89%
1.5	Public homes that are let (occupied days)	*97.8%*	*97.6%*	**97.6%**	97.7%
1.6	New customers sustain tenancies for 12+ months	*92%*	*94.9%*	**94.9%**	95.0%
1.7	Customers in rent arrears with a working repayment arrangement	*75%*	*52%*	**50%**	50-51%
1.8	Customers who feel tenancy manager takes account of circumstances	*75%*	*73%*	**72%**	71-73%
1.9	Tenants satisfied that interactions with us are culturally appropriate	*75%*	*79%*	**78%**	75-78%
1.10	...and who identify as Māori	*75%*	*82%*	**78%**	73-78%
	...and who identify as Pacific peoples	*75%*	*71%*	**74%**	74-79%

Sustaining tenancies and supporting our communities output costing

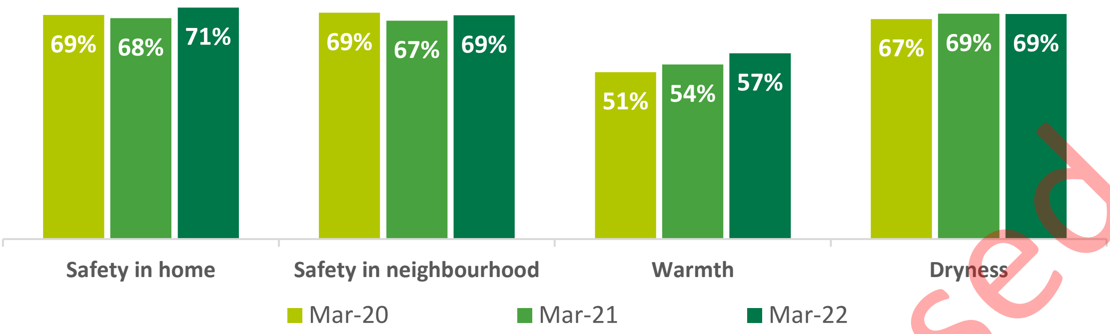
Revenue and Output Expenses ($m)	Actual YTD 2021/22	Budget YTD 2021/22	Full Year April Forecast 2021/22	Full Year Budget 2021/22	Comment
Revenue Crown	847.6	796.6	1,141.6	1,079.3	The revenue and expenses of this output class are in relation to management of the public and supported housing portfolio. It includes all rent revenue and administration and tenant servicing expense for public and Community Group Housing, and revenue and ownership expense for transitional housing. It includes net interest expense.
Revenue Other	380.5	442.0	517.1	591.8	
Expenses	769.5	736.2	1,059.3	997.4	
Net surplus/(deficit)	458.6	502.4	599.4	673.7	



Our quarterly customer survey results for March show increases compared to March of previous years:

- The new measure of *interactions with us are culturally appropriate* remains strong, with a result of 78 percent against the target of 75 percent.

- Satisfaction with repairs and maintenance remains close to target but is not yet meeting it, with year-to-year changes remaining within the margin of error.
- Meanwhile, perceptions of safety and home warmth showed increases compared to the previous year.



Customer Channels and the Customer Service Centre (CSC)

The spread of the COVID-19 variant Omicron during the quarter had a significant reduction on the results of our Customer Service Centre. With a large proportion of the workforce needing to isolate, the result of *calls answered within two minutes* has reduced, with the year-to-date result at 40 percent against a target of 80 percent.

We had put temporary resources in place during January in anticipation of this, meaning that although wait times have increased, they were not as high as they would have been otherwise. Despite the higher than normal wait times for customers, satisfaction with the CSC remains high at 86 percent.

A 90-day plan is also in place, aimed at recovering and growing performance, reducing wait times and improving services for customers. We will not achieve our SPE target this financial year, but following the peak of cases in March, results have increased and we forecast to achieve monthly targets for May and onwards.

Rental Arrears

Many people in our homes are struggling with the financial effects of the current external conditions, either because of lost income, or due to inflation. The cost of living increases affect some of our customers' ability to manage debt, and will continue to do so.

As indicated in the previous quarter's report, our SPE measure of *customers in rent arrears with a working repayment arrangement* is behind the target of 75 percent, with 50 percent of those customers with working arrangements in place. Although we do not expect to meet the target this financial year, we released a response plan in mid-March (sent to the Minister on 5 of May - AH 22 046), aimed at improving awareness, knowledge, and the operational practices of establishing appropriate and affordable arrangements.

6.2. Output class two - Managing, maintaining, and renewing our homes

This deals with activities around maintenance and renewal of our homes, including planned maintenance; delivering planned upgrades, retrofits, and complex remediation; and working with tenants to ensure minimal disruption to their lives.

Managing, maintaining, and renewing our homes results

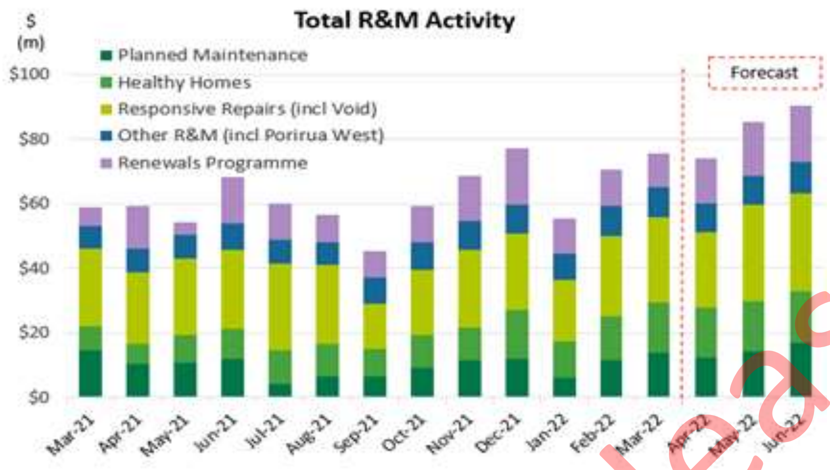
	Managing & maintaining homes	Original full year target	Previous quarter YTD	Current quarter YTD	Full-year forecast result	
2.1	Average days from a public home becoming vacant to being 'ready to let'	*≤18*	*28.3*	**28.5**	28.1	🔴
2.2	Public housing customers satisfied with repairs and maintenance	*75%*	*75%*	**73%**	73-75%	🟠
2.3	Average time to respond to urgent health and safety queries	*≤ 4 hours*	*2.7*	**2.8**	2.8	🟢
2.4	Public housing customer maintenance requests completed within agreed service level	*80%*	*77%*	**78%**	78%	🔴
2.5	Public and supported homes that receive major planned interventions	*13%*	*6%*	**10%**	13-14%	🟢
2.6	Housing portfolio compliant with Healthy Homes Guarantee Act	*60%*	*33%*	**41%**	48%	🔴
2.7	Public houses completed in home renewal programmes	*1,125*	*139*	**241**	428 ±10%	🔴
2.8	Public lettable properties meeting the asset condition scale baseline standard	*93.5%*	*93.4%*	**91.7%**	92-93.5%	🟡

Managing, maintaining, and renewing our homes output costing

Revenue and Output Expenses ($m)	Actual YTD 2021/22	Budget YTD 2021/22	Full Year April Forecast 2021/22	Full Year Budget 2021/22	Comment
Revenue Crown	0.0	0.0	0.0	0.0	The expenses in this output class are in relation to maintenance of the public housing portfolio. It includes all administration and maintenance expense for public and Community Group Housing and ownership expense for transitional housing. It includes net interest expense.
Revenue Other	0.0	0.0	0.0	0.0	
Expenses	408.7	445.6	572.5	598.2	
Net surplus/(deficit)	(408.7)	(445.6)	(572.5)	(598.2)	

We have several external constraints on our maintenance performance. COVID-19 lockdowns prevented access to homes for maintenance or inspections, and subsequently backlogs were created which needed to be dealt with once we were able to enter customer homes again. Supply chain issues and labour shortages also continue. These constraints reduce the speed at which our maintenance system can carry out work, causing delays in expected timing, or compressing activity into shorter timeframes.

Activity continues to increase for all our major maintenance programmes, and we expect the final three months to be among the year's highest. The actual number of work orders has remained steady in recent years, while the total spend has increased. The increase comes primarily from higher prices for material and labour, as well as more work being done on each Responsive Scope work order.



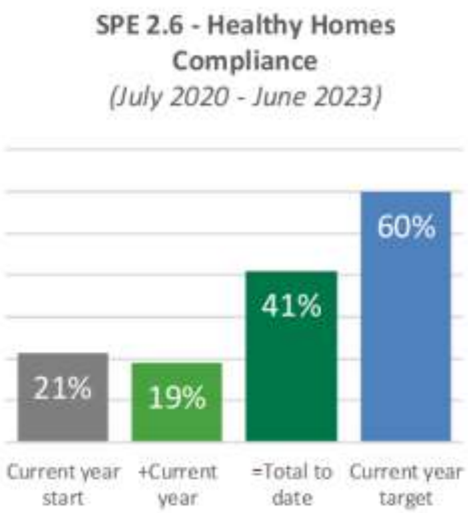
Renewal programme performance

During the quarter we completed 90 Retrofit homes and 12 Complex Remediation homes, taking us to 241 completed homes in the home renewals programme for the year to date (187 Retrofit homes and 54 Complex Remediated homes).

For the full year, we expect to deliver 384 homes (306 Retrofit and 78 Complex Remediation), for about 890 homes (targeted 1,500) over the three year pilot.

The Retrofit programme faces the same issues as our other build programmes, and as Retrofits have an average four month construction period, the recent six month hold on plasterboard orders means that some planned projects will not be completed by the end of the financial year. We are mitigating our issues by:

- carrying out additional recruitment, which is nearly completed. A full complement will be on board by May
- simplifying the build partner agreement, allowing lower administrative costs and an easier path for smaller build partners to work on the programme
- improving processes and creating new tools to improve finding temporary accommodation for our customers
- engaging the market to expand our supply chain for 2022/23.



6.3. Output class three - New Public and Supported Housing Supply

We redevelop our current homes, build new homes and purchase properties and land for building homes, and work with the market in a range of different ways to achieve this. The activities include: building new homes, purchasing existing homes, leasing privately-owned homes; purchasing and leasing land for building homes that meet the current and forecast demand for Public and Supported housing; and delivering Public and Supported housing developments on green-field and brownfield sites.

New housing supply results

	New housing supply	Original full year target	Previous quarter YTD	Current quarter YTD	Full-year forecast result
3.1	Newly constructed homes	*3,400*	*665*	**949**	1,915
	...that are public homes	*2,400*	*406*	**546**	1,352
	...that are supported homes	*1,000*	*259*	**403**	563
3.2	Net increase in homes	*2,700*	*380*	**596**	1,233
	...that are public homes	*1,600*	*44*	**122**	566
	...that are supported homes	*1,100*	*336*	**474**	667
3.3	New public homes (redevelopments) built to 6 Homestar standard	*90%*	*100%*	**100%**	>90%
3.4	Newly constructed homes meet full Universal Design standards	*15%*	*0%*	**0%**	>15%
3.5	Demolition waste diverted from landfill				
	...in Auckland	*80%*	*87%*	**87%**	82-84%
	...in the rest of New Zealand	*Benchmark*	*n/a*	*n/a*	
3.6	New trainees in our construction apprenticeship and cadetship programme	*100*	*46*	**105**	>100
3.7	... percentage who identify as Māori or Pacific peoples	*Benchmark*	*48%*	**56%**	>50%
3.8	Formal construction partners satisfied with partnership with Kāinga Ora	*Benchmark*	*64%*	**71%**	70%
3.9	Iwi partners satisfied with partnership with Kāinga Ora	*Benchmark*	*40%*	**25%**	n/a
3.10	Building consents granted by Consentium within 20 working days	*98%*	*99.7%*	**99.7%**	99.5%

New Public and Supported housing supply output costing

Revenue and Output Expenses ($m)	Actual YTD 2021/22	Budget YTD 2021/22	Full Year April Forecast 2021/22	Full Year Budget 2021/22	Comment
Revenue Crown	0.0	0.0	0.0	0.0	The revenue and expenses of this output class are in relation to public housing supply, housing divestment and land development.
Revenue Other	0.0	0.0	0.0	0.0	
Expenses	122.8	144.1	182.4	177.1	
Net surplus/(deficit)	(122.8)	(144.1)	(182.4)	(177.1)	

We delivered 284 new Public and Supported homes in the quarter. This takes us to 949 for the year to date, with a net increase of 596 after demolitions and other disposals.

Although we will not meet our SPE targets for new homes this year, we remain committed to achieving our multi-year Public Housing Plan commitment to deliver a net of 11,780 more Public and Supported housing homes. To date, we have delivered 40 percent of the total commitment, with a net of 4,756 more homes delivered. We have sufficient pipeline and plans in place to meet our commitments. Our challenge is being able to get the required volume of work contracted and built within the current market and regulatory environment.

Across our entire pipeline, we have more than 15,000 Public and Supported homes. At the end of March, 48 percent of redevelopments for 2022/23 were contracted or in construction, and 70 percent of redevelopments for 2023/24 were in the feasibility, procurement or contracted stages.

Significant work is underway to move projects faster through the early stages of the pipeline, and we expect to see the effects of this flowing through the pipeline over the coming months. Our current pipeline does see us falling short in some regional locations, balanced by oversupply in other locations in order to meet total targets. Further detail on our pipeline is outlined in the *Our Investment decisions* section of this document.

The Acquire Land programme for operating supplement and Redevelopments continues at pace, with the year-to-date total acquired 251,680m^2 (excluding Kāinga Ora Land Programme acquisitions), significantly more than the 64,537m^2 acquired in 2020/21.

Actual and forecast delivery of homes for the year to date

Home Delivery (Units)	Full year 2020/21	Year to date actual	Full year Apr forecast	Full year budget	Targets 2022/23
New Public Housing	1,866	546	1,352	2,635	
New supported Housing	566	403	563	1,105	
SPE 3.1 - Newly built public & supported homes	**2,432**	**949**	**1,915**	**3,740**	**3,400**
Acquire existing - public & supported	361	186	315	319	
Total disposals & adjustments	(878)	(539)	(997)	(1,294)	
SPE 3.2 - Net increase in public & supported housing	**1,915**	**596**	**1,233**	**2,765**	**2,200**

Full Universal Design

Universal Design is the building of our homes so that they are accessible to all people, regardless of age, disability or other factors. Our SPE target is that 15 percent of new homes delivered meet the Universal Design standard.

Of our total intended deliveries this year, 250-300 were briefed after 1 October 2019 and contracted after 1 July 2020, so they are eligible for measuring progress against our target.

Of these, 51 homes are being built to the full Universal Design standard, meaning we forecast to meet our 15 percent target, aiming for delivery in May and June 2022. We are working closely with our build partners to minimise delays from the external supply chain challenges and the New Zealand construction sector labour shortages.

We have also reviewed 190 other homes due for delivery this year, which have adopted Universal Design principles, but were set in motion before the 15 percent target was established. These homes averaged 70 percent compliance against the full standard, and a third of them met over 80 percent of the standards. In addition, 380 homes that are due this financial year, based on our standard designs, meet about 60 percent of the Universal Design requirements.

To ensure we will continue to deliver in the future, we are tracking new projects being briefed. So far in 2021/22, we have evaluated 1,961 homes of our portfolio, and flagged 564 of them to meet Universal Design (29 percent). We have already briefed 249 Redevelopment homes and 136 Acquire New homes for delivery in 2022/23.

Transitional housing

Transitional Housing provides short-term accommodation for people and families in urgent need of accommodation. Our targeted contribution towards the Budget 2020 commitment is 1,400 to 1,600 places (i.e. 70 to 80 percent of 2,000 places).

During this quarter, we physically completed 170 homes, and 185 places were made available to MSD for referral (which is the point at which HUD counts them).

Since the start of the Programme in February 2021, 941 units have been completed with 801 of those so far made available to MSD. This brings the number of places made available to date to 788. For the remainder of this financial year there are 172 places (within 175 units) under contract, and another seven places (within seven units) under investigation or negotiation.

As outlined in the December 2021 quarterly report, HUD had indicated that these remaining homes to meet our commitment of 1,400 to 1,600 places are to be delivered by June 2024; half of which needing to be prioritised across Hamilton; the Bay of Plenty; Wellington; Northland; Nelson, or the East Coast.

We are awaiting formal notification of HUD's expectation (of the 300 to 500 places by June 2024). We may need to seek to transfer (where possible) homes that we have in our pipeline for locations outside the priority areas into our public housing portfolio. There is a risk that some of this housing may not meet public housing requirements, and we are continuing to determine how to manage this.

We continue to work with the Department of Corrections to provide 150 transitional housing beds[1] for people who would otherwise go to, or remain in, prison because they have no suitable accommodation. This quarter no beds were delivered, but we have a further 81 beds (within 39 units) currently under investigation or negotiation, with all beds to be provided by June 2024.

6.4. Output class four - Urban regeneration, development, and general housing supply

COVID-19 continued to affect our urban regeneration and development programmes, particularly our large-scale projects. While all of our development sites are back up and running, industry-wide supply issues and resource constraints continue. We have several significant initiatives already underway to mitigate the effects and accelerate the supply of affordable homes in regions with high demand.

Urban regeneration, development, and general housing supply results

	Urban development	Original full year target	Previous quarter YTD	Current quarter YTD	Full-year forecast result	
4.1	New homes enabled	*1,600*	*541*	**945**	1,686	●
4.2	Affordable homes enabled	*40%*	*48%*	**50%**	43%	●
4.3	Enabled homes under construction within agreed timeframes	*95%*	*100%*	**100%**	95-100%	●
4.4	New public, shared equity, and built-to-rent pilot homes on behalf of TRC	*95*	*57*	**62**	236	●
4.5	New market, affordable and TRC public homes enabled to 6 Homestar standard	*90%*	*100%*	**100%**	100%	●
4.6	Jobs through Shovel Ready Projects *(≥320 by June 2024)*	*Tracking*	*89*	**84**	84	

[1] This commitment is measured by the number of "beds" rather than full homes.

Urban regeneration, development, and general housing supply output costing

Revenue and Output Expenses ($m)	Actual YTD 2021/22	Budget YTD 2021/22	Full Year April Forecast 2021/22	Full Year Budget 2021/22	Comment
Revenue Crown	0.0	0.0	0.0	0.0	The revenue and expenses of this output class relate to activities associated with urban development activities and increasing general and affordable housing supply.
Revenue Other	155.3	183.0	283.1	254.1	
Expenses	203.2	191.8	416.8	288.1	
Net surplus/(deficit)	(48.0)	(8.9)	(133.7)	(34.0)	

Large scale programme financial forecasts

The forecast below excludes all shovel-ready costs and revenues that offset each other. Revenue recognition does not typically fall in the same periods as all the cost, resulting in the negative net cash forecast in the budget period.

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[redacted]

s 9(2)(f)(iv)

[redacted]

6.5. Output class five - Supporting first home ownership for New Zealanders

Supporting first home ownership for New Zealanders results

	First home ownership	Original full year target	Previous quarter YTD	Current quarter YTD	Full-year forecast result	
5.1	New First Home Grants assessed for eligibility	*Demand driven*	*11,925*	**15,855**	21,331-21,873	
5.2	Average days to assess completed First Home Grant applications	*≤ 5.0*	*1.9*	**1.9**	1.9-2.2	●
5.3	New KiwiBuild applications assessed for eligibility	*Demand driven*	*623*	**1021**	1,096-1,243	
5.4	Average days to assess completed KiwiBuild applications	*≤ 5.0*	*1.5*	**1.3**	1.6	●
5.5	New Progressive Home Ownership applications assessed for eligibility	*Demand driven*	*645*	**912**	1,396	
5.6	Average days to assess completed Progressive Home Ownership applications	*≤ 5.0*	*4.5*	**3.8**	3.0-3.8	●
5.7	Applicants gaining full pre-approval for the Progress Home Ownership scheme who:					
	...identify as Māori	*Benchmark*	*15%*	**14%**	15%	
	...identify as Pacific peoples	*Benchmark*	*6%*	**7%**	8%	
	...are families with children	*Benchmark*	*42%*	**45%**	44%	
5.8	First Home Loan mortgages underwritten	*Demand driven*	*428*	**577**	780	
5.9	Homes purchased with our home ownership products	*Demand driven*	*3,459*	**4,366**	6,100-6,450	
5.10	...where the purchasers identify as Māori	*Benchmark*	*9%*	**8%**	8-9%	
	...where the purchasers identify as Pacific peoples	*Benchmark*	*4%*	**4%**	3-4%	

Supporting first home ownership for New Zealanders output costing

Revenue and Output Expenses ($m)	Actual YTD 2021/22	Budget YTD 2021/22	Full Year April Forecast 2021/22	Full Year Budget 2021/22	Comment
Revenue Crown	69.3	97.6	116.4	126.8	The revenue and expenses of this output class are in relation to products that are managed on the Crown's behalf and expenses associated with these first home ownership products.
Revenue Other	11.7	5.7	17.7	8.3	
Expenses	46.4	88.1	70.9	117.6	
Net surplus/(deficit)	34.7	15.2	63.1	17.5	

Activities in this Output Class include the management of financial home ownership products that assist individuals and households to purchase their first homes. It includes administering KiwiBuild eligibility criteria; First Home Loan and Kāinga Whenua loans; First Home Grant; Kāinga Ora Tenant Home Ownership Scheme; and First Home Partner as the direct pathway in the Progressive Home Ownership Fund (Crown appropriated).

The Chief Executive's update for April 2022 provides further information on our activity and outcomes specifically in the First Home Partner programme.

6.6. Output class six - Transactions relating to Crown-owned land

This Output Class reflects our statutory function for urban development under section 13 of the Kāinga Ora – Homes and Communities Act 2019.

This Output Class is limited to property management and development services delivered on behalf of the Crown in relation to land and buildings that has been transferred to direct Crown control and are accounted for in the Crown's Housing Agency Account.

Transactions relating to Crown-owned land and Housing Agency account results

	Housing Agency Account	Original full year target	Previous quarter YTD	Current quarter YTD	Full-year forecast result	
6.1	Residents satisfied with overall living experience at Hobsonville Point	75%		*Annual*		
6.2	Completed underwritten KiwiBuild homes acquired by Crown as part of the Buying Off the Plans Programme	≤ 25%	21%	**21%**	21%	●

Transactions relating to Crown-owned land and Housing Agency account output costing

Revenue and Output Expenses ($m)	Actual YTD 2021/22	Budget YTD 2021/22	Full Year April Forecast 2021/22	Full Year Budget 2021/22	Comment
Revenue Crown	0.0	0.0	0.0	0.0	The revenue and expenses of this output class are in relation to management and development services for Crown-controlled land and property.
Revenue Other	0.5	0.5	0.5	0.5	
Expenses	0.5	0.5	0.5	0.5	
Net surplus/(deficit)	0.0	0.0	0.0	0.0	

This year to date no completed underwritten KiwiBuild homes have been acquired by the Crown. The percentage that have been acquired over the lifetime of the programme continues to decrease, and is at 21 percent against a target of 25 percent or less.

Our biannual survey on residents' opinion of the living experience at Hobsonville Point will be carried out at the end of this financial year.

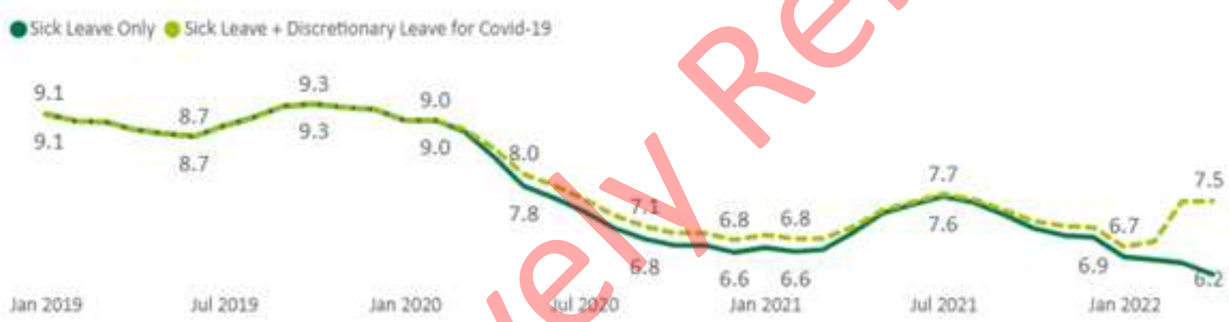
7. Our organisational performance

To be successful in our new role and deliver the important outcomes we seek to achieve, we need to be an organisation that has the right capacity, capability and is functioning well. This section outlines our approach and progress towards success.

7.1. Our People

We continued our focus on wellbeing this quarter, conscious of the increase in COVID-19 cases across the country. Our people do not need to use Sick Leave for COVID-19 related illness, and during this quarter over 1,100 days were taken as COVID-19 leave, compared with fewer than 400 days taken in the same quarter in each of the previous two years. COVID-19 leave was 39 percent of all leave types taken during the quarter.

The graph below shows the 12-month rolling average for sick leave including the discretionary COVID-19 leave, compared with sick leave only. The effect of Omicron is evident in the spike over February, March, and April 2022.



We continue to build our capacity at a financially sustainable pace to enable the delivery of our mandate

Recruitment has been challenging since the onset of COVID-19. With the borders being closed for the majority of the last two years we expected difficulty in sourcing strong candidates for our 'harder to fill' roles, but we have in fact maintained the quality of new starters.

Reflecting the broader mandate we have and our requirement for a wide range of skills, the number of Fulltime Equivalent roles (FTE) increased by 275 this quarter (as shown in the chart below). This continues our trend of building capacity at a financially sustainable pace during the year.

Our forecast originally predicted a year-end total of 3,701 FTE, but this will be reduced for the next forecast to reflect our financially prudent approach, the longer recruitment times, and our focus on the most important roles to deliver our commitments.

We value our own team, and have strongly recruited internally, with around half of new roles in the last year filled by internal candidates. This further increases the recruitment time to fill vacancies, but our people development and engagement is a priority.

We also started our 2022 graduate cohort in February with a one-week induction programme, and we will apply the learnings from this to our 2023 graduate programme.

7.2. Enhancing our Māori capabilities

Mātauranga Māori Programme

The ongoing implementation of the Mātauranga Māori Programme remains focussed on building and developing cultural capability across the organisation. The aim of the programme is to deliver content based on our commitment in supporting and participating in the development of an organisation grounded in Te Ao Māori.

National Te Reo Programme

Quarter three intake for our National Te Reo Programme, saw 187 participants complete the programme, compared to the last quarter of 73 people.

Te Whare Kōrero o Kāinga Ora

Our Mātauranga Māori Waikato Pilot Programme was renamed to Te Whare Kōrero o Kāinga Ora which means “Kāinga Ora House of Learning”. The new name better reflects the teachings and delivery approach of the programme, which has evolved to offer two phases, Paetahi (an entry level programme focussing on pronunciation, karakia, pepeha, mihi and basic conversation) and Paerua as its extension phase. Both have individual learning aspirations for around 20. The vast majority of participants hold frontline positions within the organisation. This being a success factor for Te Whare Korero as the programme is essentially designed and developed to improve our customers’ experiences by engaging through a Te Ao Māori lens.

7.3. Safety Support and Wellbeing

Promoting wellbeing of our people

A focus on wellbeing has continued this quarter through internal programmes such as the monthly Wellbeing for our People webinar series. We have identified opportunities to integrate more health and wellbeing practices across the organisation and these will be incorporated into a comprehensive evidence-based health and wellbeing framework.

Safety Leadership and Participation

Our Maintenance and Assurance training and support portal went live in April 2022. This portal provides a variety of tools to assist with training and learning for our Maintenance Partners. Key health and safety components have been included alongside operational topics such as work order management and the repair planning process.

This quarter in the construction and development space, a number of safety initiatives and projects have been identified related to supporting:

- Safety by Design
- Supply chain leadership and sharing good practice examples and principles
- Maruiti – improving health and safety outcomes for Māori
- Workforce assurance for vulnerable workers

We are introducing a maturity assessment model to assess our compliance and safety performance and form a baseline from which we can further improve. Work is underway to implement the model across the organisation and assess the change implications.

Protective Security Requirements

A draft self-assessment report to the NZSIS has been completed for Protective Security Requirements for Government (PSR). The report contains assessment statements of key security domains across our organisation, with associated ratings and steps required to improve our capability.

Our current state of maturity determines the priorities for improvement over the next 12 months. While we are not yet required to produce this reporting, the NZSIS has advised that this will occur in the near future, primarily due to some of our people holding National Security Clearances for their access to classified information.

8. Focus on regional engagement

Building trusting, well-connected relationships with our customers, communities and stakeholders is critical to delivering high quality housing and urban areas that enable thriving, cohesive and sustainable communities.

To support our customers and communities to trust and engage with us, we need to understand and make decisions based on our operations in a particular geographic area, and engage or partner with stakeholders and communities at a local level.

Place-based groups bring together these functions in defined spatial areas, as well as integrating the broader operations of Kāinga Ora in that part of New Zealand. They are designed to provide a single point of contact for communities, and to ensure that service delivery and property management is focussed on the needs and aspirations of our customers in a particular place.

Here we highlight a selected few of the teams' activities, ranging from meetings and early engagement with communities through to the development of homes and signed agreements.

- In Auckland, we launched the Wesley Engagement campaign in March, which aims to see new connections and relationships established, along with a steady rate of engagement feedback from Wesley residents and the wider Puketāpapa community, including local businesses and the Local Board.
- A successful community co-design kick-off meeting for the Haere Mai and Welcome Initiative was held with 10 local organisations represented, including the two local schools. A funding agreement is in place with Roskill Together who will lead the initiative in Roskill South.
- We have finalised the proposal for the Social Innovation and Enterprise Programme in collaboration with Impact Hub. The programme will seek participants from across the five Large Scale Project Neighbourhoods we are currently working in. An Expression of Interest process for this programme will be live in May.
- Meeting with Auckland Council to discuss tools the Council has in the community that could assist customers understanding power savings that could be available to them, and how we could promote to new customers in sustainable ways of living.
- To increase vaccination rates and to give our customers the opportunity to get their boosters, pop-up events across the region targeting complexes and densely populated areas with children were organised by Counties Manukau Housing Support teams, in collaborations with the Northern Region Health Coordination Centre and our Office of the DCE.
- In Tauranga, we have developed a non-binding Memorandum of Understanding with Accessible Properties Limited (APL), working to identify the redevelopment potential of APL's portfolio. The extent of redevelopment potential is dependent on the implementation of the Resource Management Amendment Act 2021 in August this year, as well as Tauranga City Council's application to the Infrastructure Acceleration Fund

being successful. We will work with HUD and APL to investigate issues in their Tauranga capacity contract settings, and develop options for enabling additional supply.

- Resource consent for a 47 home and community hub partnership development in Hamilton, the Te Mauri Paihere ki Mangakootukutuku ('weaving life principles'), has recently been received from Hamilton City Council. It is under discussion with the Government, with work hoped to start in the latter part of this year, and completion in 2024. This represents a unique partnership between Te Kiingi Tuheitia Pootatau Te Wherowhero VII, Waikato-Tainui, Department of Corrections and ourselves, and will be built on land leased from Waikato-Tainui. Sixteen of public homes are planned for women who have recently left a Department of Corrections facility. The resource consent news has been shared with neighbours, wider community, stakeholders, and the media as part of ongoing and proactive engagement.
- In Canterbury, we met multiple times with MPs, government agencies, and local authorities, addressing home ownership products, the Shirley regeneration, and local community engagements such as clean-up days and meetings.
- We met with the Grey District and Buller District mayors to discuss housing opportunities and community initiatives in each of their regions.
- In Otago, we had discussions with Te Rūnanga o Arowhenua regarding the Grey Road development, and the Rūnanga's interest in relocatable homes. Future in person meetings are being planned.
- We met with Mackenzie and Central Otago councillors to discuss developments, leases and sales, and housing needs in their regions.
- We engaged Māori-owned construction firm Far North Group (FNR Group) to build 13 new State homes in Kaitaia. The 4,890 square-metre site on Jamieson Road is our largest new public housing development in Kaitaia for several decades, and is expected to be completed in early 2023. It will be FNR Group's first Kāinga Ora development as main contractor, and in addition to partnering with Māori, the development will also achieve strong waste minimisation outcomes.

9. Our investment decisions

We have significant commitments to deliver

We have multiple housing commitments due by June 2024, with a total delivery of a net additional supply of 11,804 homes. To date, we have delivered a net of 4,756 homes (216 since last quarter) against our intentions.

The six-year gross target of 14,746 has been refreshed to 15,320. The gross target is the activity we require to be delivered by our build and acquisition programmes to ensure that net delivery is achieved once sales, lease expiries and demolitions are factored in.

To deliver on our commitments, we require a significant pipeline of activity

Given the large delivery volume in 2023/24, our focus is moving the 3,779 homes that are in the Feasibility and Planning phase through to the Procurement and Contracted phases promptly, as at that point we will have a greater clarity of scheduling.

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 for the future will be the movement of these projects through the phases.

Our gross build pipeline is sufficient to deliver on commitments

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: Acquire-New	0	0	0	0	30	30	45	29	234	299	234	443	1,344
Total: Pipeline + Remaining Forecast Acquire-New	**264**	**401**	**329**	**966**	**641**	**770**	**1,213**	**1,292**	**1,112**	**1,292**	**1,409**	**2,308**	**11,997**

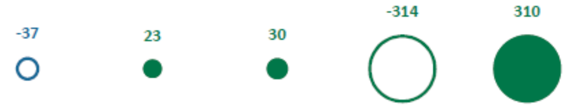
There are key initiatives underway to reshape our organisation and build capability to manage a pipeline of this scale efficiently and effectively. These include Project Velocity, Offsite Manufacturing, Capacity Partnership Agreement, Construction Accord Procurement Alignment, Consentium, Customer Programme Implementation, Engagement and Partnership Framework, Recruiting and Developing new employees.

For Redevelopments, the pipeline focus is two-fold, shifting as much current work into construction as possible for 2022/23 delivery, while also moving as many early-stage projects through design and consenting as possible, for 2023/24 delivery.

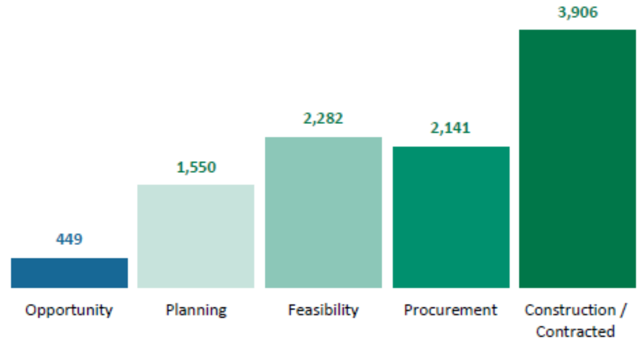
For Acquire New homes, our focus is on contracting sufficient homes for 2022/23 and 2023/24 delivery.

TOTAL PIPELINE

CHANGE ON PREVIOUS MONTH



TOTAL PIPELINE



Planning: early design work, a site is identified and an indicative timeline has been prepared. Projects in this stage are undergoing early investigation, including finalising a yield plan and site analysis. At the end of this phase a project brief is agreed, that sets out the planned timeline and typology

Feasibility: developed design, stakeholder engagement, and Resource Consenting is undertaken in this phase. At the end of this phase a business case is approved, which sets out the approved budget, timeline and typology

Procurement: once business case approved, Kāinga Ora procures a build partner to deliver the project, this can be via a range of tools, such as Capacity Partnering Agreements, Design and Build, or Construct Only, procurement timeframes and processes vary between different approaches. During this time detailed design work and Building Consenting is completed by either the build partner or Kāinga Ora. Acquire-new projects enter the pipeline at this point, once Kāinga Ora progress to negotiations for the acquisition of newly built homes.

Construction/Contracted: once a contract is finalised the project moves into this category until handed over.

Risks Management across our portfolio

In our investment decision making, we consider and manage the risks to our portfolio, from the general (such as extreme weather and other external events), to the specific and known (like the sustained disruptions of supply chains, the Omicron outbreak, the possibility of new variants, and the risk of escalating costs resulting from these).

Key external dependencies are a significant feature of risks faced.

Market		
Consenting Delays		Several TLAs are working to 90 days vs statutory 20 days
Pre-construction Labour		Consultants on our panels are indicating lead times and capacity limitations for new work
Materials Supply		Not yet impacting construction starts, working on interventions for key materials
Construction Labour		Some build paterns in the regions still not at full capacity due to Covid
Policy		
Operating Supplement		Delays in decision making for accessing Operating Supplement slowing projects
Preferential Placement		Time required for policy decision on preferential placement means a number of projects will not progress in time for PHP

We bring projects into our pipeline on a financially sustainable basis

Over this quarter, 63 public or supported housing projects were approved, for a total of 706 homes (see appendix two).

Year to date, we have approved business cases totalling 2,284 homes across the Public and Supported portfolios. This is higher than the last two financial years, and indicates increased pre-construction activities that will help meet our housing targets.

Redevelopments and Acquire New homes are the two main delivery channels for Public Housing. Due to the different delivery timeframes, Redevelopments tend to focus on long-term delivery, while Acquire New tends to focus on the delivery in the next year or two.

Our aim is to achieve a 2.89 percent Incremental Return on Investment (IROI) on our projects. This has been challenging for several years, resulting in initiatives such as operating supplements being provided in certain circumstance. An important part of our risk assessment is to assess whether this remains an effective mechanism.

We continue to see significant cost pressures in our existing deliveries

Across our investment activity, we expect costs to exceed original business case approvals by three percent. This equates to approximately $150 million overspend against original business cases.

The expected overspend within the Public Housing Redevelopment programme is the greatest at 8 percent (-8 percent variance), with $177 million overspend.

Operating supplements have been effective in enabling activity, although this effectiveness is reducing.

The operating supplement settings for Public Housing, which were put in place in 2018, with an individual project cap of 100 percent and a portfolio cap of 50 percent, have been critical for delivering homes (outside of Auckland) as well as meeting our financial sustainability objectives. Auckland projects are expected to be eligible for an operating supplement from July 1, 2022, although we are continuing to work with HUD to fine-tune the details (approved as part of Budget 2020).

However, rising inflation and increased construction costs have significantly outpaced the rent increase nationwide. The costs relative to rents (especially if including Auckland) are proving particularly challenging within the market rent and operating supplement settings. This issue is exacerbated by an increasing proportion of the build programme in regional locations where a high operating supplement is required, and increasing service levels that increase project costs. As a result, we may not be able to achieve financially sustainable returns within a 50 percent portfolio cap.

The existing funding model for Supported Housing investment (nationwide) may not be optimal, as we are unable to achieve the same net yield as with Public Housing, and we may forfeit the ability to claim an operating supplement once the homes go back to the Public Housing portfolio at the end of the lease term.

It is clear that the operating supplement for Public Housing is critical to meet financial sustainability objectives. If fully agreed, the Auckland operating supplement will improve the performance of future projects, mitigating the financial risk of significant investment activity below the target rate of return.

Average IROI for Approved BC upto March 2022			Public		Supported
DCE	Operating Region		IROI with OS	IROI without OS	2021/22 Mar YTD
AKL & Northland	Central & East AKL	Acquire New	n/a	n/a	2.09%
		Redev	2.41%	1.92%	n/a
	Counties-Manukau	Acquire New	2.70%	2.16%	2.16%
		Redev	2.54%	1.93%	n/a
	North & West AKL	Acquire New	2.63%	2.10%	2.09%
		Redev	2.57%	2.04%	n/a
	Northland	Acquire New	n/a	n/a	2.09%
		Redev	2.89%	1.75%	n/a
Central	Bay of Plenty	Acquire New	2.89%	1.95%	2.08%
		Redev	2.00%	1.49%	n/a
	Waikato	Acquire New	2.89%	1.71%	2.09%
		Redev	2.89%	1.48%	n/a
	East North Island	Acquire New	2.89%	1.57%	2.09%
		Redev	2.89%	2.02%	n/a
	Taranaki, Manawatu, Whanganui	Acquire New	2.89%	1.61%	n/a
		Redev	2.89%	1.74%	2.09%
	Wellington, Kapiti	Acquire New	2.89%	1.71%	n/a
		Redev	2.89%	2.01%	n/a
South Island	Canterbury	Acquire New	2.89%	1.98%	2.16%
		Redev	2.87%	1.68%	n/a
	Nelson, Marlborough, West Coast	Acquire New	2.89%	1.54%	n/a
		Redev	n/a	n/a	n/a
	Otago & Southland	Acquire New	2.89%	2.01%	n/a
		Redev	n/a	n/a	n/a

[1] LTIP key performance requirement is to generate avg. IROI across all investment of 2.89%.

[2] Supported Housing IROIs are calculated based on the higher of the approved lease rent or market rent.

[3] From Q3, in addition to non-AKL units, Operating Supplement for Public Housing is also applied to AKL units expected to be delivered from 1 July, 2022, although yet to be completely agreed with MHUD.

10. Financing

Our short-term financial indicators are in line with requirements.

Most of our short-term balance sheet risk indicators (debt/EBITDA, debt to asset, and debt to equity ratios) continue to perform better than planned, mainly due to our lower capital expenditures and subsequent lower borrowing. The current external conditions are affecting our operating costs, resulting in our short-term margin results. Our full year forecasts are below target in our margins and net operating costs per housing unit. Appendix one provides our financial statements.

Our long-term local currency credit ratings remain solid, and was recently reconfirmed by Standard and Poors as AAA.

Financial statements key indicators	Budget 2021/22	Forecast (April) 2021/22
SPE Measure - Net operating costs per housing unit	$15,927	$16,010
SPE Measure - EBITDA/Income%	>= 27%	27%
SPE Measure - Debt/EBITDA Ratio	<= 17.1	22.2
SPE Measure - EBITDA/Interest ratio	>= 2.4	2.1
Debt to Asset Ratio	<= 24.0%	20.2%
Debt to Equity Ratio	<= 34.4%	27.6%

There is a separate briefing prepared regarding the projections of these metrics, considering the ongoing financial sustainability of the organisation.

We are fully compliant with internal treasury policies.

Our liquidity continues to be strong (at 150 percent), and we expect it to remain so given we arrange our financing well in advance of the cash outflow. The Board-approved liquidity policy requires financial assets and committed standby facilities to be a minimum 100 percent of net cash outflows over a four-month period. Pre-financing ahead of key geopolitical events and ongoing underspends within the business means that our liquidity position has remained strong.

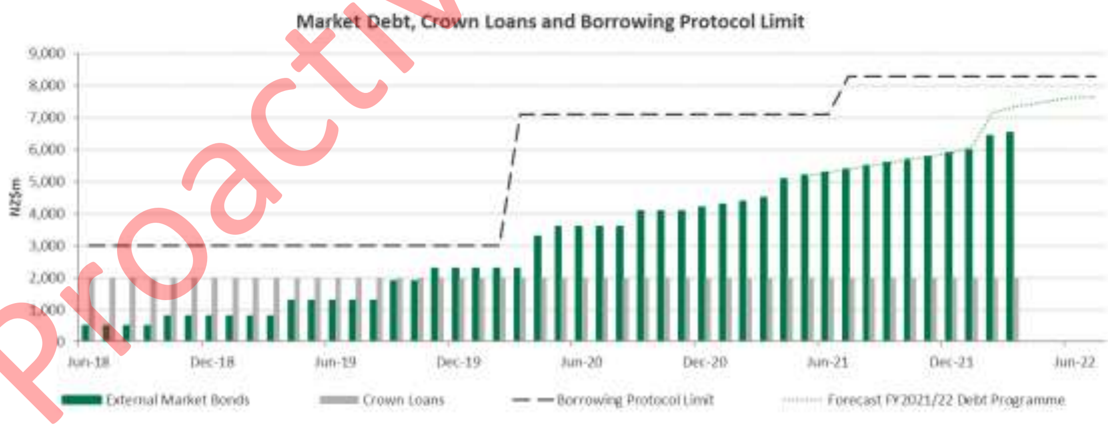
Treasury policy compliance

Metric	Measure	Compliance (Y/N)	Position 31 March 2022
Credit Risk	All exposures within approved counterparty and concentration limits	Y	All exposures within limit.
Funding Maturity Risk	Total debt maturing in any 12-month period, less than 25% of total debt	Y	21.33%
FX Risk **(NZD Equivalent => Policy hedge)**	\$0 - \$250,000 => 0 - 100% >=\$250,00 (known) => 100% >=\$250,00 (unknown) => 80%-100%	Y	All exposures covered when advised
Liquidity Risk	Greater than 100% cover for anticipated expenditure on a forward rolling 4-month basis	Y	150%

Out of Scope

We are managing our external debt in accordance with the Government approved borrowing protocol limit of \$8.3 billion (see appendix two for more details). This limit only applies to external debt, which comprises bills and bonds issued by us.

Several considerations affect the timing of reaching the limit, such as market conditions, timing of delivery, our monthly bond tender programme, and liquidity policy parameters. Based on the updated forecast, we are likely to reach the \$8.3 billion limit by October 2022. This incorporates expected funding for the spend to date of the Large Scale Programmes by the end of June 2022. A formal request to extent the protocol limit will be prepared in May 2022 for approval, and is expected to be with the Minister's office by June 2022.



As at 31 March 2021, total external debt is \$6.7 billion, leaving a residual headroom of \$1.6 billion. For 2021/22, we anticipate our annual Wellbeing Bond programme to be around \$2.3 billion. The chart below provides an overview of the existing and forecast debt. We expect monthly bond tenders to account for around half of annual ongoing issuance, with volumes up to \$100 million per tender.

Debt Profile $m	*Year to Date Actual*	*Full Year Apr Forecast*	*Full Year Budget*
Crown Debt	1,985	1,986	1,988
Market Debt	6,814	7,510	10,325
Total Debt	8,799	9,496	12,313

Financial markets – a fast moving environment

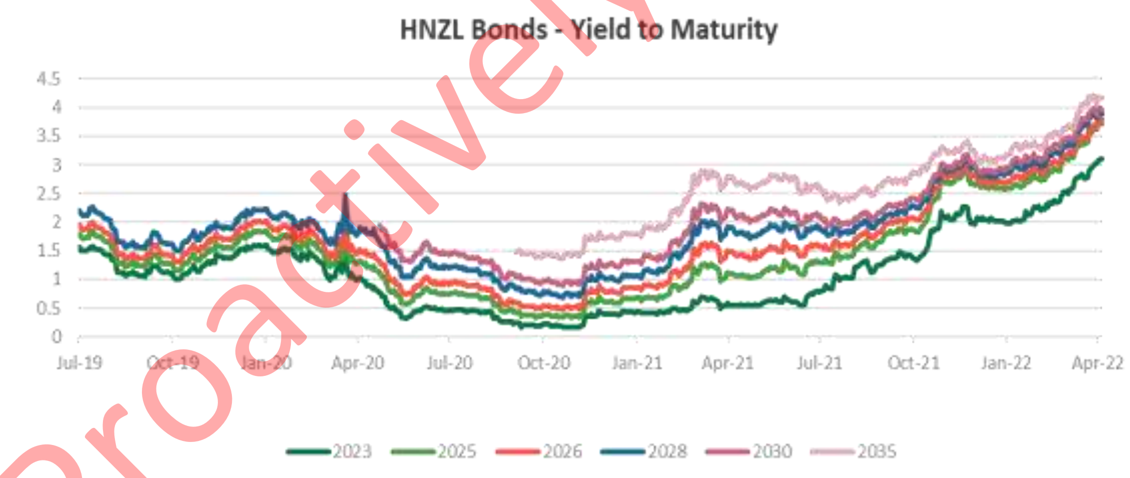
Inflationary concerns became reality during the quarter, both domestically and around the world. In March, our annual inflation reached 6.9 percent, the highest in more than 30 years, with housing a key contributor gaining 8.6 percent annually. Prices for the construction of new dwellings as measured by Statistics New Zealand increased 18 percent in the March quarter compared with the same quarter in 2021, the largest increase recorded. Strong inflationary pressure continues across the globe, with the war in Ukraine only putting more pressure on supply chains, commodity prices, and inflation.

The broad-based nature of price rises is coming from several domestic and external sources. The big issue for us is not so much what the inflation peak will be but how persistent the uptick in inflation is. We remain wary of a more pronounced and persistent lift in inflation and expect annual CPI inflation to remain well above 5 percent for all of 2022, and not to fall back below 3 percent until 2024.

Higher-than-expected inflation has also led the Reserve Bank of New Zealand (RBNZ) to continue to raise the OCR over 2022, with 0.25 and 0.5 basis point increases to 1.50 percent in February and April. The RBNZ see the peak OCR at around 3.4 percent, with the majority of increases expected to occur in 2022. The expectation of future increases, as well as global interest rate moves, have resulted in a large shift higher in the NZD wholesale (swap) interest rate curve. The NZ 5-year swap rate has moved from 2.55 percent at the start of 2022 to around 3.70 percent at present.

The key theme in global financial markets over the March quarter has been the start of central banks tightening and a significant rise in interest rates across the yield curve. The US Federal Reserve raised its policy rate in mid-March - its first increase since 2018 - and more increases are expected throughout 2022. Other major central banks including the Bank of England and Bank of Canada have also increased their policy rates. The benchmark US 10-year bond yield has risen from 1.5 percent at the start of 2022 to around 2.8 percent at present.

The higher swap yields have translated directly to higher marginal borrowing costs for us, although this normalisation of rates follows a prolonged period of very low interest rates. The higher rates and the greater market uncertainty means organisations will have to be more opportunistic in debt issuance, taking advantage of pockets of demand for different types of debt and maturities.



The information that follows is primarily for the Ministry of Housing and Urban Development, to assist in their monitoring function.

11. Appendices

The following appendices are primarily for reference use by HUD as our monitoring agency, and consist of:

- **Appendix one** - Our financial statements for the quarter, along with brief discussion of any significant variances from forecast.

- **Appendix two** - How we are meeting all our expectations under debt protocol reporting requirements.

- **Appendix three** - Details on our Government Policy and Legislative Environment report and activity.

Appendix one: Financial performance

This appendix provides financial statements for the quarter, along with brief discussion of any significant variances from forecast.

The full year forecasts in these statements are indicative only and are neither final nor signed-off. The year to date forecast values are described as Forecast April (i.e. the version created in April 2022).

Key points of the updated forecast for end of year 2021/22:

- Continuation of delays in home delivery and capital investment, with COVID-19 and supply chain disruptions reducing activity.
- Inflation, build cost, and interest rates increasing.
- The forecast operating position is an EBITDA of $362m, a decrease of $62m from the original budget ($424 million).
- We continued building our capacity so that we can carry our mandate, increasing our people expenditure ($55 million), but maintaining a financially sustainable pace of capacity growth.
- Asset write offs are increasing, with increased costs of land programmes
- Repairs and Maintenance activity that is being pushed to next financial year causes reduced expenditure ($27 million) this year.
- Capital investment flows into 2022/23, due to timing and cost pressure, with an increase in home delivery in the out year.

Balance Sheet

$m	As at 31 Mar 22	Full Year Apr Forecast	Full Year Budget
ASSETS			
Cash and Cash Equivalents	124	100	1,483
Short Term Investments	863	1,236	1,267
New Zealand Government Bonds	287	0	100
Prepayments & Receivables	151	300	175
Properties held for sale	45	45	14
Properties under development	479	525	817
Mortgage advances	15	15	28
Interest rate derivatives	13	0	0
Income tax receivable	34	25	0
Intangible Assets	62	65	49
Property, plant and equipment	39,860	45,031	39,919
TOTAL ASSETS	**41,932**	**47,342**	**43,852**
LIABILITIES			
Accounts payable and other liabilities	346	359	118
Income tax payable	0	0	11
Provisions	1	2	34
Mortgage insurance scheme	26	26	112
Interest rate derivatives	8	17	37
Crown borrowings	1,985	1,986	1,988
Market borrowings	6,814	7,510	10,325
Deferred tax liability	2,525	2,870	2,390
TOTAL LIABILITIES	**11,704**	**12,770**	**15,015**
EQUITY			
Equity attributable to the Crown	3,562	3,827	4,490
Retained earnings	897	797	911
Revaluation reserve	25,782	29,958	23,451
Hedging reserve	(10)	(10)	(25)
TOTAL EQUITY	**30,230**	**34,573**	**28,827**

Equity represents the value of Kāinga Ora in financial terms. If all our assets were liquidated and liabilities paid this is what is left behind. Property, plant and equipment make up 95 percent of our total assets, primarily our housing portfolio. The year to date balance sheet Equity is higher than full year budget, reflecting a larger than expected revaluation at the end of 2021.

The forecast year-end balance sheet is affected by COVID-19 lockdowns and the changing economic environment. The biggest effect on the full year forecast is on Property prices, with a larger revaluation at the end of 2021 and higher-than-budgeted valuations forecast for the end of 2022. This is reflected in Property, plant and equipment $5.1 billion being higher than budget, and in the revaluation reserve being $6.5 billion higher than budget.

With rising cost and interest rates, property prices are now going through the biggest quarterly drop in a decade. While this means our property values may actually come in lower than the $45 billion forecast, we still have a very strong balance sheet to continue our planned across the next four-year budget period.

Market borrowings are lower as expected due to delayed capex spend activity resulting from COVID-19.

Capital Expenditure			Budget ($m)		2021/22 Homes	
($m)	*Actual Year-to-date*	*Apr Forecast Full year*	*Full year*	*Variance*	*Budget*	*Apr Forecast Full year*
Redevelopments	511	844	1,480	637	2,235	1,058
Acquire New Programme	93	179	236	57	400	269
New Supported Housing	189	318	465	148	1,105	563
State Home Builds	793	1,340	2,182	842	3,740	1,890
Acquire Existing Programme	113	113	249	136	275	122
Acquire Existing Transitional Housing	24	26	23	(3)	27	53
Acquire Existing Corrections	4	5	3			
Acquire Existing Community Group Housing	4	4	-	(4)	3	3
Acquire Existing Oranga Tamariki		40				
Acquire Land Programme	38	92	301	209	0	0
Other Programmes	37	52	32	(20)	14	103
Construction and Innovation Total	1,013	1,671	2,789	1,118	319	281
National Retrofit	60	89	237	148	970	411
Other Maintenance Programmes	18	26	40	14		
Construction Innovation Maintenance Programmes	*78*	*115*	*277*	*162*		
Capitalised Maintenance and PBMC	37	49	40	(9)		
Unoccupied Repairs	10	16	22	6		
Healthy Homes Programme	80	118	133	15		
Roof Replacement	20	30	30	0		
Other Programmes	13	28	52	24		
DCE & National Services Maintenance Programmes	*160*	*241*	*277*	*36*		
Capitalised minor works and planned programmes	*238*	*356*	*555*	*199*		
Infrastructure Assets & Projects Total	25	42	47	5		
CAPITAL EXPENDITURE	1,276	2,069	3,390	1,321		
Urban Development Land (State and Market)*	169	322	604	282		
Urban Development Tamaki	30	47	57	10		
Land Purchase Fund ($2b over 10 years)	70	101	-	(101)		
KiwiBuild (Construction & Innovation)	74	81	7	(74)		
TOTAL CAPITAL EXPENDITURE	1,619	2,619	4,058	1,439	5,029	2,582

Capital activity has been slower than expected in light of supply chain disruptions with delayed programmes being phased for further down the track. Construction and Innovation spend increased by 87 percent in March 2022 compared to September 2021. State and Transitional housing redevelopments make up around 50 percent of our spend year to date. Market and Affordable costs declined over the same period but the drop was not as significant.

Our home delivery and market and affordable activity is forecast to increase by around 70 percent over the next three months. Despite the forecast increased activity, our capital programmes will continue to face challenges with rising inflation and supply constraints. To mitigate material constraints, we are investigating substitute products with the same standards.

Build Programme Spend

($m)	Year to Date Actual	Full Year Apr Forecast	Full Year Budget
Public Redevelopments	511	844	1,480
Public Acquire New	93	179	236
New Supported homes	189	318	465
Total New Homes	793	1,340	2,182
Public Acquire Existing	113	113	249
Supported Acquire Existing	32	75	25
Public Strategic Land Purchases	38	92	75
Supported Strategic Land Purchases	-	(0)	226
Capitalised Overhead	37	52	32
Public & Supported Housing total	1,013	1,671	2,789

Statement of Financial Performance

m$	March Quarter Actual	Year to Date Actual	Full Year Budget	Full Year Apr Forecast	Full Year Variance
INCOME					
Rental Income	395	1,190	1,604	1,606	2.7
Crown Appropriation Income	30	70	152	117	(34.5)
Affordable Homes Revenue	30	149	210	274	64.6
Lease Income	12	36	68	49	(18.1)
Other Income (excl. interest)	(8)	9	19	11	(8.6)
Total Income	**461**	**1,453**	**2,052**	**2,059**	**6.1**
DIRECT EXPENSES					
Repairs and Maintenance	114	331	494	463	30.9
Rates	48	148	201	198	3.6
Third-Party Rental Leases	14	42	56	56	(0.1)
Other Direct Property Costs	5	36	63	49	14.1
Bad Debts	2	5	5	6	(1.5)
Direct Mortgage expenses	0	1	0	1	(0.5)
Grants	5	29	95	47	47.6
Insurance	9	15	19	21	(2.2)
Affordable Homes Cost of Sales	30	147	210	273	(63.1)
Total Direct Expenses (excl. depreciation, gain/ loss on sale, asset write-offs)	**229**	**754**	**1,144**	**1,115**	**28.8**
INDIRECT EXPENSES					
People costs	72	212	247	302	(54.7)
Office Accommodation	4	11	17	16	1.1
Travel	0	3	14	6	7.9
Computer & Communication	9	25	34	33	0.4
Professional Fees	1	5	9	8	1.5
Consultants/ Contractors	11	41	64	70	(5.7)
Other Expenses	5	19	22	25	(3.9)
Total Net Indirect Expenses (excluding interest)	**102**	**317**	**406**	**460**	**(53.4)**
(Gain) / loss on sale	(3)	4	0	4	(3.9)
Asset Write offs	9	36	78	118	(39.7)
Impact of Asset Write offs & (Gain) / Loss on Sale	**6**	**40**	**78**	**122**	**(43.6)**
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION & AMORTISATION (EBITDA)	**123**	**342**	**424**	**362**	**(62.0)**
Depreciation and Amortisation (Rental Properties)	98	288	356	391	(34.7)
Depreciation (Infrastructure)	4	12	17	16	1.5
EARNINGS BEFORE INTEREST, TAX (EBIT)	**21**	**43**	**50**	**(45)**	**(95.2)**
Interest Expense	55	141	178	200	(21.4)
Interest Income	(5)	(12)	(10)	(19)	9.0
NET OPERATING SURPLUS BEFORE TAX	**(29)**	**(86)**	**(118)**	**(226)**	**(107.6)**
Income Tax Expense/(Benefit)	(16)	(5)	12	(14)	26.2
NET OPERATING SURPLUS AFTER TAX	**(14)**	**(82)**	**(130)**	**(211)**	**(81.4)**

EBITDA is a common financial metric to measure operational surplus (profitability) performance and trends. Our year to date EBITDA is $342 million (which is 24 percent of revenue), and is $21m above budget. This reflects:

- Rental income growth remaining strong at eight percent, despite delays in the delivery of homes. For Crown Appropriation Income, Grants uptake has declined by 50 percent on the previous year. This has a zero net effect on EBITDA, due to offsetting costs. Similarly, Affordable homes income and costs fully offset one another.
- Repairs and Maintenance accounts for 40 percent of direct expenses, and is now ramping up for all major maintenance programmes.
- People costs have continued to trend up as we look to fulfil our mandate, and are 30 percent higher this March than a year ago. As well as additional new people, the increased costs reflect the "job families" project and a remuneration increase. As part of our Budget 2022/23 and Financial Sustainability discussions, we will not recruit all FTE detailed in our April forecast process, and we are revising our forecast for end of this year.

Forecast EBITDA of $362 million for the full year is likely to fall short by $62 million from the budget target:

- Increased land impairment and write downs and more super-lot sales having undemolished homes has driven up write offs.
- Increased people expenditure, as planned. We are focussing our recruitment on the most important roles in order to deliver our commitments, and an updated end of year forecast will revise the FTE to better reflect our financially sustainable approach. We will continue to see increased costs, but this will be softened by slower pace of new people starting.
- We expect repairs and maintenance activity to increase as resource constraints ease.

Repairs & Maintenance Direct Cost Summary - March 2022

$m	YTD March			Full Year	
	Actual	April Forecast	Var	Budget	April Forecast
Planned Maintenance	82	83	1	145	125
Healthy Homes	104	105	1	168	152
Responsive Repairs (incl Void)	203	202	(1)	269	286
Other R&M (incl Porirua West)	77	76	(1)	95	104
Total Maintenance Activity	466	466	0	677	667
Total Renewals Activity	103	107	4	371	152
Total R&M Activity	569	574	4	1,048	819
Opex	331	329	(2)	494	463
Capex	238	245	7	555	356

Cash Flow

$m	Year to Date Actual	Full Year Apr Forecast	Full Year Budget
OPERATING ACTIVITIES			
Rent receipts - tenants	344	465	524
Rent receipts - income-related rent subsidy	886	1,176	1,060
Other receipts from Crown	77	143	189
Other receipts	95	96	76
Payments to suppliers and employees	(900)	(1,264)	(1,602)
Income tax & Interest paid	(196)	(248)	(265)
Net cash flows from/(used in) core operating activities	**306**	**368**	**(18)**
Sale of developments	39	39	80
Cost of land sold	(147)	(273)	(210)
Net inventory	(185)	(266)	(438)
Net cash flows from/(used in) land development activities	**(293)**	**(501)**	**(568)**
NET OPERATING ACTIVITIES	**12**	**(132)**	**(586)**
INVESTING ACTIVITIES			
Sale of rental properties and management assets	23	43	37
Mortgage and other lending repayments	4	4	0
Net short-term investment (made)/realised	37	(50)	0
Purchase of rental property assets	(1,364)	(2,123)	(3,396)
Purchase of other property, plant and equipment and	(22)	(39)	0
Intangible assets	0	0	0
NET INVESTING ACTIVITIES	**(1,323)**	**(2,166)**	**(3,359)**
FINANCING ACTIVITIES			
Net capital contributions (to)/from the Crown	(2)	263	926
Loans drawn down from The Treasury - Capital Markets	(0)	1	0
Market Notes issued	1,205	1,901	3,947
NET FINANCING ACTIVITIES	**1,202**	**2,165**	**4,873**
Net cash flows	(108)	(133)	928
Opening cash and cash equivalents (as at 1 July 2021)	233	233	556
CASH AND CASH EQUIVALENTS	**125**	**100**	**1,483**
Short Term Investments (as reported in the Balance Sheet)	863	950	1,267
Investments - Non-Current	287	287	100
TOTAL INVESTMENTS	**1,274**	**1,336**	**2,850**
Less - Treasury Reserve Fund Investments	27	27	31
TOTAL INVESTMENTS AVAILABLE TO BUSINESS	**1,247**	**1,309**	**2,820**

Year-end forecast cash flow is affected by the current external conditions. The biggest effect on the full year cash flow forecast is the delayed capex spend activity from COVID-19 lockdowns. This has reduced the purchase of rental property assets and reduced the need for market debt.

Appendix two: Investment performance

This appendix provides further details of how we are meeting all our expectations under debt protocol reporting requirements.

Year to date approved Business Case summary up to quarter three 2021/2022

The summary table below shows the total number of new homes approved by quarter three and their financial effect. Total approved homes of 2,284 from July 2021 to March 2022 across Public and Supported portfolios indicate the strong volume of pre-construction activities to contribute towards housing targets over the next four years, of which we expect 1,744 homes (76 percent) to be delivered by 2023/24.

For Public Housing outside of Auckland, due to the benefit from operating supplements, the vast majority of projects achieve the target rate of return of 2.89 percent; from quarter Three, the operating supplement has been applied to Auckland homes expected to be delivered from 1 July 2022 (2022/23), although the operating supplement for Auckland is yet to be formalised with HUD. The approved typologies address the demand for smaller homes, with 519 one-bedroom (22.7 percent) and 1,086 two-bedroom homes (47.5 percent).

Note that Acquire New programmes generally include also purchasing the land, while Redevelopments are built on land that we already own.

	Approved		Net Balance Sheet Impact	Weighted Avg. IROI	Typology						Delivery Year			
	Unit	Spend			1Bed	2Bed	3Bed	4Bed	5Bed	6Bed	FY22	FY23	FY24	FY25
Public														
Redevelopment	1443	$1,078.3M	($300.5M)	2.67%	407	594	229	141	59	13	35	404	514	490
Acquire New	649	$452.6M	($23.8M)	2.84%	105	398	87	38	21	0	44	284	271	50
	2092	**$1,530.9M**	**($324.3M)**	**2.72%**	**512**	**992**	**316**	**179**	**80**	**13**	**79**	**688**	**785**	**540**
Supported														
Redevelopment	8	$5.9M	($2.5M)	2.09%	0	4	2	2	0	0	0	8	0	0
Acquire New	184	$153.8M	($5.8M)	2.12%	7	90	42	38	1	6	59	84	41	0
	192	**$159.7M**	**($8.3M)**	**2.11%**	**7**	**94**	**44**	**40**	**1**	**6**	**59**	**92**	**41**	**0**
Total	**2284**	**$1,690.6M**	**($332.6M)**	**2.66%**	**519**	**1086**	**360**	**219**	**81**	**19**	**138**	**780**	**826**	**540**

[1] Unit counts are based on the approved projects (progressed from Feasibility to Procurement) up to 31 March.

[2] From Q3, in addition to non-Akl units, Operating Supplement is also applied to Auckland units expected to be delivered from 1 July 2022, although yet to be completely agreed with MHUD. Supported Housing is not part of the scheme.

[3] Supported Housing IROIs are calculated on the approved lease rents by HUD when the market rents are lower than the calculated lease rents.

[4] The negative balance sheet impacts are due to completed projects generally being valued at less than the cost to deliver. However, as projects are for long term rental properties, the balance sheet impacts are considered acceptable.

[5] The possible growth/funding shift post FY24 is not reflected in this table.

Quarterly Movement by Region – Public vs. Supported Housing Volume

The market delivery team acquired 308 homes in quarter three for Public Housing, nearly double the quarter one and quarter two volumes. The tightened up credit policy has driven out many private investors and cools down the market, which provides better chance for the market delivery team to secure more quality homes.

The approved number of Redevelopment homes in quarter three is approximately 200 fewer than the previous quarter. As a fair number of projects approved in the previous quarters have gone through the Change Control in quarter three, which are excluded from the unit count, due to the forecast cost increases affected by increasing construction cost and labour shortages.

Acquire New are the main delivery channel for Supported Housing, contributing 185 out of total 193 homes up to March. In certain region areas, Acquire New would be more cost effective and efficient way to deliver new homes compared to Redevelopment to meet the Transitional Housing target by 2022/23.

*Fig 1. No.of approved **Public Housing** units by region by quarter*

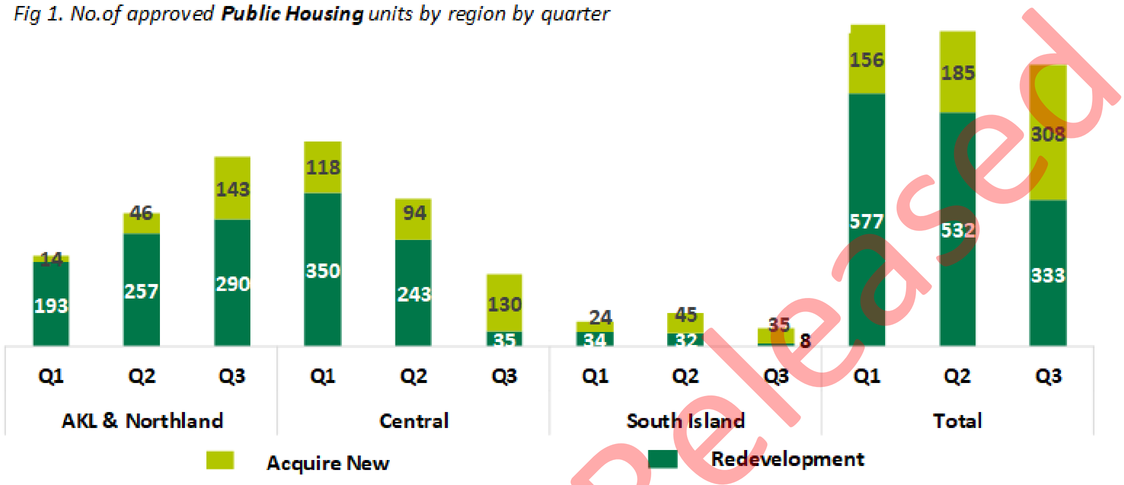
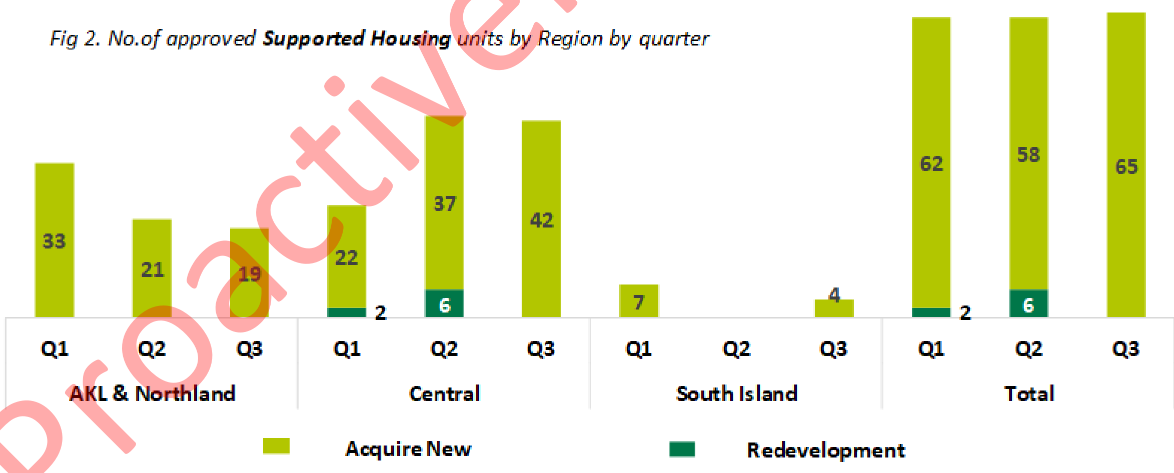


*Fig 2. No.of approved **Supported Housing** units by Region by quarter*



The approved budget with Redevelopments and Acquire New homes combined in quarter three is $75 million and $86 million higher than quarter one and quarter two respectively. The budget distribution between the delivery channels also indicates the volume of activities in the Market Delivery team, in line with the home numbers. Auckland and Northland have attracted the most of the budget ($396.5 million) in quarter three due to the high volume of homes, but year to date the Central region has been allocated the most budget ($825.4 million) to address its Public and Supported housing demand.

There is still strong cost pressure in the market due to the material and labour shortages in housing construction, as well as price inflation. However, the shift from seller to buyer market in the Acquire New area has improved our bargaining power, especially in Auckland.

Fig 3. Total Approved Fund by Region by quarter

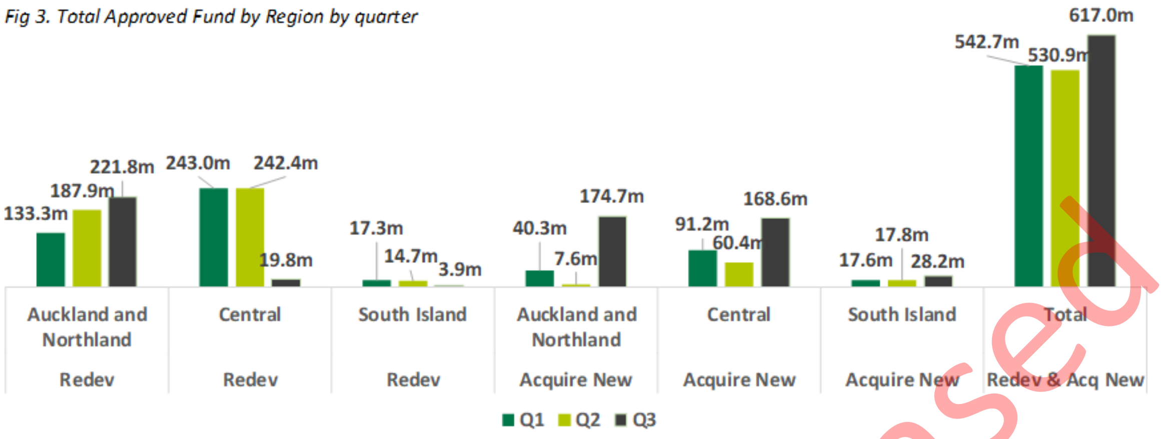
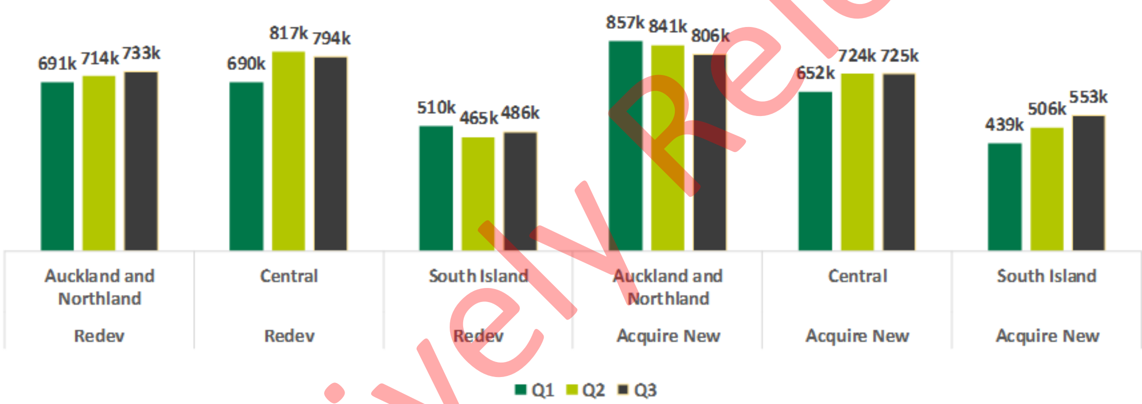


Fig 4. Unit Development (Redev) & Acquisition Cost (Acquire New) by quarter



Approved Business Cases – Long Term Investment Plan considerations

Development cost reference points - forecast vs Long Term Investment Plan

These tables below compare the average unit cost from the approved business cases with the unit cost benchmark in the Long Term Investment Plan (LTIP) approved by the Board in November 2019. LTIP 2019 includes cost assumptions for Redevelopments and Acquire New for public housing deliveries by typology at a national level. The unit costs approved are significantly above the LTIP cost assumptions, which indicates the long-term cost pressure.

The LTIP is under review for significant movements in materials and labour inflation, and increases in build quality (Homestar 6, Healthy Homes). The quarterly report will apply the updated LTIP benchmark once approved by the Board.

Q3 YTD Redevelopment (Public Housing) – approved forecast investment (avg. per unit)

Delivery Type	FY22	FY23	FY24	FY25
Redevelopment (avg. unit cost)	742,551	633,525	719,537	870,463
Number of Units	35	404	514	490
Avg. Typology	3.17	2.57	2.27	1.84
LTIP (avg. unit cost)	589,065	548,922	582,029	521,022
Avg. Typology	2.10	2.10	2.10	2.10

Q3 YTD Acquire New (Public Housing) - approved forecast investment (avg. per unit)

Delivery Type	FY22	FY23	FY24	FY25
Acquire New (avg. unit cost)	720,159	707,200	685,597	684,960
Number of Units	44	284	271	50
Avg. Typology	2.75	2.22	2.02	2.40
LTIP (avg. unit cost)	544,401	552,488	531,512	542,330

**FY22 to FY25 (Approved BC)" are based on all approved Project Business Cases in FY22 with the expected delivery dates within these financial years.*

Significant project decisions, funding and prioritising

Significant projects reported here are individual projects valued at $50 million or more, or otherwise classified as significant due to their degree of complexity or nature of partnerships involved. It is important to highlight funding: there is a gap across key outcome areas and discussion on prioritization based on Urban Development Strategy and Regional Plan ("partly funded" and "unfunded") to be updated based on our recent discussions with HUD on the Growing Local Places programme proposal, and this will be detailed in a future briefing for Minister.

Significant Track Project Decisions

Quarter three decisions

Six significant track projects moved through IMF decision gates in quarter three.

- One new opportunity was approved at Gate One, with a potential total yield of 100 renewed public homes, 50 additional new public homes and super-lots enabling up to 350 market homes. The project team will model to test if we can achieve an NVP neutral outcome under current funding settings.
- Approximately $200 million investment in public housing was approved at Gate Three to move to implementation, with projects delivering total 253 Acquire New public homes.

Significant Track project decisions quarter 3

Gate	Project	Description	Homes	Approved Investment $	Decision	Risk Rating
1 Opportunity Memo	Bates St. Papakura (formerly Smiths/Bates/Calvert), Auckland	Mixed tenure. Neighbourhood redevelopment of 100 Kāinga Ora owned public homes. Investigating opportunity to redevelop to total of up to 150 public homes and up to 300 mixed tenure. Team will model costs that test our ability to achieve these outcomes without additional funding.	150 - 450	N/A	March 2022 Approved to prepare Project Brief G2	TBC
3 Business Case	4-8 Reverie Place & 17-31 Beauchamp Drive, Auckland	Public housing. This project will include 65 units across two sites, with a wide range of amenities and services nearby providing good job opportunities to residents	65	47.7M	February 2022 Approved to Implementation G4	Low
3 Business Case	Ngā Kāinga Anamata, Auckland	Public housing. This project is part of the carbon neutral housing project pilot. It forms part of the 15-year carbon plan that is being developed in consultation with Ministers.	40	40M	February 2022 Approved to Implementation G4	Medium
3 Business Case	1609B Great North Road & 14-28 Cadman Avenue, Auckland	Public housing new build – 40 units mix of 2 – 5 bedroom units with shared amenity including outdoor space, a community building and easy access to the adjacent Heron Park.	40	35.2M	March 2022 Approved to Implementation G4	Low-Medium
3 Business Case	35 – 41 Cadness Street, Northcote, Auckland	Public Housing Redevelopment. This project is part of the Northcote LSP project with the Northcote Delivery Programme Business Case December 2018 Revision report approved by the Board. The development includes 56 apartments in a mix of one, two and three bedrooms over a 5 & 6 storey building.	56	40.7M	March 2022 Approved to Implementation G4	Low
3 Business Case	27-31 Greenslade Crescent, Northcote, Auckland	Social Housing for the Elderly. Redevelopment of Auckland Council owned site, with a 125-year leasehold interest purchased by Kāinga Ora from Auckland Council. The completed complex will be sublet to Haumaru Housing for the initial period of 25 years.	52	36.5M	March 2022 Approved to Implementation G4	Low

Quarter Four decisions in progress

Kupe Street, Ōrākei land leasing partnership opportunity with Ngāti Whatua Ōrākei

The project has been agreed in principle to progress to IDC for its final Gate One decision in June. Although not large in scale, this development includes unique arrangements that meet our criteria for the Significant Track approval path. It proposes partnership with the iwi to develop 14 homes on their land in Kupe Street, with us to lease the land and develop the homes as public housing for iwi placement. The intention, as agreed with Ngāti Whatua Ōrākei, is to achieve priority placement of Ngāti Whatua Ōrākei whanau in these homes. Two options are proposed for achieving this intention:

Option One: Kāinga Ora manages the homes as public housing with priority placement to Ngāti Whatua Ōrākei members, subject to Cabinet approval of the priority placement policy. If approved, this approach will also be subject to constraints of spend until the hapori Māori policy approval is received.

Option Two: Whai Maia (a Ngāti Whatua Ōrākei Community Housing Provider) manage the housing as public housing, and agree an approach for priority placement with MSD.

A final decision has not yet been reached about which of the proposed options are most appropriate to achieve this intention. We will manage the sites for a period long enough to allow us to recoup the cost of development, and ultimately transferring the land back to the iwi at nil cost at the end of the lease. It aims to allow a net financial position, while delivering housing for iwi in their rohe to be managed by them in the longer term.

If approved, it will be subject to constraints of spend until the hapori Māori policy approval is received, along with confirmation from our legal teams that the land lease and financing arrangements are within our permissions.

Donovan Street, Avondale

An opportunity exists to redevelop 56 aging Kāinga Ora homes in Avondale. The proposal will outline the potential to retrofit or to redevelop and intensify the site to achieve up to 160 new public homes and 110 market homes. However the feasibility of the approach relies on funding and growth settings after 2023/24 that are still being worked through. Based on current settings, a renewal-only approach will need to be taken, ensuring any additional public housing is both funded by divestment elsewhere, and that growth in the portfolio is offset by that divestment.

Jordan Avenue, Onehunga

The project is at the Business Case stage, however we are reviewing the scope, which proposes considerable public housing intensification in a small area. The approach may be reconsidered given capacity and funding constraints, and a need to prioritise public housing growth in the regions.

Large Scale Project Neighbourhood business cases

Funding certainty for our Large Scale Projects enables completion of a number of neighbourhood level business cases which will come to the Minister over the coming months. Significant cost escalations in the last year are putting pressure on cost modelling for these Business Cases. Issues and options will be highlighted with HUD and the Minister as the proposals are developed.

s 9(2)(f)(iv)

[redacted]

Risks and issues affecting investment decision-making

- Operating supplement - delays in decision making on Operating Supplement are affecting our decision making. Maintaining a sustainable pipeline relies on at least 18 months of planning activity. Opportunities without funding certainty will either be delayed, or constrained to development of proposals within our current settings, causing issues for customers and communities, potential loss of opportunity in several locations, and ongoing risk to delivery of growth in the regions.

- Cost escalation - cost escalation and increased regional diversification are challenging our ability to remain within the 50 percent operating supplement cap. Cost escalations are also affecting neighbourhood business cases for our recently approved LSPs.
- Delivery of growth in the regions – lack of confirmed growth targets after 2023/24 and the loss of operating supplement risks delivery of growth in the regions. Project teams require certainty to continue planning and may lose momentum if agreement on continued growth and a sustainable funding model is further delayed.
- Urban development outcomes beyond our LSPs – current funding settings and policy limit our ability to achieve outcomes beyond public housing redevelopment outside our LSPs, a proposal to address this gap is being prepared for the Minister (refer Growing Local Places Programme proposal notes below)
- Volatility in the price of key construction materials challenges financial viability of some projects (but in many cases is mitigated by the operating supplement), and also impacts the level of build activity affordable over the medium-term. The implications of significant change and volatility in the cost of construction materials is being analysed as a part of the budget process.
- Cabinet postponement of decisions on the definition and scope of Māori housing options and priority placement impacts multiple partnership focussed projects that require this certainty to proceed.

Addressing key issues impacting investment decisions

Mid-scale urban development in our regions - Growing Local Places proposal

We have limited funding for urban development outcomes beyond the newly agreed Large Scale Projects in Auckland and Wellington. The Kāinga Ora Land programme allows for debt-funded acquisition of land for housing supply, but does not provide settings to achieve affordable housing or the broader outcomes identified in the LSP business cases, and does not apply to our redevelopment activities.

This limits our ability to achieve our full mandate, particularly in our regions where investment is currently low. A pipeline of 30 to 40 sites nationwide have been identified as having potential for broader outcomes, with between 50 and 500 of our owned homes, where retrofitting or redeveloping public housing stock slowly will limit the outcomes. With HUD, we are preparing a briefing note for the Minister outlining a proposed approach to these opportunities under the working title ‘Growing Local Places’.

Internal work on establishing a prioritisation framework will run in parallel, so we can balance the work nationwide, rather than on a first come first served basis. Some projects in the planning and design phases may be deprioritised as part of this process.

Appendix three: Government policy and legislative environment

This appendix list details from our Government Policy and Legislative Environment report, which contains activities that will likely have an influence on our operations and deliverables. These are:

- *Government Policy Statement – Housing and Urban Development, Implementation Plan:* HUD has drafted an outline of the GPS Implementation Plan, which it is currently seeking ministerial feedback on. During quarter Three, we have had a number of discussions with HUD on areas of interest to us, particularly prioritisation of funding and financing initiatives, build intensification, environmental and climate change and supported housing initiatives.
- *Headwinds* – During this quarter, we provided feedback on two papers HUD prepared, regarding headwinds faced by the residential construction industry: system-level interventions; and changes to KiwiBuild and supporting completion of stalled or at-risk developments.
- *Resource management reforms* – we continue to provide input to the reforms of the resource management system. We work closely with the Ministry of Housing and Urban Development who are part of the core cross-agency team for the Natural and Built Environments Act and on the Executive Board for the Spatial Planning Act to:
    - Determine the design of the reforms, in particular through providing an implementation perspective to ensure the reforms will work in practice
    - Bring an integrated and place-based, urban development perspective with knowledge of development issues across the whole of New Zealand
    - Ensure that the reforms will include practical transitional arrangements from the current resource management system to a future system

Issues for us include:

- Ensuring the new resource management system recognises the benefits of enabling new housing supply and urban development
- Shifting the new resource management system from managing the effects of resource use to achieving outcomes
- Re-balancing the existing bias towards the status quo, to enable changes to the built environment to better meet future housing and urban development needs
- Better integration across the resource management system, in particular between land use and infrastructure planning
- Reducing complexity, uncertainty and cost, as a result of many decision-makers, poorly designed processes, and the focus on resolving competing interests on a case-by-case basis through decision-making about resource consents.

- *Programme Raranga: Renting to non-public housing tenants* - In March, we provided input into a HUD Cabinet paper seeking agreement for us to rent to non-public housing tenants at Greys Ave as a pilot. Piloting a mixed tenure model at Greys Avenue is one method we wish to explore and evaluate, to help determine our practice for managing high density developments in the future. The paper also sought confirmation that we can continue to rent to non-public housing tenants in incidental situations, where tenanted properties are acquired as part of our public housing and urban development functions. We continue to work with HUD and MSD to develop a single-site supported housing framework and place-based approach for single-site supported housing offerings in the Auckland CBD. In quarter three, this included exploring potential approaches to placement for single-site supported housing.

- *Emergency Housing Review, Supported Housing Review, Homelessness Action Plan*
  In this quarter, we continued to input into the Emergency Housing Review, jointly led by HUD and MSD. In March, the Ministers of Housing and Social Development signed off advice on an ideal future state of the system and a proposed set of actions to begin the redesign process. The Emergency Housing Review identified Supported Housing as a key contributor to resetting the emergency housing system.
  The 18-month review of the Homelessness Action Plan was published in March, and identified the following priority actions for the next implementation period, in addition to ongoing long-term actions that are underway:
    - Strengthening kaupapa Māori approaches to prevent and reduce Māori homelessness
    - Delivery of housing supply
    - Support for rangatahi experiencing, or at-risk of homelessness
    - Improving access to health, including mental health and addiction

  HUD began to establish cross-agency groups to work through the actions identified in the Homelessness Action Plan and Emergency Housing Review, and we are represented across these groups.

- *Residential Tenancies Legislation* - We continue to work closely with HUD to support advice on Residential Tenancies legislation. In quarter three, this included considering the implications of rent-setting options and providing feedback on the drafting of the Residential Tenancies (Healthy Homes Standards) Amendment Regulations 2022.

- *Building Supplies – Commerce Commission market study* – We were interviewed by the Commerce Commission for its study of competition in the market for selected residential building supplies. The study focuses on supplies needed for foundations, flooring, roofs, walls (structural and non-structural, interior and exterior) and insulation. In this quarter, Commission staff have been interviewed about procurement practices, contracts with suppliers, the regulatory environment, innovation and the design and specification process we apply to our homes. The Commission's draft report is due to be released in July, and we will then decide whether to make a submission.

- *Rent arrears and rent-related debt* – In 2021 the Prime Minister as Minister for Child Poverty Reduction initiated cross-agency work on ways to prevent and reduce the level of debt owed to the Government. The scope of the work relates to debt owed to Government by people (particularly families) with low incomes. We are working closely with HUD and MSD to provide input into the advice on Phase One of the work. Our input will focus on the Government's position on, and approach to managing our customers' housing-related debt.

- *Carbon Neutral Government Programme* – We have been working towards implementing our emissions reduction strategy, which is to lift our new homes to meet the performance standards in Homestar version 5 (around 45 percent reduction in operational emissions for new homes). We are evaluating the correspondent funding or possible mechanisms to attend the increase the controls and reports that we need to have in place for our first emissions report and reduction plan in December 2023.