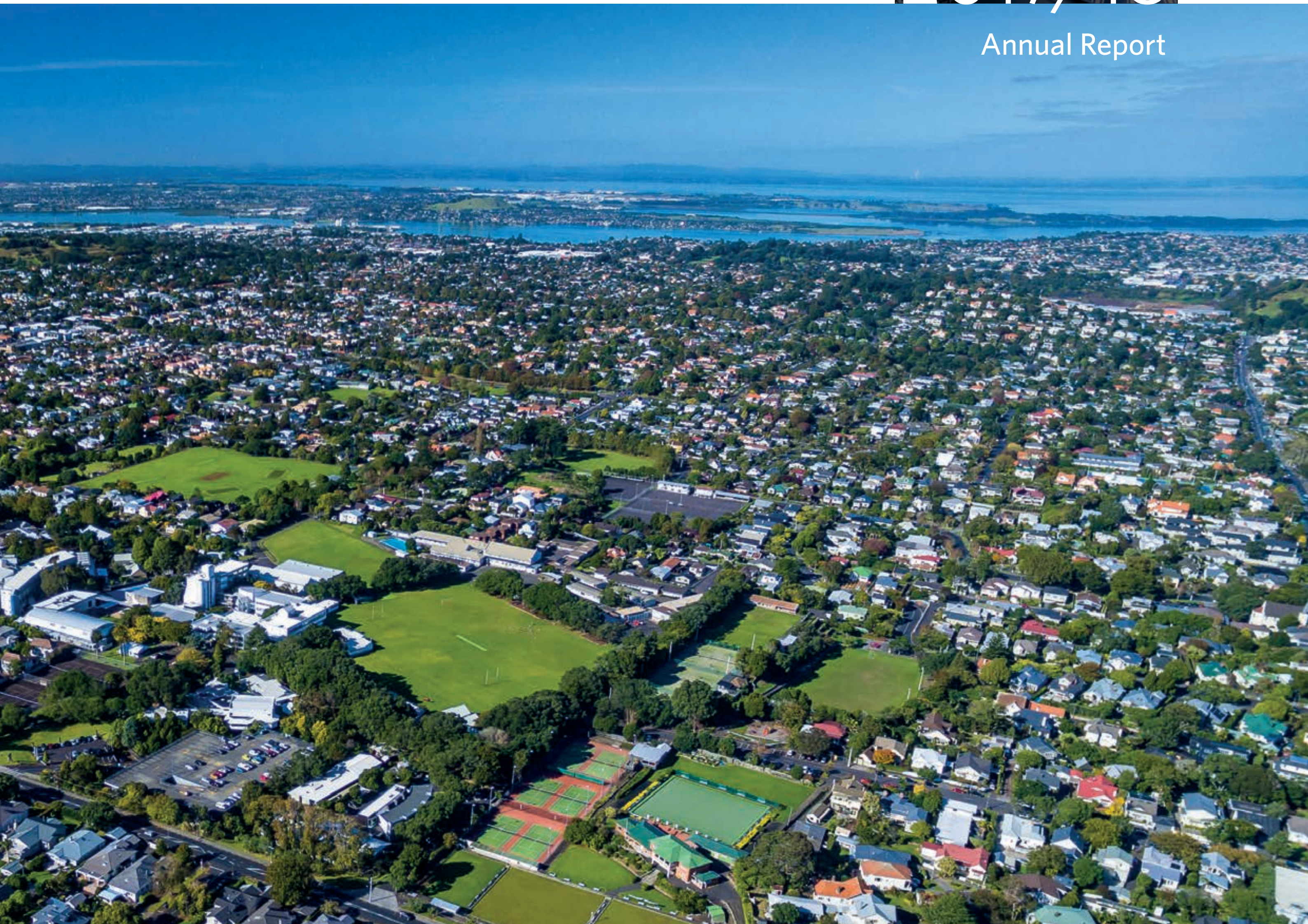
Housing New Zealand
Housing New Zealand Corporation

2017/18

Annual Report



This is our 2017/18 Annual Report. It provides a review of our organisational performance for the 2017/18 year against the intentions outlined in our 2017/18 Statement of Performance Expectations. It also provides progress against the medium-term indicators detailed in our 2017-2021 Statement of Intent.

Our vision

Building lives and communities by housing New Zealanders

Every day Housing New Zealand is helping to improve the lives of people who need our help.

We know the importance of a home in a person's life and we're working hard to help people in need. As the country's biggest landlord, the scale and breadth of our work positively impacts thousands of people.

We place on average **15 families into our homes**

Every day

We build **three** new homes

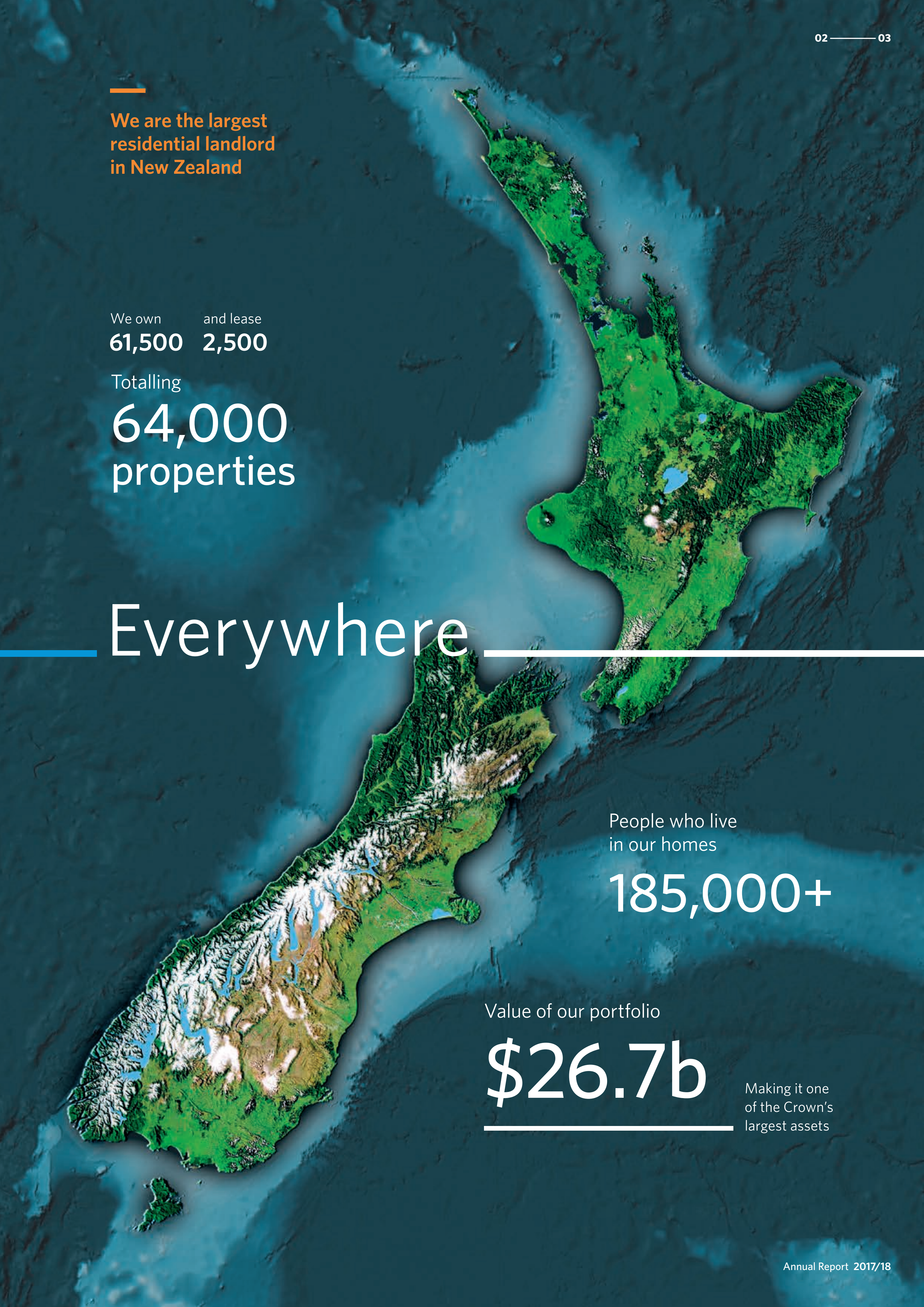
We attend to **1,200** maintenance call-outs

We take **2,000 calls** through our Customer Services Centre

We spend **$1.3m** on maintaining and upgrading our houses

We issue nearly **50 KiwiSaver HomeStart grants** for first home buyers

We grant over **4 Welcome Home Loans** for first home buyers



We are the largest residential landlord in New Zealand

We own **61,500** and lease **2,500**

Totalling

64,000 properties

Everywhere

People who live in our homes

185,000+

Value of our portfolio

$26.7b

Making it one of the Crown's largest assets

Supporting people

We build lives and communities by housing New Zealanders

As a socially focused landlord, we're taking a deliberate, tenant-focused approach to delivering tenancy services, placing the tenant and the tenant's needs at the centre of what we do.

We work hard to provide quality housing and tenancy management services to help ensure tenants live well in their homes.

Our services cover the country and our people have connections to many different communities. The work we do supports individuals and families in housing need to improve their life outcomes.

We achieve this by providing safe, secure, warm and dry homes and the appropriate services for those people who may need it to sustain their tenancies.

We also deliver a range of financial products to facilitate home ownership and improve housing affordability. For some tenants, a Housing New Zealand property may only be a temporary stay while they move towards owning their own home.

We continue to work with other government and non-government agencies in the sector to ensure positive social outcomes. We've been working with a range of providers to deliver wrap-around services for specific tenant groups such as supporting initiatives to reduce homelessness.

Delivering more homes

Building, acquiring and redeveloping homes is a major part of our business

We focus on delivering well-designed homes in places where they are needed, and aim to meet not only our current tenants' needs but the needs of future tenants.

The work we already have well underway is making better use of our land to build more housing, including affordable homes, and will gain even greater intensity and impetus in Auckland under the Auckland Housing Programme. We're also building more homes in provincial towns and cities across New Zealand through our Regional Housing Programme to help meet the increasing demand.

We support the government's emergency housing response by helping ensure accommodation is available for people with an urgent and immediate housing need. Working with other agencies, we're increasing the supply of emergency housing by locating properties to buy, identifying vacant sites to build transitional homes and finding ways to make better use of our existing homes.

With the right support, we look to move people from transitional housing into more sustainable housing to give them the security and foundation they need to get back on their feet.

The scope and complexity of activity in the New Zealand housing sector are significant. Housing New Zealand is taking a lead role in its work to provide New Zealanders with quality housing now and into the future.

Large-scale development underway in Auckland

Housing New Zealand subsidiary HLC is tasked with leading the large-scale development of the Northcote, Mt Roskill, Oranga and Mangere areas in Auckland. Over the year significant progress was made in all of these areas, with stages underway and construction of new homes started on many sites, with the first stage completed at Northcote.

In 2017/18 many engagement events were held in these areas to hear from the community, local boards and key stakeholders. HLC is leading a master-planned approach to delivering more housing in these communities.

Housing New Zealand has continued to deliver more houses in the past year while increasing the level of support we provide to our tenants to help them live well in their homes. The changes we're undergoing and the results we're achieving are very encouraging as we look ahead to a very busy time in the housing sector.

Delivering every day

We know the importance of a home in a person's life, and our people are committed to always doing their best for our tenants. Over the past year Housing New Zealand has been strengthening its focus on the needs of tenants. We are changing both our role and the way we work, focusing on ensuring our 185,000 customers have stable housing that will enable better life outcomes and healthier communities.

We're making this happen by developing new ways of operating, including expanding the range of support services we provide to our tenants and tailoring them to different tenant groups, matching the homes we build with specific tenant needs and making it easier for tenants to interact with us as we maintain and manage our homes.

Understanding our tenants' needs now and into the future is critical for this change to be delivered effectively. Our Customer Strategy will provide us with an informed and coordinated framework to work within and will be closely followed by a new Service Delivery Model. Both will be operating in the coming year.

We're also strengthening our relationships with agencies that play a key role in many of our tenant communities. This will enhance our tenancy management practices so that our homes contribute positively to support those agencies' objectives, and allow us to access support effectively and quickly for tenants.

Over the past year we have agreed partnering arrangements with Fire and Emergency New Zealand, Department of Corrections and the Royal New Zealand Society for the Prevention of Cruelty to Animals, and with organisations including the New Zealand Police; Oranga Tamariki – Ministry for Children; the Mental Health and Addictions team within the Ministry of Health; and the National Telehealth Service.

The changes to how we work with tenants also align with the Government's decision to strengthen our social mandate by embedding a range of social objectives into the Housing Corporation Act 1974.

This legislates Housing New Zealand's social mandate, which includes providing quality warm, dry and healthy rental homes for those who need them and assisting tenants to be well connected to their communities and to lead lives with dignity. The Government is expected to introduce this legislation over the next year.

Complementing our deliberate and compassionate care approach with customers are our maintenance and development programmes.

With New Zealand facing a significant shortage of homes, we have stepped up our asset development programme and added 2,188 homes in 2017/18 – including 1,036 new builds and redevelopments.

We also spent $474 million upgrading and maintaining our properties, improving the quality of our homes for tenants, and completed nearly 450,000 repairs to our portfolio in 2017/18 – that's around 1,200 call-outs each day.

We're also making sure our houses are available for people to live in as quickly as possible. We've reduced the time it takes to have a property ready to let after becoming vacant to 19 days, compared with the target of 24 days. In 2015/16, on average, a property remained vacant for 38 days between tenancies.

We're also increasing the pace we repair and renew homes with major damage, meaning more homes are available for tenanting. Over the year we've reduced the number of properties in this category from 703 to 419.

That has meant there are well over 1,000 more homes available for people to live in every day. In May 2018 the Government announced a package to build 6,400 more public houses over the next four years and support more people in urgent need of housing.

Housing New Zealand and community housing providers will deliver this four- year goal, with Housing New Zealand providing at least 1,000 of these homes each year through to June 2022.

In addition to the new homes we're building, we're also beginning the task of renewing our very old homes. Our Asset Management Strategy sets outs the challenges we face across our portfolio of 64,000 mostly older houses, and the organisation's response. We will either build a new house or upgrade (retrofit) the existing house where this makes economic sense to do so.

This renewal programme will see 75 percent of our properties upgraded over the next 20 years, improving their durability and energy efficiency, and supporting better health outcomes for our customers. The new build and renewal programmes are happening right across the country.

Our Auckland Housing Programme, which was announced in 2017, will see thousands of state houses renewed, as well as the steady delivery of the extra houses our largest city needs.

We're not just building in Auckland though. To help meet the increasing regional demand for public housing, we're building more homes in towns and cities across New Zealand.

Our Regional Housing Programme sees Housing New Zealand building new housing stock in locations throughout New Zealand for the first time in many years. In the four years to June 2022, we're aiming to have renewed around 1,500 homes and delivered approximately 900 additional homes in regional centres. In Wellington and Christchurch the pace and scale of our build programmes are picking up, which will see our stock numbers increase in both cities.

This is the largest investment Housing New Zealand has made in its housing stock for decades – $5.6 billion over the next four years – and we're financing it ourselves through our own operational funding and borrowing mechanisms.

Complementing the investment are the financial disciplines we have implemented to ensure our investment decisions are fiscally sound. This framework includes our Long Term Investment Plan (LTIP) and Housing Investment Framework (HIF).

The LTIP outlines our investment objectives and the funding and financing performance required to ensure the long-term financial sustainability of the organisation. The HIF outlines our investment management practices to ensure we're operating to best practice expectations.

The Government's Investor Confidence Rating review process, which looks at the quality of these frameworks, has given Housing New Zealand the top A rating in both 2017 and 2018.

Another element of our build programme is the support we're providing to the Government's housing policy goals for affordable housing by working with fellow agencies, including our subsidiary HLC, on the delivery of KiwiBuild.

With KiwiBuild, and our other building activity, we're exploring options to improve construction efficiencies. We're doing this through changing our procurement approach to align with the long-term and large-scale nature of our future build programme, and the investigation and use of innovative construction methods, like offsite manufacturing.

To deliver on these initiatives, we've strengthened and improved our internal capability and capacity. During 2017/18 we set out a clear distinction in roles between Housing New Zealand and HLC, who have grown their capability and capacity significantly over the past year. We also realigned some of our teams to match our new delivery targets and completed the resourcing of two new business units, the Strategy Group and the Business Innovation and Development Group. They are helping us improve efficiencies by being more strategic in our decision making and quick to test innovation opportunities.

Operational and financial performance for the year has been sound with 18 of our 23 Statement of Performance Expectations targets met, and an operating surplus before tax of $125 million. That surplus is reinvested into our homes.

What enables us to deliver the results we've seen over the past year is our people. Their work every day as we strive to do the best we can and improve the wellbeing of our customers is something we're very proud of, and we would like to thank everyone in Housing New Zealand for their contribution and commitment.

Underpinning their work are the organisational values that drive us, Kotahitanga, which sets out the One Team philosophy we work to, and the behaviours we expect from all employees to enable and support a positive workplace culture.

We would also like to acknowledge the efforts of the Executive Team and Board. We welcome the new Board members who joined Housing New Zealand in 2017/18 and acknowledge and thank the members who left this year for their service.

Adrienne Young-Cooper
Board Chair

Andrew McKenzie
Chief Executive

Kotahitanga
Our values

Kotahitanga means One Team. Kotahitanga are the values and foundation for how we work.

Housing New Zealand believes that people do their best within an environment of trust, care, contribution, humility and learning. We also do our best when we take personal responsibility to achieve our shared vision and maintain a working environment we are proud of.

Our working environment is the foundation of our success as an organisation.

The values that drive us are:

Trust Te Ngakau

We trust each other and share ownership

People do their best work when they're trusted. We trust each other and, in turn, are trustworthy.

Care Te Atawhai

We care about each other as people

Housing New Zealanders apply our hearts and minds to our work. This means that our working environment needs to support our whole selves.

Contribution Te Koha

Everyone's contribution matters

Our aspirations are too big for any one person or team to achieve alone, which means we can only succeed if we work together. In addition, our environment is too complex for any one person or team to see everything, which means we can only succeed if we are open to what others see and think.

Humble/Genuine Te Māhaki

We are humble and genuine

This is about valuing what we know while being open to the knowledge of others.

When we are humble we respect the knowledge of others. Humility creates space for us all to contribute, build trust and learn.

Learning Te Ako Tonu

We continually learn and innovate

The world is changing at an ever increasing rate and our job keeps getting more complicated. Innovation is the only way we can keep up. This means we need to challenge the status quo, try different things and learn from the mistakes we're bound to make along the way.

Over 700 people responded to a leadership survey in 2017/18 and a complementary series of 13 wellbeing workshops where we sought opinions on the values that form and drive an organisation which supports brilliant and engaged people. *Kotahitanga* – our Values Charter was approved by the Executive Team early in 2018 and now forms the basis for learning opportunities being created by the Housing New Zealand HR Capability team.

Kotahitanga will continue to be the foundation of Housing New Zealand's general training and leadership development throughout 2018/19.

Our stories

Ensuring our tenants live well in their homes is what drives us. Providing warm, dry and safe houses and helping people connect with their communities is what our people are doing every day.

As New Zealand's largest residential landlord, we provide homes for a diverse range of people of all ages and from all backgrounds.

While many of our tenants are independent and do not require an extra helping hand from us, we do provide homes for people who, for a variety of reasons and circumstances, cannot secure a private rental or own their own home.

We also house those people who are most in need. Many of our staff go above and beyond to help our tenants and make a difference in their lives.

We're making New Zealand a better place to live for people in our homes.

From state house to owning a house

Doc and Kaylene had been Housing New Zealand tenants for 26 years before being helped into their own home by Housing New Zealand in June 2018.

Finding the required financials had been the biggest hurdle but with the help of a successful FirstHome grant of $14,000 and combined KiwiSaver HomeStart grants totalling $10,000 the couple were able to purchase their own home, right across the street from their previous tenancy. "Funnily enough the house we bought was the exact same layout so it feels like we're still in the same house," says Kaylene.

Purchasing their own home has been a long but very exciting process, despite all the necessary paperwork, and the couple are very proud to be putting their money towards something that is truly theirs.
Their home in Gisborne had always been a family home and "was always the base for the family to gather for special occasions", and the couple now continue this trend as they share their own home with their daughter and three grandchildren.

Now owners of their own home, right across the street from their previous tenancy.

Doc and Kaylene in front of their new home.

Our tenants

Lyttelton local Alison received a Queen's Service Medal for her conservation work in the portside community.

Conservation honour for Housing New Zealand tenant

Queen's Birthday Weekend 2018 took on extra significance for a Housing New Zealand tenant based in Lyttelton, near Christchurch.

Alison was awarded a Queen's Service Medal for her services to conservation in the portside community.

She has been a leading figure in conservation and environmental projects in the area for more than three decades.

While very modest about her achievement, Alison, who has been one of our tenants for about 35 years, also hoped it would inspire other Housing New Zealand tenants.

She helped form the Lyttelton Environment Group in the late 1980s and has been secretary since then.

Another notable contribution was her role as secretary/manager of the Quail Island Ecological Restoration Trust until she stood down a decade ago.

Over the years she helped raise $500,000 – or about $50,000 a year for the organisation, which planted around 70,000 native trees in the area.

Her efforts have benefited all parts of the community with her part in gaining funding to help the Lyttelton Environment Group sponsor low-decile schools to undertake planting days a great example of the impact her efforts have had.

Alison's contribution has not just been in environmental matters – she served on the Board of Trustees at Lyttelton Main School, worked with the local kindergarten, and is a former member of the Banks Peninsula wastewater working party and a variety of other local organisations.

Alison has helped raise funds which planted around 70,000 native trees in the Lyttelton area.

Bloomin' marvellous

A very green thumb. Housing New Zealand tenant Yola in her Epuni garden.

Lower Hutt tenant beautifies the street and spreads joy through flowers.

Spring has sprung and Yola has her garden looking top-notch in preparation for blooming season.

Roses, daisies, dahlias and other flowers line the immaculate garden beds while a pair of pink flamingos take centre stage in the middle of her Epuni section.

Besides the beauty, the greenery is also a vehicle for the 93 year-old to demonstrate her community spirit and giving nature.

Yola's love of gardening, which is a "God given gift", is matched by the joy her flowers give neighbours and passers-by.

"It gives me pleasure because it's giving other people pleasure. Not a person doesn't stop by to look at the garden," says Yola, who moved into her brick home in February this year.

"The children love the flamingos."

Yola will also ask neighbours if they know anyone who's having a birthday, so they can take some flowers home "so no one goes home empty-handed".

On moving into her home, the section was a blank canvas for Yola to lay out her mini-botanical garden. Previously it was overgrown, but through Housing New Zealand cutting back some trees and tidying up, and Yola's energy, the front yard has received a floral makeover.

Many of the established roses in her Housing New Zealand garden were transplanted from her previous rental in Lower Hutt where she lived for 40 years before the owner ended her tenancy in late 2017 so they could sell it.

Yola said the news of having to move was heart-breaking and very upsetting, especially as she'd opened up the garden she'd spent many years working on to so many people.

After getting the distressing news of having to move, she was put in touch with HNZ, and was quickly found a new place, which she is very happy with and "treats like my very own home".

The efforts of the local team have also left an impression with Yola.

"They've been marvellous and have been wonderfully kind. I've been treated beautifully by Housing New Zealand."

Building a first home

Like a lot of first time home-hunters, Michael was facing the challenge of organising the finance for his own home in a tough housing market. Being a single buyer made the challenge extra difficult.

During his research Michael learnt about the Axis Series ballot system, an initiative of Housing New Zealand. Putting together an application and entering multiple ballets to the Axis Series (along with various other housing companies), Michael was successful on his fifth entry, winning a Universal ballot on 23 August 2018. Along with his pre-approved $10,000 KiwiSaver HomeStart grant for the property being 'off the plans', he was on his way to home ownership. Michael's home is now under construction in Browns Bay, Auckland.

$10k

maximum value of a KiwiSaver HomeStart grant for a new home

"It has been an exciting process and I'm really looking forward to moving in, especially considering it is becoming tougher and tougher in today's housing market; I'm relieved to soon have a place of my very own."

A cardboard memento

Off the streets and into a home. Russell was homeless for four years before being housed by Housing New Zealand.

The piece of cardboard pinned to the lounge wall of Russell's Upper Hutt unit paints a poignant picture.

Russell, 44, moved into his Housing New Zealand home in 2018 after being homeless for four years.

After spending time at the Wellington Night Shelter he was referred to the Ministry of Social Development and placed on the social housing register.

Soon after, Housing New Zealand matched him to his new one-bedroom unit.

When Tenancy Manager Deborah visited Russell to see how he was settling in, she noticed the cardboard with its various messages plastered over it on the wall.

It was used by Russell when he was on the streets asking for food and spare change, and now it's on his wall as daily motivation not to return to the streets.

"Russell put it on the wall to remind him where he's come from," says Deborah.

"When he was sleeping rough he was always wary and afraid of being attacked so he would say he slept with one eye open."

To help Russell settle in, Housing New Zealand teamed up with the Salvation Army to furnish the house and provide new clothes. He's in contact with the local Work and Income office and Deborah's provided food parcels with items donated by Housing New Zealand staff.

Formerly in the New Zealand Army, Russell admits he's made some bad life decisions, and had drifted around the country. His story is complex, like many of those who experience homelessness, but having his own place, and the support of Housing New Zealand staff, is helping him stay on track.

"He wants to make it work and keep his house and he's told me he doesn't want to let me down," says Deborah.

To help ensure his piece of cardboard stays intact and continues to provide the motivation to stay under his roof, staff have framed Russell's reminder for him.

Our communities

Ōtangarei has a new playground

Despite the rain, about 500 people were on hand to try out a new playground in Ōtangarei, Whangarei in early July.

The eagerly awaited playground came about after a petition from local children, and the support of local service provider Kāinga Ora ō Ōtangarei. Housing New Zealand made a $45,000 contribution towards the cost of the playground, with the Whangarei District Council providing the balance of the funding.

The playground was officially unveiled as part of Matariki celebrations in Ōtangarei.

Housing New Zealand's Northland Area Manager, Noeline, says the playground is an example of Housing New Zealand helping to create homes that meet the needs of tenants, large and small.

"Our main focus is obviously on providing warm, dry housing, but when the chance comes up to help out with community assets that make our tenants' lives more enjoyable outside the front gate of their home, we like to help out where we can.

"This playground was worth supporting because there was a need to have spaces in Ōtangarei where kids could just be kids and have fun."

Housing New Zealand made a

$45,000

donation to the Ōtangarei playground

Successful programme marks a milestone

An idea hatched by a Christchurch tenancy manager has turned into a successful weekly community programme that celebrated its first birthday in June 2018.

"I've loved how the wider community has embraced this programme."

Tenancy Manager Zoe

The Tea and Tots programme was launched in the Hornby area in Christchurch's south-west a year ago and those involved gathered to celebrate with cake, a chat and connections.

Tenancy Manager Zoe came up with the idea for the programme after she took over the Broomfield/Hei Hei portfolio.

She wanted to show the wider community Housing New Zealand can play an important role in organising community events and other forms of support for our tenants and the wider community.

Twelve months on and the number of parents and children taking part continues to grow.

"I've been really impressed with the support from local families. Some of those people are our tenants but I've loved how the wider community has embraced this programme," Zoe says.

"The objective of this group is to have our community mixing, meeting, supporting and having fun with one another. While this will involve Housing New Zealand tenants, the aim is to extend the invitation to the wider community as well. I also hope their involvement with Tea and Tots will help my tenants, and the wider community, see myself and Housing New Zealand in a more approachable and community-focused way."

Zoe says more and more new faces are turning up every Thursday and she says this has helped those families and their children get to know each other in a very positive way.

Community development + placemaking

Get together 115 people into 35 teams, throw them into a fun-filled treasure hunt and you've got a surefire recipe for a positive, if breathless, response.

And that's exactly what happened at the Our Amazing Place Waterview Community Day in Auckland which Housing New Zealand and Violence Free Families organised for residents in December 2017.

Stations along the route provided refreshments, directions and help, and were staffed by 17 external organisations and community groups – a truly cooperative effort to involve residents more closely with their neighbours and the community.

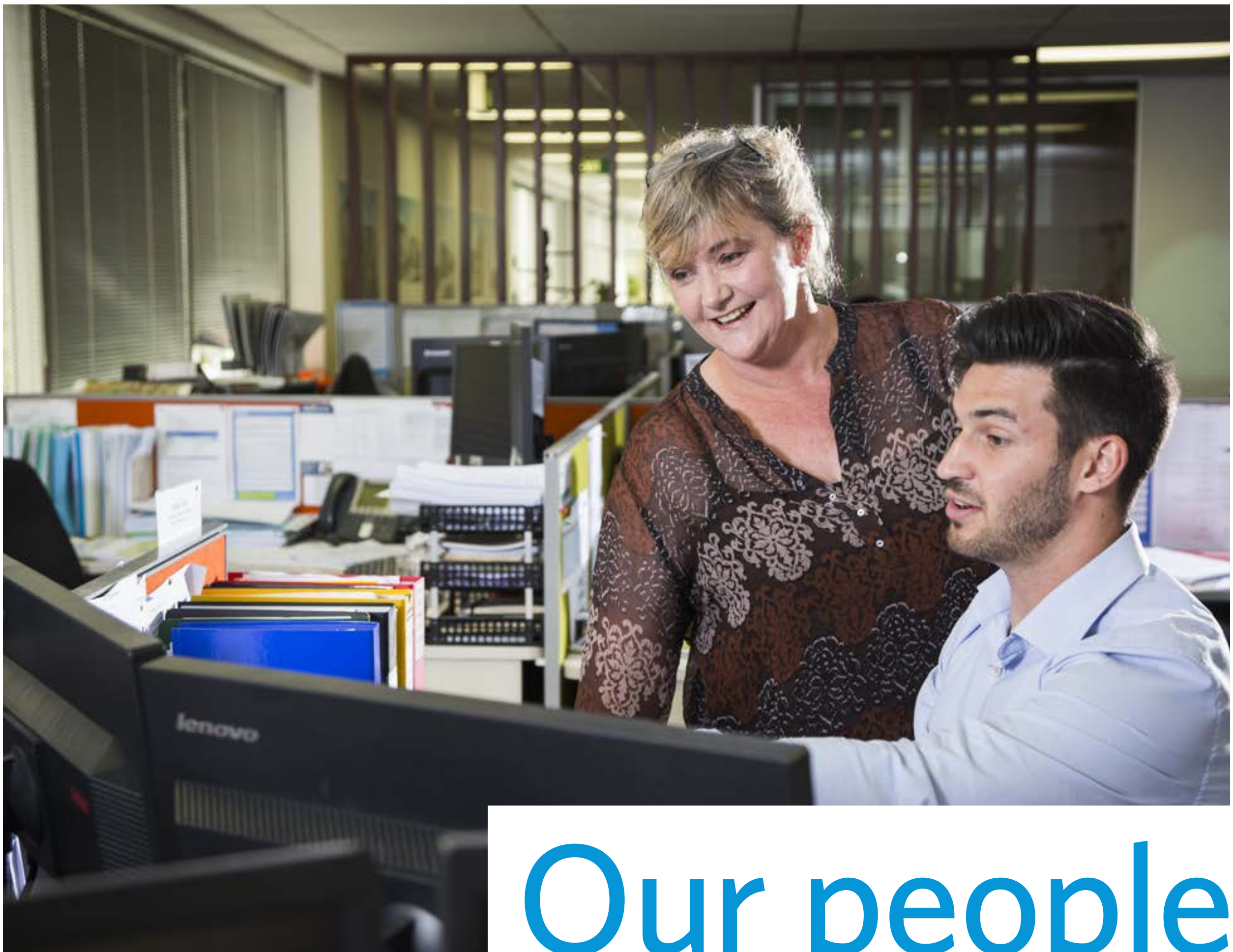
Judging by the results of a short post-event poll of the treasure hunters, the event achieved its goal of bringing the community together and highlighting the features, facilities and community of the Tutuki development. Seventy-nine percent said they were more aware of what's available in their community and 65 percent said they felt safer now that they had learned more about the development and become closer to some of its residents. Perhaps the result was best expressed by one smiling young treasure hunter who said, "I've just made some new friends today – way cool!"

79%

of tenants surveyed at a Housing New Zealand community day said they were more aware of what's available in their community

Housing New Zealand is a diverse organisation consisting of compassionate, committed and innovative people.

From increasing the supply of quality state, affordable and market housing to supporting our tenants to live well in their homes, our work is varied and rewarding. All of our people have a role to play, directly and indirectly, in helping to have a positive impact on our customers' lives and helping us become a world-class public housing provider.



Our people

Noeline

Area Manager
Northland

Noeline joined Housing New Zealand after leaving school at 16 and, apart from a 10-year stint away from the organisation, has worked in a variety of roles for Housing New Zealand for her entire career. She looks after a team of 11 tenancy services staff who oversee around 2,100 tenancies in Northland.

"Housing New Zealand tenancy staff are the 'face' of the organisation – we are the people our customers see, and it's the experiences they have with us that they take away and remember.

"I'm a big believer in home ownership so I always talk to tenants about the programmes we have in place to help them achieve that. I really encourage it.

"Working in Northland can be geographically challenging with long distances to travel and remote areas, but the technology and devices we have – like satellite phones when we're outside normal mobile coverage – make a big difference. I love the people."

> "Housing New Zealand tenancy staff are the 'face' of the organisation."

Stacey

Tenancy Manager
Dunedin

Before joining Housing New Zealand in 2012, Stacey was a support worker helping people with intellectual disabilities. She's always sought work where she can help others, so for her the tenancy manager position is the perfect job.

"I love all aspects of this job – getting out and dealing with people, as well as the office work. No one day is the same. You have some amazing conversations with people and sometimes I have tenants come in to see me and I get hugs. They want that direct contact with someone that's been in their home and spoken to them personally. It's about being as understanding of people's situations as possible without being judgemental. Their issue may sound small, but it could be the main focus of their lives, so it's about listening and taking that seriously.

"The most rewarding thing for me is giving someone the keys to a house. You have someone in a really desperate situation, and you're able to give them the one thing they need the most.

"There have been times when I've almost been reduced to tears by people's responses. Everyone needs a roof over their heads – that's the most basic thing, especially when there are children involved. It's just about finding ways to make that work."

Naomi

Manager Community Group Housing
Wellington

Naomi began her career at Housing New Zealand in March 2003, joining the Gisborne office as a customer coordinator. Over the following 15 years she has held many roles throughout the business including housing services manager, tenancy manager, and area manager, before moving into her current role of Manager Community Group Housing in the Wellington office. Naomi currently leads a team of 10 who manage a geographically spread portfolio of 1,492 Community Group Homes. These homes are provided for people with high and complex needs including: mental illness, physical and intellectual disabilities, and people seeking refuge for example.

"What I love most about my job at Housing New Zealand is the people – the people we work with and alongside and most importantly, the people we help. I love coming to work every day, working alongside engaged and passionate people and being in a position to support, encourage and assist people in a positive way.

"My team do fantastic work across a challenging and diverse portfolio of groups and properties, always striving to go over and above to support our customers with what they need. Our team are in a privileged position where we work with a number of dedicated professionals and key stakeholders to provide unique and bespoke housing to those most in need. They do incredible work with the individuals they care for and it is very warming to observe the outstanding level of care and support residents receive."

Nick

Programme Director, Asset Development
Auckland

After more than three decades leading large infrastructure projects, Nick returned to the public housing sector in 2018 – where he began his career as an electrician for his local council's housing association.

"Part of what drew me to Housing New Zealand is my career's starting point, which was in local government housing.

"I've always worked in local government – London Transport and Auckland Transport – which touches on so many people's lives. There's nothing like being part of a team and that feeling of belonging to a group of people with common interests and goals and a shared vision of how to get there.

"When I got the job at Housing New Zealand, I was ecstatic. It's a fantastic opportunity to work on great projects that have a significant impact on people's lives and contribute to the greater good."

> "When I got the job at Housing New Zealand, I was ecstatic. It's a fantastic opportunity."

Tim

Business Innovation and Design Director
Wellington

Tim started in Housing New Zealand in July 2017 as the Business Innovation Research and Design Director after previously holding senior roles with Lend Lease, and Leighton. Tim is in charge of supporting Housing New Zealand to achieve greater scale and pace through growing capacity and capability in our supply chain.

"A typical day is punctuated by meetings with prospective suppliers presenting new technologies to detailed head-in-your-hands analysis of systems we are currently evaluating, and then jumping into workshops with the teams who are running our pilot and R&D processes. I am fortunate to also be a member of various governance groups within HNZ, where I can contribute to the broader goals of the organisation.

"The scale of our housing programme provides the Housing New Zealand team with a great opportunity to contribute towards a permanent and positive shift in the quality of the homes we produce, and ultimately affordability, which I really love. 'Finding a better way' drives me to wake up each morning before the alarm goes off. Sad but true."

> "'Finding a better way' drives me to wake up each morning before the alarm goes off."

Emily

Senior Tenancy Manager
Hutt Valley

"Working alongside workmates and the tenant was really enjoyable and rewarding."

Emily started with Housing New Zealand in 2016 as a tenancy manager before becoming a senior tenancy manager about 18 months later. Emily was motivated to work for the state housing agency after speaking to a friend who'd joined Housing New Zealand and quickly realised the difference the agency can make in people's lives. Managing a portfolio of around 200 homes means Emily is in daily contact with many tenants. The most rewarding part of her role is the difference she makes for many people and getting to work alongside her team mates.

"The most rewarding part of my job is being able to sign up a tenant that has been homeless or in prison for a period of time and wants to have a second chance in life to start over.

"When I visit these tenants and see how far they have come from moving into a Housing New Zealand property, finding work, being able to have their children back in their care or visitation rights, seeing them so happy and house proud.

"A memorable moment for me was when our team members all got together and dug up the entire back yard of a tenant's property to prepare it for an Urban Kai Garden. Working alongside workmates and the tenant was really enjoyable and rewarding.

"To this day the tenant is so proud of her Urban Kai Garden. This Garden has successfully had vegetables grown, cultivated and picked to assist the local community organisation, Remakery, in helping the local people in need."

Aaron

Maintenance Supervisor
Southern

"It is really fulfilling knowing that the decisions I make have direct, positive impacts on the quality of life for our tenants."

Aaron began his career at Housing New Zealand when he was contracted as a maintenance administrator in May 2016, before being made permanent in July 2017 in the maintenance supervisor role. Aaron's role is to address issues and concerns for our tenants through the Tenancy Services team in regard to property condition.

"A major part of my job is to oversee repairs on our properties between tenancies, ensuring tenants get a home that is warm, dry, safe and that they can be proud of.

"I love the people here. The people who work at Housing New Zealand are so passionate about the work they do and that passion is infectious and empowers other Housing New Zealand employees. It's an infinite positive feedback loop! In my regional office there is also a real sense of comradery. This comradery enables strong relationships and makes working together so much easier.

"Another aspect of my job I really enjoy is having complex problems presented to me, working through them and getting a positive solution.

"The most rewarding thing for me is that every day I have to make decisions on repair work on HNZ's assets. What influences these decisions (aside from our guides and policies) is putting myself in our tenants' shoes. It is really fulfilling knowing that the decisions I make have direct, positive impacts on the quality of life for our tenants."

Innovation and affordability

Through our various housing programmes across the country, we are helping alleviate the shortage of housing by increasing the pace and scale of the housing supply at reduced cost. We're delivering more houses through innovative methods and leveraging our scale to speed up the houses needed.

63

units currently being constructed with cross laminated timber

Offsite manufacturing

Like most organisations, both private and public, we're constantly searching for improvement – in quality, sustainability, cost-effectiveness and project timeframes. OSM – offsite manufacturing – has been the focus of investigation and pilot programmes over the 2017/18 year. The results have been very encouraging and will improve our performance in all of those areas.

We researched building materials that met our '50 years plus' lifecycle performance requirements. We asked an Offsite Manufacturing Solutions panel, comprising 20 industry members with the combined experience and building capacity of nearly 4,000 housing units per year, to thoroughly assess a variety of building technologies.

They determined that CLT (cross laminated timber) provides some major advantages over traditional building materials, with its exceptional structural, fire and sustainability capabilities. In addition, CLT uses locally sourced materials in manufacture and halves delivery times compared with conventional product.

CLT is now being used in the construction of 63 units, the first three of which have already been completed this year and will provide 26 one-bedroom apartments to be used as transitional housing. Four more units are due for completion early 2019.

So far we've worked on understanding onshore and offshore market capacity, consenting issues and implications, potential pricing and the volume required to encourage investment in additional capacity. We're also working closely with building consent authorities, KiwiBuild's Innovation team, our OSM panel members and PrefabNZ to bring OSM into comprehensive operation and we'll continue to investigate and test the time, health and safety, quality and cost benefits of OSM over the coming financial year.

Standardised design

Standard designs help reduce costs by:

- reducing the time spent on the build process through repeatable designs for different typologies and build types
- enabling more efficient material costing for each home and redevelopment
- reducing build complexity and duration of construction
- reducing operational costs as we will be able to continuously improve the way we work with contractors and councils
- reducing waste
- enabling consistency of delivery by our build partners.

This financial year we've been working on developing standardised designs for houses with one to six bedrooms. We've created 24 base model designs with over 200 variations including a variety of roof designs and external finishes.

The design incorporates minimum material wastage, with associated savings in onsite labour, cutting standard-sized materials.

The designs have been peer reviewed with guidance and assistance from a number of our build partners to ensure maximum buildability.

Our two-storey designs have been lodged with the Ministry of Business, Innovation and Employment (MBIE) for certification and multi-proof consent to ensure a quicker and more streamlined consenting process. Other designs will be lodged with MBIE early in the 2018/19 financial year, and we expect the multi-proofing consent process to be completed by the end of September 2018.

"Standard design means we can calculate, down to the last nail, what components, and how many, we need for each home and each redevelopment."

Patrick Dougherty
Asset Development Group General Manager

The first of its type
Greys Avenue Redevelopment

In May 2018 the Housing New Zealand Board approved the business case for this supported housing development – a Housing New Zealand first of its type and the organisation's largest and most complex city centre development – at 139 Greys Avenue in Auckland.

This development will see an increase in scale and social diversity by creating approximately 280 apartments with at least 200 retained as state homes. Up to 80 of those apartments will be designed for higher and complex need tenants, many of whom are currently homeless.

The thinking driving this approach is that many state housing tenants are, and should remain, members of the inner city Auckland community. The location provides the opportunity for tenants to access a range of existing social and community services, and, with onsite support and services, tenants will have the help they need to live well in their homes and communities. Greys Avenue will feature:

- 279 units – a supported housing community providing homes for a diverse combination of people
- 80 of those units to be assigned to the city's homeless and most vulnerable
- generous ground floor space for wrap-around social and health support services, recreation and amenities
- a design squarely focused on customer needs
- access to services – health care, counselling, budgeting, education, employment assistance and skills development
- laying a platform for customers and partners to develop and deliver a vibrant urban community
- help for customers to live more stable, productive lives
- better support, increased wellbeing, fewer preventable hospitalisations and reduced offending, leading to a higher degree of sustained tenancies and reduced costs to the health and justice systems.

The proposed development reflects Housing New Zealand's focus on optimal means of providing well-organised support for New Zealanders in need.

Construction is scheduled to begin in mid-2019, with people moving into their new homes from late 2021.

Award-winning renovation improves lives

The renovation of Housing New Zealand's landmark Centennial Flats in Wellington's Berhampore has improved the lives of our customers.

Wellington's Centennial Flats were ground-breaking when they were built in **1938**

In 2018 the project was recognised by the New Zealand Commercial Project Awards. Housing New Zealand contractors Maycroft Construction received a Bronze Award in the Heritage/Restoration category, in recognition of their excellence in workmanship, construction practices and innovation.

Wellington's Centennial Flats were ground-breaking when they were built in 1938, being the first block of multi-unit flats built by the then Labour Government's state housing scheme.

Designed in the 'International' style, the flats enclosed a large central open space and were positioned for good sunlight. A central circular space provided for tenants' social and community needs, but was unfortunately divided into flats in the 1980s.

While having good 'bones', the concrete flats, now with a Heritage Category 1 listing, were cold, damp and an earthquake risk.

The $7 million refurbishment in 2016 focused on strengthening, insulating and improving weather tightness.

Following an overwhelming response from tenants and the community, the central hall was converted into a communal space.

Tenant Alice has lived in Centennial Flats for 14 years. During the renovation, Alice was able to move directly from her flat into a newly renovated one. "I really liked being able to stay and I was lucky that friends I made have remained here," she says.

Alice loves her new flat, which has a bigger lounge and bedroom and is a lot warmer and drier. "It now has a separate shower instead of a shower over the bath and that has made a big difference," she adds.

Alice also comments that there's always something going on in the community centre and when she had a small accident in her flat it was good to know there was someone there to help.

There are four major factors common to high-performing organisations:

- Being strategy driven
- Brilliant and engaged people
- Operational excellence
- Efficiency

Becoming a high-performing organisation

The Housing New Zealand Organisational Strategy has adopted these tenets in positioning itself to deliver on its priorities. In addition, and underpinning these characteristics, Housing New Zealand maintains a deliberate and constant focus on health and safety, security, and our behaviours and attitudes. We consider these characteristics to be fundamental to the way we operate, and these are evidenced throughout this report. Our journey toward becoming a high-performing organisation supports us in achieving our strategic priorities.

Being a good employer

The Crown Entities Act 2014 requires us to be a 'good employer', and we have been continuing to meet these obligations over the 2017/18 year. Being a good employer is fundamental to Housing New Zealand supporting our brilliant and engaged people.

Housing New Zealand is committed to a highly engaged, motivated, empowered and continuously learning workforce that will ensure delivery of the ambitious goals that have been set for the organisation.

We recognise through our Values Charter – *Kotahitanga*, that we can only achieve our goals as an organisation if we are working together in an environment of trust, care, contribution, humility and learning. This working environment is the foundation of our success and it is our job as an employer to ensure our organisation is a great place to work.

Over the 2017/18 financial year we have undertaken several initiatives which reflect the seven key elements of being a 'good employer'.

Being a good employer

Leadership, accountability and culture

- We've designed, developed and delivered a significant series of new leadership programmes to support and drive a positive workplace culture through our values outlined in *Kotahitanga*.
- Our Leadership Essentials programme focuses on building the competencies and capabilities of our leaders to become successful, values-driven organisational leaders. The programme now covers all tiers of the organisation's leadership, and 2017/18 has been the most successful year to date.
- Over the year, our leaders from across the organisation come together in a series of leadership forums to discuss key learnings and themes across Housing New Zealand. These forums reflect and connect the importance of quality leadership to our being a world-class housing provider.

Recruitment, selection and induction

- As an equal opportunities employer, we value diversity and ensure our policies, practices and processes are fair, consistent and equitable for all job applicants and employees. Our recruitment policy is based on merit, and we do not discriminate on the basis of ethnicity, religion, nationality, gender, sexuality, age, marital status or physical ability.
- This year, we have continued to improve our careers website through improved messaging. In the next financial year we will make our recruitment system more mobile friendly for candidates, and ensure more effective use of social media by recruiters and hiring managers.
- We have expanded our recruitment drive to include offshore advertising for specialised roles within our Asset Development Group.
- We continue to run our quarterly induction workshops to Housing New Zealand for new employees and next year we plan to make these more flexible and responsive as we grow in size and capability.

Employee development, promotion and exit

- Developing our people is fundamental to the success of our organisation. We provide an environment that supports our people to develop their potential and, to the best of their ability, contribute to the achievement of our goals.
- In addition to supporting our staff in receiving training by external providers, we currently provide over 170 training programmes through our internal Learning Management System.
- In 2017 a professional qualifications framework was put in place for key frontline roles, giving our people in these roles the ability to have their work-related learning assessed and recognised with the NZQA. Our accredited workplace training structure is being expanded in 2018.
- This year we initiated a new approach to performance and development in support of *Kotahitanga*. This is called Forward Conversations – a constructive and collaborative approach based on regular forward-focused conversations on the growth of our team members' roles, both current and into the future.
- To support our people to excel in their roles and to identify and reach their career aspirations, we are working on clear and simple career pathways for all roles at Housing New Zealand.

Flexibility and work design

- We address work-life balance with flexible work practices where people's requirements fit within business needs.

Remuneration, recognition and conditions

- We want to support a culture of shared purpose, trust and collaboration by paying our people fairly for their expected contribution and in a way that minimises opportunity for unconscious bias.
- During 2017/18 we conducted a review of our reward environment to ensure it is competitive and matched to our leadership culture and values. In July 2017 the Housing New Zealand band structure was narrowed, and gender and ethnic pay gaps have been identified and reduced within State Services Commission recommended tolerances.
- With effect from 1 July 2018 Housing New Zealand will move to one rate for each role band at the 100 percent point. The PSA has been supportive of this new approach.
- As of January 2018 no one within Housing New Zealand is paid less than the living wage.

Harassment and bullying prevention

- Our aim is to provide a workplace environment that is a safe, engaging, caring place to work, free from harassment and workplace bullying.
- During the year we established a dedicated reporting line within our organisation for people who have concerns about their own health or wellbeing or that of a colleague at work. This reporting line will provide a sound and fair way to call out when our values are being compromised and when something may be causing harm or distress to others.

Safe and healthy environment

- As an employer it is Housing New Zealand's obligation to influence improvements to the physical and mental health and wellbeing of the people who work for us, both employees and contractors.
- Over 2017/18 the Health, Safety and Security team rolled out the Incident Reporting System 'Noggin' to both employees and contractors. The enterprise cloud software solution provides a real-time view of risks, hazards and incidents, and has allowed Housing New Zealand employees and contractors to log events, risks and hazards directly from multiple devices, either in the field or at the desk.
- Training on resilience and mental health awareness along with the launch of a Health and Wellbeing Portal has added to the resources and information available for our staff.
- We continue to provide several health-related benefits and initiatives such as free annual influenza vaccinations, and subsidised insurance plans. We have also negotiated with our medical insurance provider to allow our people to access coverage for pre-existing conditions, which would normally only be covered if they were to join within 60 days of their first day of employment.

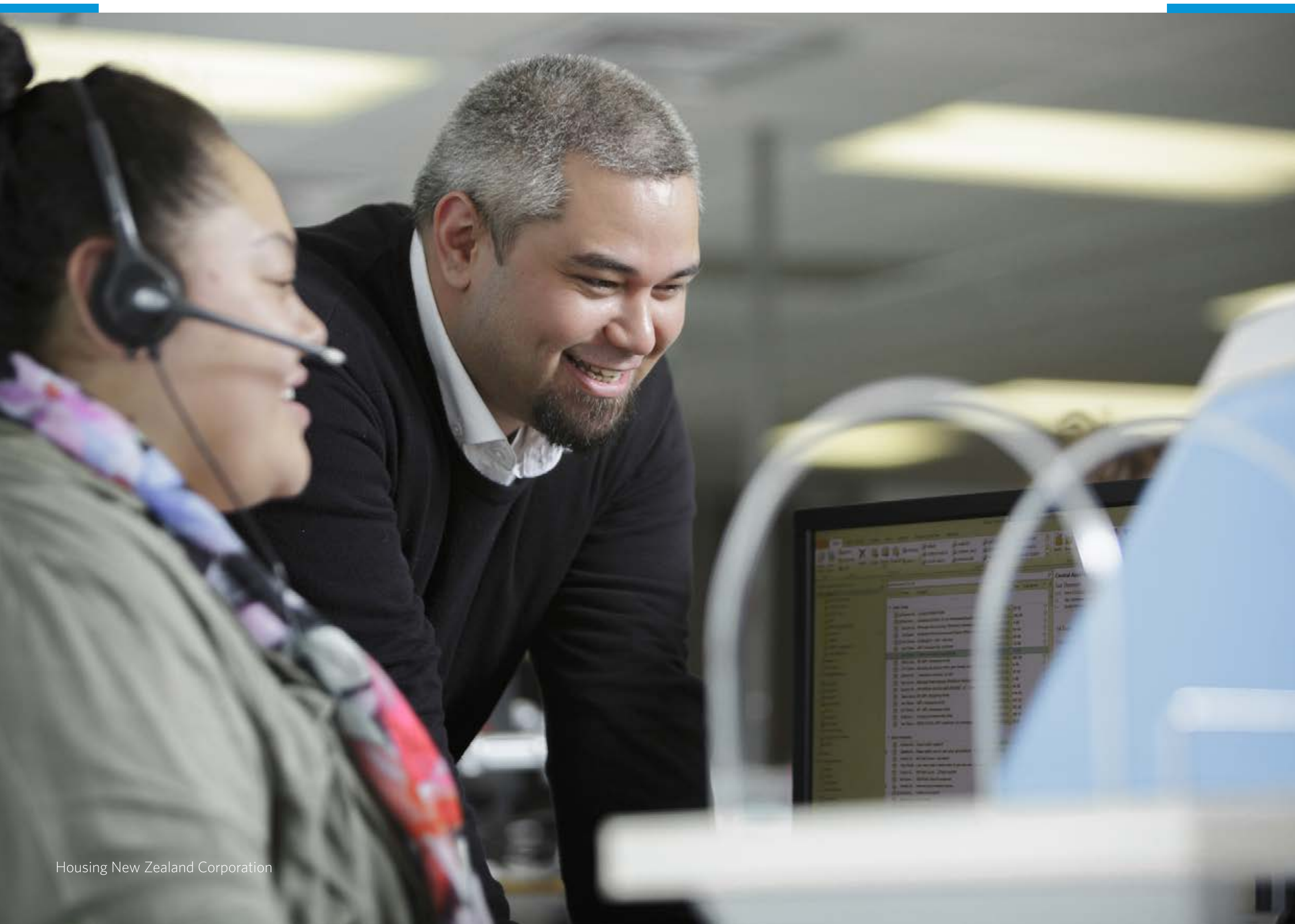
Promoting equal opportunities

We provide equal employment opportunities and ensure our policies, practices and processes are fair and equitable for all job applicants and employees. We recognise the Crown's obligations under the Treaty of Waitangi and the aspirations of Māori, other ethnic or minority groups and people with disabilities.

Our remuneration review for staff in 2017/18 has been one of the ways we are ensuring we are an organisation where fair and equal pay within the same roles is prioritised. In consultation and agreement with the PSA, our remuneration principles changed to a single rate of pay for roles, ensuring all staff are paid the same for performing similarly sized roles.

In 2018 we will be producing a Gender Pay Gap Action Plan to support the Government's overarching Gender Pay Gap 2018-2020 Action Plan. Through this, Housing New Zealand aims to better support transparent pay practices, pay rates and systems and better experiences and outcomes for all of our people. Our people are being given the opportunity to participate in the development of the plan through their feedback, before it is overseen by a Chief Executives group and Public Service Association (PSA) forum. Once finalised, it will be published and readily available to public sector employees and unions. Our Gender Pay Gap Plan will look at a number of other priorities of the Action Plan including flexible working arrangements to be made equally available to women and men. Housing New Zealand's latest round of negotiations with the PSA are well aligned with the ambitions of the Government's Gender Pay Gap 2018-2020 Action Plan.

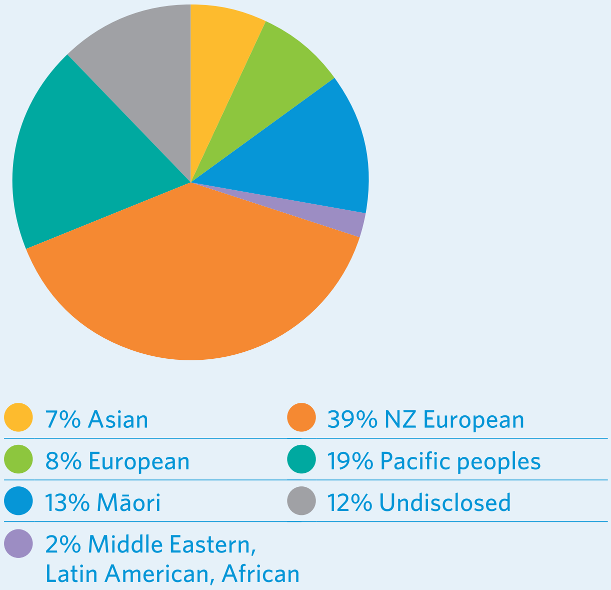
Housing New Zealand policy content is regularly reviewed to maintain appropriateness and relevance to workforce trends and the PSA is consulted on organisational changes or establishment of policy.



Gender profile of Housing New Zealand staff

Gender profile of Housing New Zealand management

Ethnicity profile of Housing New Zealand staff

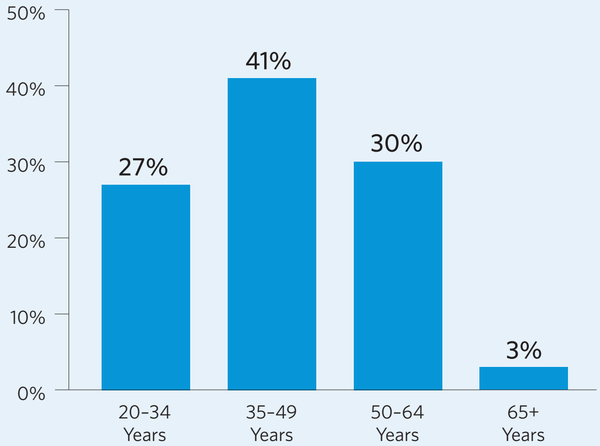


Workplace profile

Disability

We currently do not record information on staff disability, and therefore have not included such data in our workplace profile summary. We do, however, ensure that our workplace environment is accommodating to our people who experience a disability, where possible.

Age profile



Our financial performance

We have one of the largest asset holdings in the private or public sector in New Zealand. In delivering the Crown's social objectives of providing housing and services related to housing, we operate in a financially responsible manner, delivering these services to ensure the financial sustainability of the organisation, and ensuring we plan well for future needs.

We do this by focusing on long-term objectives, and building our performance measures around the expectations on the organisation. We regularly review our financial and operational performance, and test our assumptions.

We are increasing capacity for supplying houses and maintaining our homes, as well as looking after our customers. To do this, we are investing in both our capability and capacity to enable this increase to occur. We are growing both our development capability to increase our supply of homes and our tenancy management capability to better support our customers to live well in our homes.

We exercise good investment practice, so that our customers can have the right homes both now and in the future, and are highly rated by the Treasury for our capabilities in this area.

Summary financial statements

Financial performance

Year ended	June 2017 $m	June 2018 $m
Rental income	1,147	1,212
Other income	171	126
Revenue	**1,318**	**1,338**
Expenses	864	842
EBITDA	**454**	**496**
Interest expense	87	84
Depreciation and amortisation	246	259
Gains/(losses)	(40)	(28)
Operating surplus before tax	**81**	**125**
Income tax	(16)	(49)
Net surplus after tax	**65**	**76**

Financial position

As at	June 2017 $m	June 2018 $m
Property portfolio	25,224	26,705
Other assets	683	785
Total assets	**25,907**	**27,490**
Total liabilities	4,309	5,171
Total equity	21,598	22,319
Total debt	1,953	2,653

Cash flow

Year ended	June 2017 $m	June 2018 $m
Operating activities	284	360
Investing activities	(346)	(590)
Financing activities	89	697

At 30 June 2018 our total property portfolio was valued at $26.7 billion. We collected over $1.2 billion in revenue from rents and rental subsidies this year.

Our key financial highlights for the year include:

- We invested $940 million in capital expenditure into our property portfolio by:
  - increasing our investment in social housing stock – with $762 million spent on additions and redevelopments. This resulted in the purchase of 1,359 homes this year, and ensures there is an increasing pipeline of projects underway both to deliver more homes in future and to renew our existing homes
  - continuing our support of the Crown's affordable housing goals with an investment of $12.7 million in our McLennan and KiwiBuild programmes
  - continuing to invest in our current housing stock by spending $319 million on ongoing repairs and maintenance and $155 million on capital maintenance, upgrades and improvements. Our measure of property condition remains stable with 90 percent meeting required condition thresholds, at a time where our stock continues to age, requiring regular high levels of maintenance.

- We commenced entry into debt capital markets to raise additional finance to expand and continue our development of new homes across the country. $500 million was raised successfully in 2018, and we are well positioned to raise additional finance in future years, and remain a financially sustainable organisation.
- Our net operating costs of managing our housing portfolio per housing unit of $12,041 reflect our continued proactive management of our homes.
- We are not returning a dividend to the Crown, as our focus is on investment into growing and renewing our portfolio, maximising the access to social housing for New Zealanders in need.

Capital management

During 2017/18 we spent $940 million on capital expenditure as shown in the following table:

Capital additions	2016/17 $m	2017/18 $m
New houses purchased	161	231
Land purchased	114	172
New homes built	170	372
Maintenance of existing homes	159	155
Business infrastructure	6	10
Total	**610**	**940**

High-performing organisation

Measure	Actual 2016/17	Standard 2017/18	Actual 2017/18	Comment
Net operating costs of managing our housing portfolio per housing unit (excludes depreciation)	New measure for 2017/18	$11,700	$12,018	Capitalised maintenance expenditure was slightly above target
EBITDA as a percentage of total income*	33%	>=33%	37%	
Ratio of EBITDA to interest costs*	5.88	>=4.12	5.00	
Total Recordable Injury Frequency Rate	1.21	<1.38	1.13	
Annual employee engagement**	4.09	Progress towards 2021 target of top quartile results in NZ public sector	Not measured in 2017/18	

* For the purposes of this calculation EBITDA excludes asset write-offs.
** We are reviewing our measurement of employee engagement, and will develop an appropriate measure in 2018/19.

The table above shows the results for our annual organisational performance measurements. Along with our Output Class measures results, these measures were published in our Statement of Performance Expectations 2017/18. They reflect the four factors which are key to becoming a high-performing organisation – the need to:

- Be strategy driven
- Have brilliant and engaged people
- Have operational excellence
- Be efficient

At a glance

Our homes

We own or manage approximately

64,000 properties

$26.7b value of our assets

45 years average age of our homes

41% of our homes were constructed before 1967.
40% of our homes have three bedrooms.
45% of our homes are located in Auckland.

1,492 of our homes are rented to community groups

to help them provide residential specialist services to people with complex needs.

$474m spent maintaining, upgrading and improving our homes during 2017/18

Our tenants

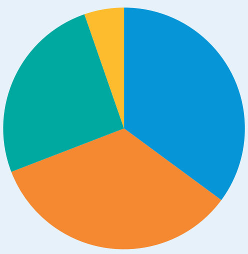
185,000+ people live in our properties

Which is **4%** of New Zealand's 4.8m population.

41% of our tenants are 55 years or older

Our most common household type is a single parent with children, with single person households the second most common.

Our tenants are diverse



- 33% Māori
- 32% European
- 24% Pacific peoples
- 5% Asian

People may identify with more than one ethnicity.

Our performance in 2017/18

Approximately

5,500 families placed into homes

2,188 homes added

Comprising 1,043 new builds and homes built on existing Housing New Zealand land, along with new buys and leased homes, resulting in a net increase in state housing of 720.

98.2% occupancy rate achieved

Maximising the number of people provided with homes.

Our 'Vacant to Ready to Let' result was **19** days, exceeding our target by **five** days. This helps ensure that people can get into their new homes as fast as is practical.

83% of customers were satisfied with the service provided by our CSC

3.8% rent debt to income ratio

Target 5%

Proactively working with tenants to minimise their debt levels helps to sustain positive tenancy experiences.

17,699 first home buyers supported to purchase their own home through the KiwiSaver HomeStart grant

16,712 in 2016/17

This is a significant contribution to enabling New Zealanders to move into new homes on a sustainable basis.

$125m Net Operating Surplus Before Tax (NOSBT)

$81m in 2016/17 financial year

Strategically focused every day

Our strategic priorities for 2017/18

At the start of the year we sought to identify the most important priorities for us as an organisation, for successfully fulfilling our roles as New Zealand's biggest public housing provider. These priorities reflect the active and innovative contribution we wish to make to the New Zealand housing sector and to our communities.

Housing New Zealand has ambitious construction targets over the next few years; we will build more quality, sustainable and cost-effective homes within shorter timeframes and become more responsive to the needs of our customers. And we have to do all this without compromising on health and safety, while also optimising the management of our homes, continuing to improve our operational policies and processes and focusing on the development of our people.

We have also been working together this year with our subsidiary, HLC, which delivers the master-planning and land development aspects of Housing New Zealand's large-scale master developments.

Having considered our opportunities, challenges, changing operating environment and ministerial expectations, we identified five strategic priorities for the 2017/18 year. These have been described in our 2017-2021 Statement of Intent, 2017/18 Statement of Performance Expectations and 2017-2021 Strategic Plan. Along with management of our finances and risks, these priorities have been the focus of our activity over the last year:

Priority One

Increase the pace and scale of housing supply

This priority is primarily focused on our role in public housing, but also encompasses what we need to do to support the growth of supply of housing more generally, particularly in areas with significant affordability challenges.

Priority Two

Reduce our cost of building and, in turn, influence cost in the sector

Driving down the cost of construction through new and innovative solutions will ensure the scale of change required to our housing stock is financially viable and we can contribute to the overall stock of affordable housing. It is also an opportunity to support the sector to find the best ways of achieving delivery at scale.

Priority Three

Optimise the management of our homes

Managing our homes well is a core capability for us as a public housing provider. As one of the largest asset holders in the public sector, we need to manage our assets effectively. Good management of the lifetime costs of our assets makes us financially sustainable, and we have been continually improving the management of our homes.

Priority Four

Increase our understanding of our customers and put their needs at the centre of our decisions

As our customer base changes we need to change with it. The growing complexities of our tenant mix means we need to think more carefully about the best way to support them to sustain tenancies. An improved understanding of our customers enables us to design coordinated services that improve social outcomes, and be more thoughtful in decisions around the design of our homes.

Priority Five

Use our experience to influence the performance of the housing sector

We have a significant opportunity to use our scale and experience to help the sector as a whole develop successfully. Demonstrating best practice in managing our homes means we can show leadership in the sector, helping to boost overall capability in the management of public housing in New Zealand. We have been focused on identifying our strengths and how we can support the sector as a whole to work together to achieve the right outcomes for New Zealanders.

While we have made good progress this year, we still have a lot to do. Our organisation has undergone major change to adapt to the shifts in our operating environment brought on by the change in government and ministerial expectations.

Priority One

Increase the pace and scale of housing supply

Why is this a priority?

Over the last few years, New Zealand has experienced significant housing shortages, rising costs of living, and a lack of affordable housing options. The Government and the Minister of Housing and Urban Development have given a clear message that one of their top priorities in housing is to grow supply, making more public housing available to those in need.

In response, Housing New Zealand is transitioning from a small-scale delivery of new homes to consistently building over 1,000 new quality state homes a year and a large number of refurbishments. This is being achieved by scaling up our activities in main centres and the regions, as well as working smarter to enable quicker deliveries through innovative methods such as standardised designs, modular housing and offsite manufacturing. Delivering homes more efficiently will mean we can house more Kiwis. In order to achieve our goals for this priority, we have undergone significant business change, which is detailed in the following section.

What have we done in 2017/18?

Ramped up development in Auckland and geared up activities in the regions

Auckland Housing Programme

Housing New Zealand launched the Auckland Housing Programme (AHP) on 1 July 2016 to address demand pressures by producing 11,000 state houses and 12,600 market or affordable houses over 10 years.

The first four years of the AHP are a programme of work to 'build the runway' to ramp up housing supply in Auckland and establish large-scale activity. The 2017/18 year was year two of the programme.

The AHP also expanded HLC's role beyond Hobsonville Point to leading large-scale and master-planned developments in suburbs with large amounts of Housing New Zealand-owned land.

The ramp-up to date of the AHP has been different from what was originally anticipated. The start of the programme was delayed by nearly a year because Government approval was not received until April 2017. However, during the 2017/18 year significant work has been completed to increase the capability of the organisation to deliver on AHP, and on our broader strategic priority of increasing the pace and scale of housing supply. Coverage of this work is provided throughout the report.

There are around 1,000 new builds/redevelopments either committed or in procurement for 2018/19 (year three), and a further 1,400 for 2019/20 (year four).

We are currently undertaking a full review of our Auckland programme and will present a refreshed Auckland Housing Programme to the Minister in the 2018/19 year.

Regional Housing Programme

In 2017/18 Housing New Zealand launched the Regional Housing Programme (RHP) to increase the supply of state housing and help meet the increasing demand for public housing in multiple regional locations across New Zealand. Over the next four years the RHP will see about 900 more state houses available in the regions to help meet housing need. The first phase of the programme is underway and will deliver up to 155 new state houses, 110 of which were delivered in 2017/18. These homes are being built on Housing New Zealand's vacant land and better utilised landholdings.

Wellington region

Our build programme in the Wellington region started in 2017/18, with a number of significant projects being delivered and beginning construction. These projects are located in Wellington city and the Hutt Valley, where there are currently 75 units either in construction or delivery for 2018/19.

Auckland Housing Programme

	2016/17	2016/17	2017/18	2017/18	2018/19	2019/20
	AHP target year one	AHP actuals year one	AHP target year two	AHP actuals year two	AHP target year three	AHP target year four
Homes built	544	230	970	756	1,780	1,011
Homes purchased	113	347	113	230	113	110
Homes leased	243	279	22	525	10	10
Additions	**900**	**856**	**1,105**	**1,511**	**1,903**	**1,131**
Homes sold	30	7	30	6	30	631
Homes demolished	370	369	557	285	570	100
Leases expired	353	366	352	636	212	100
Sales, Lease Expires and Demolitions	**753**	**742**	**939**	**927**	**812**	**831**
Net growth	147	114	166	584	1,091	300
Cumulative net growth	147	114	313 (166+147)	698 (114+584)	1,404 (313+1,091)	1,704 (1,404+300)
Market and affordable homes delivered/enabled	168	87	146	259	500	1,569
Cumulative net growth – market and affordable	**168**	**87**	**314 (168+146)**	**346**	**814 (314+500)**	**2,383 (814+1,569)**

Housing New Zealand **opens doors to new Mount Albert homes**

In December 2017 Housing New Zealand delivered 18 new homes in its Jennings Jersey redevelopment in Mount Albert, Auckland, just in time for Christmas. The redevelopment includes three accessible units, and can house up to 90 people, triple the number the site once housed.

Housing New Zealand's Asset Development Group General Manager, Patrick Dougherty, says Jennings Jersey is a great example of how Housing New Zealand is bringing its Auckland property portfolio up to date and providing greater numbers of homes in areas of high demand.

"The previous eight two-bedroom units at this 3,649 sqm central location were built in 1941 and so were well past their useful life. Now we've created 18 warm, dry and healthy homes in their place; it's a much wiser use of the land and will benefit many more people in need of housing."

The site showcases the best of contemporary state housing and incorporates Housing New Zealand's best practice approach to redevelopment, with innovative site planning, design values and modern materials and fittings, inside and out. The development also provided a significant investment in critical infrastructure for the benefit of the wider community.

In May 2018 the project won an Auckland New Zealand Institute of Architects (NZIA) award for the Auckland region in the Housing Multi-Unit category, and in June the project won a merit award in the Natural Habitats Urban Land Development category at the Property Council awards. Now the project has been shortlisted for a national NZIA Award in the multi-unit housing category.

Christchurch

At the start of the year, the Christchurch programme was scaled back due to a previously proposed stock transfer, which affected most redevelopment opportunities in the city. During the course of the year, the Government cancelled the Christchurch transfer proposal, and Housing New Zealand completed several projects in Christchurch. We are now restarting and scaling the Christchurch programme to ensure build activity continues and our asset portfolio is renewed and aligned with demand in the area.

Transitional housing

In addition to delivering our own build programmes, we continue to acquire and build homes as part of the Government's cross-agency Transitional Housing Response. Since October 2016 we have contributed a total of 657 transitional housing places (within 616 individual units) as part of the Government's cross-agency response. During 2017/18 we have contributed 294 new transitional housing places[1] within 272 individual units.

Housing portfolio

As the tables below show, across the transitional, state and Community Group Housing types we have added[2] a total of 2,188 homes in 2017/18. These additions contributed to a net increase of 720 in our overall level of managed stock from 63,276 to 63,996 in 2017/18. The net increase is balanced against sales, lease expiries and demolitions as shown in the table below. We have also been renewing and refreshing our ageing assets to contribute to the immediate and long-term supply of public housing. This is discussed further under our third strategic priority, 'Optimise the management of our homes'.

In terms of sales, the Government announced that the stock transfer programme would stop in December 2017 and we would only continue with appropriate business-as-usual, small-scale sale. In terms of demolitions, only a small number of homes are demolished due to fire, contamination, natural disasters, and other reasons. The majority are demolished as a standard part of our redevelopment programme, where we demolish homes that have reached the end of their lifespan and no longer meet tenant needs, replacing them with new ones that are warm, dry and fit for purpose. This process is also key to ramping up our build programmes, allowing us to better utilise our land especially on larger sections and improve outcomes for our tenants.

Our intention is that building homes will deliver the vast majority of the additions to our portfolio, rather than buy-ins or leasing. This will contribute to the growing number of houses in New Zealand as well as to better financial outcomes.

Additions by type 2017/18

	Auckland	Wellington	Christchurch	Rest of NZ	Total
Transitional housing					
Newly built	166			29	195
Purchase existing	27			29	56
Leasing (new/renewed/re-signed)[3]	8				8
Transitional housing total	**201**			**58**	**259**
State housing					
Newly built[4]	587	26	115	110	838
Purchase existing	198	3	7	41	249
Leasing (new/renewed/re-signed)[3]	512	14	110	161	797
State housing total	**1,297**	**43**	**232**	**312**	**1,884**
Community Group Housing total[3,5]	**13**		**12**	**20**	**45**
Grand total	**1,511**	**43**	**244**	**390**	**2,188**

1. MSD's expectation for the delivery of transitional housing is defined as 'places'; that is, the number of households that can be accommodated in each lettable unit. During 2017/18 we delivered 294 transitional housing places within 272 lettable units. Out of the 272 units, 259 were newly built, purchased or leased and count towards our total 2017/18 additions as shown in the table. The remaining 13 units which we contributed towards the Government's cross-agency response were not counted as a new addition in the table as they were moved from existing state housing stock into the transitional housing stock.
2. The increase in our overall level of managed stock reflects the total net growth across our housing portfolio in 2017/18. To reach this figure, total additions for 2017/18 are balanced against disposals which occur as a standard part of the redevelopment and remediation process.
3. According to Output 2.1 in our 2017/18 Housing New Zealand Statement of Performance Expectations, the 'additions' measure included new and re-signed leases, reflecting the work associated with retaining these homes as part of Housing New Zealand managed stock. Our 2017/18 additions total of 2,188 consists of 1,359 new builds and purchases of existing properties, and 829 new and re-signed leases in the transitional, state, and community group categories.
4. Newly built includes our prison programme, where 33 homes were rebuilt on the prison yard and relocated to new sites.
5. The 45 Community Group Housing total consists of 3 newly built, 18 purchases and 24 leased homes.

Sales, Lease Expiries, Demolitions

Sales general	21
Sales to tenant	49
Lease expiries	977
Demolished, redevelopment	335
Demolished, other	66
Other	20
Grand total	**1,468**

Managed stock

Opening balance 1 July 2017	**63,276**
Additions 2017/18	2,188
Disposals 2017/18	1,468
Closing balance 30 June 2018	**63,996**

Increasing our delivery capacity

Delivery model refresh

During the 2017/18 year we changed the way we are structured so our teams have the right size, shape and scalability to meet our delivery targets. Our Asset Development Group has been reshaped into programme teams to enable us to better deliver to our ambitious build targets. We have also recently established two new business units: the Strategy Group and the Business Innovation and Development Group. These groups have been helping us increase our efficiencies over the year by enabling us to become a more strategy- and innovation-driven organisation. Our newly established leadership groups in the areas of construction, policy and process have also been contributing specialist knowledge and oversight to the business over 2017/18.

Our subsidiary, HLC, also experienced significant growth this year and increased their capability in master planning, programme management and civil works. HLC is also procuring a civils alliance-style partnership which will see it further increase its capability and capacity to deliver.

Making our strategic frameworks more robust

There is a strong need for immediate and enduring growth of public housing. To respond we need to build a lasting asset portfolio for our communities. We have been working on developing our strategies, plans and investment frameworks to support our efforts to build at scale and pace, setting the business up to make more coordinated, sustainable and strategically aligned investment decisions. These strategic tools will enable our teams to work both smarter and more productively.

Financial Strategy and Long Term Investment Plan

In 2017/18 we began developing a working set of modelling and investment frameworks to help Housing New Zealand make choices and decisions that are financially sustainable to the organisation. We called this the Long Term Investment Plan (LTIP).

Our LTIP outlines Housing New Zealand's investment objectives and the funding and financing needed to ensure the long-term financial sustainability of the organisation. The key outcomes we are seeking to achieve are:

- providing well-matched, safe, warm and dry housing that our tenants can afford to live in
- growing state housing stock to meet increased needs within available resources
- ensuring the financial sustainability of the organisation over the long term.

After detailed direction from the Crown and extensive consultation with the Housing New Zealand Board, the LTIP was approved in June 2018. The LTIP has fed into our Asset Management Strategy, providing direction for area-based investment and supporting an increase in housing. It also sets up the organisation to engage with Ministers and the Treasury, establishing the mechanisms to fund and further align our delivery approaches and budgets.

Housing Investment Framework

The quality of Housing New Zealand's investment management system is vital to maintaining high standards now and into the future. Over 2017/18 we refreshed our Housing Investment Framework (HIF), which outlines our investment management practices to ensure we are operating to best practice expectations.

We have set up better ways of monitoring our investment activity over 2017/18. Several initiatives are underway to keep the Executive Team, Board and Ministers better informed on our progress toward the Asset Management Strategy, delivery and financial targets, as well as ways to reduce our cost of building and deliver at scale.

Priority Two

Reduce our cost of building and, in turn, influence cost in the sector

Why is this a priority?

At the beginning of the 2017/18 financial year we set out to explore opportunities to improve efficiencies when building, particularly for large-scale development. We have focused on working efficiently so that our developments are financially viable and of a high standard. This has especially been supported through the investigation and utilisation of innovative construction methods, materials and processes as part of our Innovate, Partner, Build Programme. Our work towards this strategic priority contributes to making New Zealand's overall housing stock more affordable by removing unnecessary margins and risks from the construction cycle. It also provides an opportunity for us to partner with the sector to find the best ways of achieving delivery at scale.

What have we done in 2017/18?

Established the Innovate, Partner, Build Programme

In order to meet our 10-year growth targets within our funding envelope we need to continually improve our practices and processes. This is to help us improve pace, cost, quality and safety in the delivery of our build programme. We delivered the Large Scale Supplier Strategy during 2017/18 and launched our current Innovate, Partner, Build Programme to implement the strategy. It will:

- provide greater certainty on our build programme to give current and future partners confidence to invest in innovation, plans and people
- innovate in how we partner across the whole construction process
- use our size and continuity of building to deliver significant value in the procurement of construction partners and materials.

The programme articulates our plan to contract with our supply and construction partners for longer time periods through multi-year contracts for a set volume of homes each year. This will enable us to achieve efficiency by using our size to provide certainty to our partners.

The standardised design and offsite manufacturing aspects of this programme mentioned below are discussed in more detail in the Our stories section earlier in this report.

Standardised design

We have been developing standardised designs for our homes during 2017/18. Standardised designs for different typologies and build types significantly reduce the complexity, duration and cost across the build process. They enable more efficient material costing for each new home and will reduce our operational costs as we continually improve the way we work with contractors and build partners to ensure greater consistency in delivery.

Offsite manufacturing

Over 2017/18 we have investigated and piloted offsite manufacturing (OSM) of prefabricated houses as part of our aim to build more quality, sustainable and cost-effective homes within shorter timeframes. We have been focused on understanding the capacity of the market both onshore and offshore, potential price points, the implications and issues associated with consenting, and the quantum needed to incentivise investment to deliver additional capacity.

Construction costs reporting

In addition to increasing our capability to monitor our investment activity, we have been enhancing the information management of construction cost to improve our overall cost savings and cost performance. This year we have developed the ability to capture detailed development cost information. We will begin using this functionality in the first quarter of the 2018/19 financial year.

Our new ability to report on and monitor our construction costs will enable a greater understanding and transparency of our development activity and the costs incurred. Once up and running, this will allow us to benchmark costs and to confirm cost reduction targets with the Minister of Housing and Urban Development. We will then be able to identify potential areas for further cost savings and prioritise our activity in these areas.

Priority Three

Optimise the management of our homes

Why is this a priority?

Managing our homes is a core capability of our business as a public housing provider. With about $26.7 billion of property, we are one of the largest asset holders in the New Zealand public sector, and so effectively managing our assets is imperative. Good management of the lifetime costs of our assets is a key driver to being financially sustainable and we have been continually improving over the 2017/18 financial year.

What have we done in 2017/18?

Over the year, we have significantly improved the management of our homes. The activities that have contributed to this priority are detailed below. These initiatives have occurred alongside our everyday business activities like working with the Ministry of Social Development (MSD) to place eligible applicants from the public housing register into Housing New Zealand homes, managing existing tenancies, establishing repayment arrangements with those customers who experience financial hardship, and setting and reviewing market rents.

Optimised the management of vacant land and properties

At the beginning of 2017 MSD and Housing New Zealand signed a variation to the Income-Related Rent Subsidy Agreement, setting up a regime to incentivise faster turnaround time between vacancies in Auckland for applicants from MSD's housing register.

Our vacancy turnaround time in Auckland has continued to improve. We came close to achieving our target of 90 percent, with 88 percent of our properties re-tenanted within 15 days. In April 2018 we also introduced the 15-day target in the Wellington region. Depending on the success of this initiative we may look at extending it to other areas in 2018/19. A six-month review, as provided for in the agreement, is currently being finalised.

Nationwide, the average time for all of our properties between when they became vacant and when they were ready to let again was 19 days, compared with our target of 24 days.

Enhanced our asset strategies and frameworks

Asset Management Strategy

In the first half of 2018 we refreshed our Asset Management Strategy 2018-2028 (AMS) following consultation with the Housing New Zealand Board and Investment Committee, MBIE, the Treasury and MSD.

This ambitious 10-year programme of work will deliver a fit-for-purpose national portfolio of quality homes aligned with priority demand, tenant service levels, property quality standards and the purchasing intentions of MSD. The AMS addresses the maintenance, renewal and growth challenges faced across the Housing New Zealand portfolio.

Increasing the efficiency of our build programmes and investment activities through improved longer-term planning will have direct positive effects on the health, safety and wellbeing of our tenants and their communities.

AMS 2018 reflects several changes in our settings including changes in the:

- settings from Crown Budget 2018 including to the Income-Related Rent Subsidy and Operating Supplements to enable more state housing throughout New Zealand
- trends in demand, for example, fewer sales and increased investment in the regions
- funding envelope as set out in our revised Long Term Investment Plan.

National Asset Management Plan

Over 2017/18 we developed our National Asset Management Plan to support asset management activity and ensure it is aligned with the AMS. This is due for approval in the next financial year.

Our Asset Management Plan provides operational-level guidance on how we will deliver on our AMS for existing homes. It sets levels of service, ascertains gaps in our asset management performance and outlines how these will be addressed through planned asset approaches, activity and budgets. In the next financial year we will be working on developing regionalised asset management plans.

Investment plans

The AMS also sets the direction for capital investment in Auckland, Wellington, Christchurch and regional New Zealand portfolios. We have been working on detailed plans for this investment activity over the 2017/18 financial year. While Auckland is a high development priority for us, we are focusing on expanding our presence in regional areas outside of Auckland and have refreshed our portfolio planning approach to enable this.

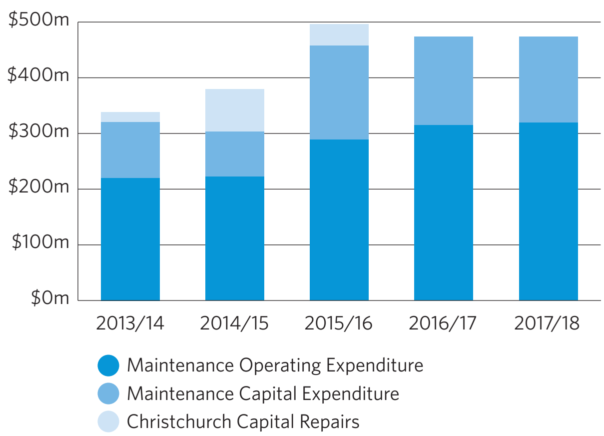
Underneath our investment plans we undertake comprehensive area and master planning, and individual site planning to deliver localised programmes. These will take a comprehensive view of the drivers and asset and service requirements for our customers across a geographical area in collaboration with our stakeholders. Final Investment Plans will be delivered in the 2018/19 financial year.

Maintenance

At Housing New Zealand, we aim to maintain our properties to a good standard to ensure our tenants can be safe, warm and healthy in their homes. We regularly check to see what maintenance is needed, deliver repairs between tenancies and ensure urgent repairs are done as soon as possible. On top of this, we maintain the condition and quality of our properties to increase their expected lifespan and ensure our homes are warm and dry.

Over 2017/18 we completed a total number of 20,830 planned maintenance jobs and 449,900 responsive repairs, and have invested significant resource into refreshing and maintaining our homes for our tenants. We spent $319 million of operating expenditure on maintaining our homes and a further $155 million on capital expenditure on maintenance, upgrades and improvements to our properties, a combined expenditure of $474 million.

Annual expenditure on maintenance



Planned maintenance

Every year, Housing New Zealand carries out a suite of specific, targeted planned maintenance programmes. Out of the total maintenance cost, the percentage of spend on planned activity for the 2017/18 financial year was 68 percent against a target of 69 percent. The target was narrowly missed due to less spending on planned work than budgeted and higher volumes of responsive repairs than budgeted.

Further information on individual programmes is as follows.

Planned programmes of work	2017/18 Actual spend ($m)		
	Operating	Capital	Total
Warm and Dry	4.9	19.5	24.4
Complexes Remediation Programme	5.8	2.8	8.6
Hutt Valley Retrofit	3.0	4.5	7.5
Exterior Painting	43.4		43.4
Roofing Replacements	1.5	17.1	18.6
Boundary Fencing	4.2	1.7	5.9
Driveway Safety	0.6	3.2	3.8

Our Warm and Dry programme

In late 2015 we began a targeted programme to make all properties warm and dry. Since then we have undertaken warm and dry related interventions on over 32,000 properties.

Over 2017/18 nearly 8,500 properties went through the Warm and Dry programme. The programme has largely been completed in Auckland (apart from hard-to-access tenancies); it is expected that the balance of the portfolio for both Auckland and the rest of the country will be completed next year, subject to trade capacity.

Complexes[5] Remediation Programme

We look at the upgrade requirements of our complexes from a whole-of-building perspective. During 2017/18 we targeted work on several of our more significant buildings and completed work on one of our large multi-unit sites in Auckland.

Retrofitting our properties

The Hutt Valley Retrofit programme is a pilot study that sets out to identify a strategy to retrofit existing assets in our portfolio. The Retrofit programme seeks to make the thermal performance of the property as close to the new build standards as possible, and aims to maintain an indoor air temperature in line with the World Health Organization's recommendation.

During 2017/18 the programme completed the retrofit of close to half the properties in the pilot, with the full programme scheduled for completion in early 2018/19. The pilot properties will be monitored closely to help inform a wider programme of retrofitting existing properties that have not been earmarked for redevelopment across the portfolio.

Driveway Safety

Our Driveway Safety programme continues to ensure our properties are safe for young children. The programme includes the installation of fences and gates with child-proof latches at Housing New Zealand properties with young children, as well as speed restriction signs, speed humps and convex mirrors where appropriate. Since the programme commenced in 2013/14 we have delivered driveway safety interventions to over 18,738 properties with 2,570 of those being delivered in 2017/18.

Our responsive repair programme

In addition to our planned maintenance programmes, we provide responsive repairs to our homes where there is component failure, damage, natural causes and fair wear and tear. Responsive repairs are prioritised and then completed by our seven maintenance contractors across 13 contract regions nationwide.

Our target is to respond to all urgent health and safety requests within four hours. The response time for 2017/18 was 2.79 hours, which is a significant improvement on 3.51 hours the previous year. This reflects the efforts of our contractors to ensure response times are well managed.

The increased demand for housing during 2017/18 meant we undertook less work on our vacant properties than anticipated – there were extremely low levels of tenant turnover and record high occupancy levels.

Housing New Zealand **making properties even safer**

Housing New Zealand has further protected and enhanced the lives of tenants this year by continuing to install long-life smoke alarms into our properties, and building secure driveway areas around our homes. Both involve making sure the latest methods and technologies are employed to provide safe areas around motor vehicle accessways for children, and early warnings in case of fires inside houses.

Housing New Zealand's Chief Operating Officer, Paul Commons, says it has been a successful partnership with Fire and Emergency NZ, who fully endorse our smoke alarm upgrade programme.

Mr Commons says the Driveway Safety programme that began in 2013 aims to reduce the risk of children being run over in the driveways of state homes, by separating play areas from driveways and ensuring play areas are directly visible and accessible from main living areas.

This programme and its values have been warmly supported and commended by Safekids Aotearoa.

Mr Commons says Housing New Zealand takes the health and safety of its tenants and their families seriously and these improvements again demonstrated that philosophy.

6. Complexes are multi-unit buildings and apartment blocks.

Property condition assessments

As part of our Asset Management Strategy, we assess the condition of our portfolio on a regular basis to monitor and maintain the essential components of our properties such as roofs and exterior walls, and to maximise the lifespan of our homes.

Assessing and monitoring the condition of our homes enables us to:

- determine what corrective action is required and schedule this as needed
- forecast the investment in our portfolio more accurately
- ascertain the reasons for performance deficiencies in our properties
- record property condition issues to guide asset management planning and decisions.

Assessments of our portfolio are carried out through desktop assessments or physical surveys of our homes using the New Zealand Asset Management Support (NAMS) Asset Condition Scale to determine the condition of our properties. The table below shows the grading in this scale.

Grade	Condition	Explanation
1	Excellent	Sound physical condition; no work required
2	Good	Acceptable physical condition; minimal short-term failure risk; only minor work required (if any)
3	Average*	Some deterioration evident; failure unlikely in near future
4	Poor	Failure unlikely in the short term; substantial work required in short term
5	Very Poor	Failed or imminent failure; major work or replacement required urgently

* Each component was rated 1-5. Where the average of the components for a house was under 3.5, the house was deemed to meet the baseline standard.

The information gathered in these assessments guides asset lifecycle decisions and informs planning renewal programmes to ensure that house components are maintained or replaced before they fail.

In 2017/18 our desktop assessments covered 58,432 properties and we physically surveyed over 1,600 properties across Auckland, Christchurch, Dunedin, Hamilton, Wellington and Whangarei. The desktop assessments showed an average condition grade of 2.46 and the physical surveys recorded an average condition grade of 2.33 compared with 2.44 and 1.68 recorded the previous year, respectively. The results reflect refinements in our approach and improved training for surveyors, enabling them to determine the condition of property components more accurately.

Overall the assessments also show little change in the condition of our portfolio over the previous year, with 90 percent of our homes meeting the baseline condition standard.[6]

7. The 2016/17 values have been restated using the improved model which more accurately reflects actual condition.

Priority Four

Increase our understanding of our customers and put their needs at the centre of our decisions

Why is this a priority?

As we shift to become a world-class public housing provider, enabling our customers to live well in their homes and communities is at the heart of our activities. Increasing our understanding of customers and their needs is one of our most important strategic priorities, as it is essential for us to deliver better, fit-for-purpose services and homes now and in the future. Our customer-centric approach requires us to increase our customer knowledge, and tailor support to help our customers sustain their tenancies and, where appropriate, reach housing independence.

Our strategic priority to increase our understanding of our customers, and put their requirements at the centre of our decisions, is based upon the Government's desire to actively invest in new ways of working to drive better outcomes for all New Zealanders.

What have we done in 2017/18?

Over the year we have been continuing our efforts to provide better customer care and improve wellbeing outcomes for all occupants of our homes.

We adopted a new focus on Sustaining Tenancies in 2017/18 after testing this initiative in partnership with MSD in January 2017. This new focus was put into action with the launch our new Customer Programme, an umbrella under which we have been progressing various customer initiatives to give our customers access to the support they need, to sustain tenancies and live stable lives with dignity.

Developed an overarching customer programme

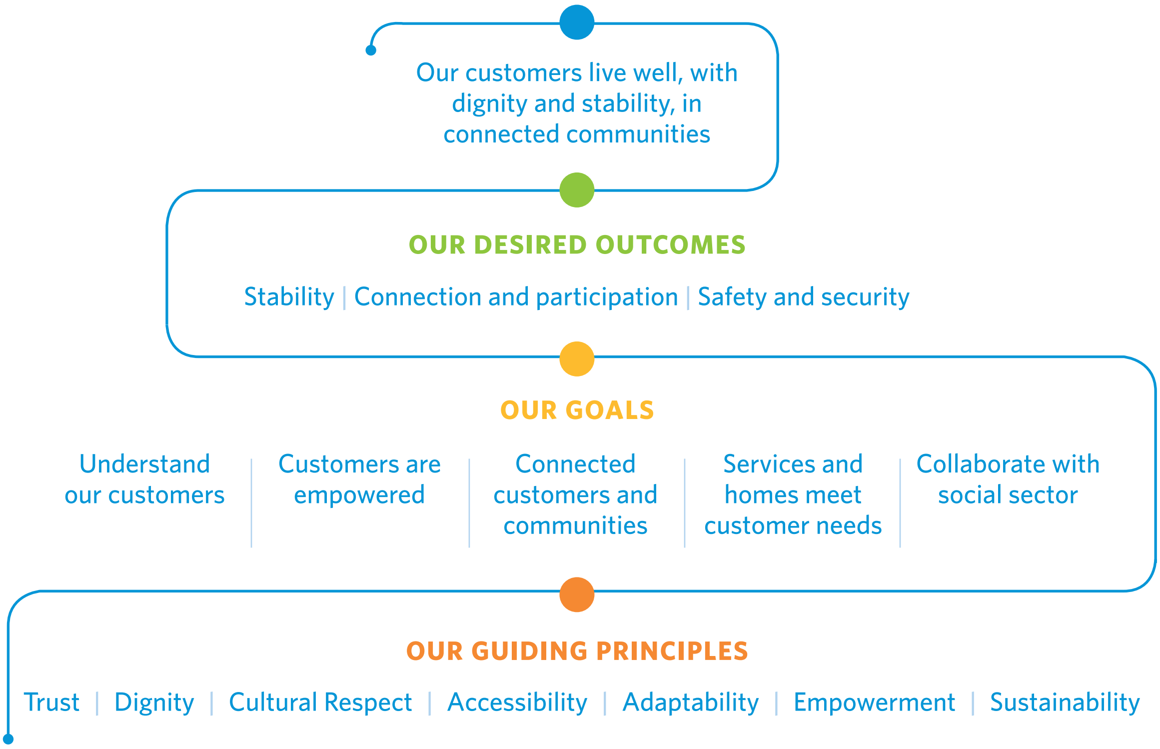
Customer Strategy

We want to be a great public housing landlord, and this means we need an operating model that is deliberate, compassionate and focused. In 2017/18 we began developing a comprehensive Customer Strategy as the foundation to our Customer Programme. The Strategy will improve our understanding of our customers and their needs and place them at the centre of our decision-making and operational policy settings.

Our vision for the Customer Strategy is simple: Our customers live well, with dignity and stability, in connected communities. Our customer vision is supported by the:

- outcomes we are striving to achieve, which drive our service levels and investment decisions
- goals behind our decision making and outputs
- guiding principles underpinning our behaviours
- commitments to our customers and the sector – to provide clarity about this transformational shift in our service.

The Strategy will inform, and is informed by, our Asset Management Strategy so we provide homes of the right type and deliver improved outcomes for our customers. Housing New Zealand's Board was due to consider a first draft of our Customer Strategy in August 2018. The Minister will receive updates on the development of the Strategy by December 2018, along with the outcome of our Service Delivery Model Review.



Service Delivery Model Review

We have been reviewing our Service Delivery Model over 2017/18 to ensure our services are operationally efficient and meet customer needs. As part of this review, we have held focus groups and interviews across the country to help us understand how we can best support staff to adopt our new Sustaining Tenancies policies. The Service Delivery Model Review and its recommendations were due to be presented to the Housing New Zealand Executive Team in September 2018.

Intensive tenancy management

Over 2017/18 we have been developing an Intensive Tenancy Management (ITM) function to provide better support for the 5 percent of customers identified as most at risk of poor wellbeing outcomes. It will enable increased contact, so we can build better relationships and readily respond to the rapid changes that can occur in their lives.

ITM will be a specialised navigation service, connecting those tenants we identify as having the need for targeted support to specialist service providers in order to live well in our homes. We have been putting the right tools and people in place to support the introduction of this service, and have developed a robust evaluation process to review the effectiveness of the service, particularly for our customers.

Supported Housing

The term 'Supported Housing' refers to housing customers who receive intensive support to live in their homes, such as through our Community Group Housing model. Demand for Supported Housing is increasing, so we are looking at how it can provide better outcomes for those with specific housing and support needs. The results of the review are due towards the end of 2018.

Improve accessibility and respond to mobility-related needs

At Housing New Zealand we understand the importance of physical accessibility of homes for people who have disability- and mobility-related needs. Where possible we incorporate mobility considerations for building new homes as well as for redevelopment.

For new builds, we have 'accessible units' as a type of standardised design specifically with mobility-related needs in mind. In these cases, we try to ensure easy access for the person to the bathroom and other amenities in the house. We anticipate the need for more accessible units to grow in future. We have 'accessible unit' design for three-plus, four-plus and five-plus bedroom units in Auckland and for three-plus bedroom units in the rest of New Zealand.

For existing homes, we identify modification needs of the properties including responding to mobility-related requirements, for example modification application and plans submitted by disability support agencies, to offer tenants more bespoke support.

Reviewed our operational policies

To create meaningful change we need to be a more empathetic landlord, so we are currently modifying some of our policies and practices. This includes changes to the following areas:

Pets

Pets have benefits for our customers, particularly for the tamariki in our homes and for customers who live alone. We have moved to a more permissive approach to pet ownership and now allow customers to have a pet in their home subject to certain conditions, such as the property being appropriate for their pet. Our Pets Policy was developed with considerable input from customers, staff, contractors and other stakeholders like the SPCA, and we provided nationwide training for staff and made changes to support their health and safety.

Drugs and addiction

We view drug use as primarily a health and addiction issue, and are currently developing a policy that supports our customers rather than penalising them. The connections we are building with addiction and counselling services will help support our customers to sustain healthier and more stable lives.

We adopted a more tenant-focused approach to drugs and addiction in 2017/18, and stopped ending tenancies for meth contamination in January 2018.

We are focused on the health and wellbeing of our tenants and we intend to provide increased support to people experiencing addiction and drug-related harm.

Housing New Zealand's stance on methamphetamine

In June 2018 we began working on, and in September we released, our report *Methamphetamine Contamination: Housing New Zealand's Response*. The report looked at whether and to what extent tenants were unfairly treated, why we applied the procedures we did, what procedures existed to determine and review our policies and what assistance may be appropriate to address unfairness. The zero tolerance approach previously taken by Housing New Zealand was wrong and had a range of poor outcomes for tenants and their families. Housing New Zealand has apologised to those tenants and their families who had their lives disrupted. The report shows that our approach to meth management developed and changed over the last 15 years as a result of changes in science, legal decisions and policy priorities.

Our focus now is on applying the learnings of the report. We are committed to working with tenants who may have experienced poor outcomes due to our past processes and policies. We have set up an assistance programme for affected tenants. Steady and deliberate change has been underway to our policies and practices to improve the outcomes for the people we house, both now and in the future. We understand the importance of a home in the lives of our tenants and the stability it provides.

Preplacement interviews

We have introduced a new approach to placing our tenants. Our staff now engage in more comprehensive discussions with potential or existing tenants before placing them in a new home, so they can get an in-depth understanding of the type of home and services the tenant needs and closely match them to the place that is right for them.

The benefit of pets

The cuddles flow and the affection between Beverley and her pet dog is genuine.

The Christchurch Housing New Zealand tenant adores her Chihuahua Sassi and is grateful she is allowed to keep her in her home.

Earlier in 2018 Beverley's beloved dog passed away, leaving her "heartbroken".

After a week, she was asked if she wanted to consider adopting a dog from the local rescue shelter.

She took eight-year-old Sassi home and the pair started to form a strong bond. They are now inseparable. "She's great company and companionship for me. I wouldn't be without her."

Beverley takes her everywhere she goes and believes the chance to own Sassi is incredibly beneficial. She greatly appreciates the opportunity Housing New Zealand gave her to keep a dog in her home.

Housing New Zealand Chief Operating Officer Paul Commons visited Beverley and Sassi and was also impressed with the bond the pair have formed and the benefits Beverley gets from having a pet in her home.

Engaged with communities and listened to our customers

Community development

In July 2017 we adopted a new Community Development Framework. This provides guidance for all community development activities associated with new Housing New Zealand homes, and recognises the need to look at community development on a suburb-wide basis rather than site by site.

Over the year we held and participated in community events throughout the country that promoted customer wellbeing and safety, and community building, partnering with various community stakeholders to help support community activities. Through these events we aim to be socially inclusive and provide a forum to communicate with communities and customers about our redevelopment plans.

Redevelopment surveys

Over the 2017/18 year we began developing an online survey tool to improve the way we collect and use the information our customers provide. We survey our customers once they have been settled in their new home for three to six months, to understand what we are doing well, what we could do better and what is needed to make our redevelopments meet our customers' needs. In response to the surveys, we have made changes to the way we deliver new homes.

Customer satisfaction

Through the year we randomly surveyed approximately 2,000 of our customers to ask about their experience as a tenant with Housing New Zealand. Seventy-six percent were satisfied with the services we provide, an improvement on the previous year's result of 75 percent. Seventy-nine percent of these customers were satisfied with their Housing New Zealand home, which has fallen slightly compared with the previous year's result of 82 percent. Our target is 85 percent of our customers being satisfied with the services and homes we provide by 2021.

We still have room to improve our customers' satisfaction and as part of our Customer Programme we are reviewing our Service Delivery Model to make sure the ways we help our tenants are fit for purpose. The refresh of our Asset Management Strategy will also be key to improving our customer satisfaction with our homes.

Our Customer Services Centre

Our Customer Services Centre (CSC) is often the first point of contact for our customers. Our contact centres in Manukau and Porirua provide our customers with a freephone service for tenancy, repairs and maintenance, and account queries and advice on a broad range of Housing New Zealand programmes.

We have made several improvements to our customer service this year, and were recognised as the Overall Best Customer Experience Organisation for 2018 in the Australian Customer Experience Management Excellence Awards programme in May 2018. These improvements include:

- making it easier for our customers to manage their tenancies over the phone by utilising our call recording technology for consent and privacy waivers that would traditionally require paper and signatures
- improving our ability to recognise, authenticate and prioritise our customers who call our CSC
- improving our maintenance complaints and finalising accounts processes, reducing processing times and the backlog of work in these areas
- holding several workshops with tenants on their experiences when logging maintenance work to better understand the areas where we can improve our customer service
- continuing to invest in our Customer Services Centre, by improving our induction and training programmes, enhancing our people's knowledge of the wider business, and delivering a more proactive, planned and cyclical recruitment programme.

During 2017/18 our CSC received 745,643 calls, 85.3 percent of which were answered within our target time of four minutes. We have seen a significant reduction in customer wait times in the past 12 months, halving the number of abandoned callers and reducing our overall calls offered by 15 percent. We have also reduced the maximum customer wait time significantly to a third of last year's value, which resulted in a 20 percent saving in our toll costs.

We surveyed a random number of these customers to find out their level of satisfaction with the service they had received over the phone. Eighty-three percent of customers surveyed were satisfied with the service provided by our CSC, exceeding our target of 80 percent. In the next financial year we will raise our targets for both responsiveness and customer satisfaction from our CSC in order to drive even better customer service results.

Driving out **the winter blues**

The Porirua Customer Services Centre's 2018 Winter Drive has made a huge difference to improving the winter of those in urgent need.

Following their successful 2017 Christmas Toy Drive, the Porirua CSC has once again stepped up and banded together to help support members of Whare Manaaki Emergency Housing with a 2018 Winter Drive.

Organised by the CSC Support Report team, Ime, Stephen and Malia, the aim of the Winter Drive was to provide winter essentials such as blankets, warm clothes and pyjamas to the families that arrive at the emergency housing units. Families using these units often arrive with nothing but the clothes they are wearing.

The drive was going to require some funding and, recognising Samoan Language Week as an opportunity to fundraise by offering tasty Samoan meals (Samoan Koko, Sapasui and Alaisa, Oka, and Pani) to their CSC colleagues, the Quality Analysis team managed to raise $616 towards the cause.

The CSC was asked to donate any and all pre-loved clothes, blankets, PJs and anything warm. The initiative was warmly (excuse the pun) embraced and supported by all those involved and many contributions were made. Thanks to their generosity many families seeking help from Whare Manaaki will remain warm this winter.

Eight boxes full of blankets, clothes, shoes, appliances and toys were collected and the funds raised from Samoan Language Week ensured that a total of 24 children ranging in ages from 14 months to 19 years each received a parcel that contained:

- pyjamas
- singlet
- underwear
- socks
- slippers
- toothbrush
- hot water bottle

Priority Five

Use our experience to influence the performance of the housing sector

Why is this a priority?

As the largest residential landlord in New Zealand, we have a big part to play in helping the sector grow and succeed. Our scale and expertise can be used to support the government in its development of housing strategies. We also have a leadership role to champion best practice in the housing sector, and inspire shared learning and collaboration with other public and community housing organisations. Demonstrating best practice in managing our homes also allows us to showcase leadership and boost the overall capability of the public housing sector of New Zealand.

What have we done in 2017/18?

The arrival of the new government in late 2017 brought greater emphasis on delivering a significant increase in properties as well as the end of the Social Housing Reform Programme and stock transfers. We have been focusing on demonstrating best practice in our business activity in an effort to drive better performance of the New Zealand housing sector, and working with our key stakeholders to foster stronger relationships and opportunities for collaboration.

Collaborated with other agencies and groups to improve outcomes

Cross-agency collaboration

Strengthening our relationships with agencies that play a key role in many of our tenant communities will allow us to deliver better outcomes for our customers and demonstrate best practice in the New Zealand housing sector.

Over the year we:

- signed a new Memorandum of Understanding (MOU) with Fire and Emergency New Zealand
- started developing several other MOUs with organisations, including the New Zealand Police, the new Oranga Tamariki – Ministry for Children, and the Mental Health and Addictions team within the Ministry of Health
- signed a new relationship agreement with the Department of Corrections
- engaged with Homecare Medical to deliver the Ministry of Health-funded national telehealth service ‘1737’ to our tenants.

Improving outcomes for Māori communities

We have a diverse cultural and ethnic customer base and a significant proportion of our customers identify themselves as Māori. We have been working over the year to improve outcomes for our Māori customers and the whānau who live in our homes.

We have been continuing to work with Te Puni Kōkiri on a programme called Te Ara Mauwhare – Pathways to Home Ownership, to trial a number of innovative proposals to ensure better housing outcomes for Māori.

During the year the Auckland-based hapū Ngāti Whātua Ōrākei came to an agreement with Housing New Zealand to purchase the first of five blocks of land near the Ōrākei marae. The purchases will help to influence and enhance the surroundings and access points to the hapū’s papakāinga landholdings and the Whenua Rangatira, which, in turn, will enable Ngāti Whātua Ōrākei to develop further opportunities for affordable rentals and home ownership in the area.

We have been closely collaborating with Te Tihi o Ruahine Whānau Ora Alliance, a Māori navigator service delivery organisation tasked with providing better outcomes for Palmerston North resident whānau. Housing New Zealand continues to foster a close collaboration with Te Tihi through the Kāinga Whānau Ora pilot for whānau living in our homes – to develop and improve whānau opportunities for education, training, employment and support to enrich family relationships.

We are also actively working with agencies to address the key barriers faced by whānau and rōpū who wish to build papakāinga or individual homes on Māori land, and potential approaches to addressing these, including improving the operation of Kāinga Whenua loans.

We have continued to engage positively with iwi over 2017/18. As part of our standard divestment activities we consider how we give effect to iwi interests, particularly where there is a right of first refusal over Housing New Zealand land.

Urban marae partnership **builds community spirit**

A partnership between government agencies and Māori saw a new marae-based housing development in Christchurch come to life in early 2018.

At New Zealand's only national urban marae, Ngā Hau e Whā, in Aranui, families are living in six three-bedroom houses on the marae grounds. The houses will provide transitional support for people in need of an interim home.

It was the first government-funded marae housing development in the South Island in years, with the $3.097 million construction cost shared between Housing New Zealand, Te Puni Kōkiri and the Rātā Foundation.

With the added support of the wider Aranui community, the completion of the project provides whānau with warm, dry and safe homes.

General Manager of the marae Norm Dewes says the project embodies the Ngā Hau e Whā vision of being a marae for all nations, all Māori, all people, exclusive of none.

"We've got grandparents raising their grandchildren, former women prisoners reintegrating into society, people with disabilities and kaumātua here with us.

"We know who's coming in. We've selected tenants who are a good fit. If they have nowhere to go, they can stay here for a while. Just to get a good start," he says.

Tenants can access wrap-around social services delivered onsite including budgeting advice, parenting classes and driver licensing. Each home features double-glazing and full insulation and is designed to capture maximum natural light.

Research

Housing New Zealand is part of a wider and more complex housing system, which has seen significant change over the last year, including policy and regulatory change, as well as the change in demand for public housing across the country. To ensure we are well equipped to deal with these changes, we undertake regular scanning and analysis of the external environment and housing market.

To support innovative research in the housing sector, we have been in discussions this year with the National Science Challenge 11 – Building Better Homes, Towns and Cities – Ko ngā wā kāinga hei whakamāhorahora, to assist with the development of the second tranche of research themes for this MBIE-funded research programme.

The recommendations from this meeting will go to MBIE as part of their review in July 2018. We have also engaged with Scion (NZ Crown Forest Research Institute), and the Building Research Association of New Zealand over 2017/18.

Partnered with the community housing sector

To support the growth of the community housing sector, we created a new role in 2017/18 in our Communications and Stakeholder group that will focus on building a collaborative relationship with both Community Housing Aotearoa (CHA) and the wider community housing provider sector. By working with the sector's peak body in these areas we will use our experience, leverage and skills to increase the capacity and capability of the wider housing sector to deliver and manage public housing.

Contracting with MSD

In June 2018 MSD started engaging with Housing New Zealand and other public housing providers on a new contract framework. This underpins MSD's role in purchasing income-related rent subsidy (IRRS) places, as part of the Ministry's strategic partnering approach. During this process, Housing New Zealand has an opportunity to participate in discussions on the structure for public housing provider contracts with MSD.

Led best practice in the housing sector

Affordable housing

We have been leading the way in the development of KiwiBuild products and standardised designs, by engaging the thinking about and demonstrating advances in affordable housing with the wider housing market. Our first KiwiBuild development is currently underway at the McLennan development in Papakura, Auckland, and we will continue to support the Government's programme in this area over the next financial year.

Health and safety

During 2017/18 we have continued to demonstrate best practice in health and safety to the housing sector. Housing New Zealand has been involved in the Health and Safety Government Leadership Group. As part of this we participated in the Unleashing the Power of Engagement programme, in which a Housing New Zealand representative won a national award for their role in supporting their colleagues onsite. We also participated in the inaugural Government Health and Safety Intern programme, and have collaborated with other government agencies in sharing processes and programmes of work related to health and safety.

Healthy Homes Guarantee Act

During 2017/18 we collaborated with MBIE and gave input into the Healthy Homes Guarantee Act. The legislation was enacted in December 2017 to ensure all rental homes in New Zealand meet minimum standards for heating, insulation, drainage, ventilation, moisture ingress and draught-stopping. Housing New Zealand has been supporting MBIE as it develops its regulations, which will have benefits for the whole of the housing sector.

Committed every day

We deliver programmes and initiatives on behalf of the Crown

We deliver a range of Crown products to improve housing affordability and help people (more than 17,000 in 2017/18) into home ownership. We also offer our own housing affordability products, including the FirstHome grant, tenant home ownership and the Axis Series homes scheme at Hobsonville Point.

During 2018/19 we will be looking at ways to make people more aware of and able to access the housing affordability products we offer. We are committed to further integrating these offerings into our new housing developments.

HLC (2017)

HLC is a subsidiary of Housing New Zealand originally set up to undertake a large-scale development at Hobsonville Point on the Waitemata Harbour on behalf of the Crown. HLC's role has expanded to include leading other large-scale developments on behalf of the Crown, and delivering the master-planning and land development aspects of Housing New Zealand's Auckland Housing Programme. It now has sites that will yield a total estimate of 34,540 homes under masterplan and master development (23,040 under AHP; 4,000 under Hobsonville Point; 7,500 under TRC). Housing New Zealand will deliver 9,843 state homes on this land. The balance is 8,459 affordable homes; 11,538 market homes; and 4,700 affordable and market homes in partnership with Tāmaki Regeneration Company.

In 2017/18 HLC:

- delivered 42 state houses in Northcote under the Auckland Housing Programme
- delivered 403 houses in Hobsonville Point including 99 affordable homes
- achieved the contracted revenue of $52.51 million for market land sales at Hobsonville Point

- completed the initial master-planning work for Mangere and Mt Roskill and facilitated the approval of the first stages of development
- worked hard in these local communities to establish rapport and strengthen HLC's social licences to operate.

HLC has now firmly established itself as a large-scale master development agency that is partnering with Housing New Zealand and the Crown to deliver builder-ready land for state, KiwiBuild and market housing.

Crown products we administer

Loans and grants

Welcome Home Loans

We support Welcome Home Loans by providing participating lenders with lenders' mortgage insurance. Welcome Home Loans are designed for first home buyers who can afford to make regular repayments on a home loan, but have trouble saving for a large deposit.

During 2017/18 we processed 1,674 loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme, compared with 1,381 during 2016/17. Demand for Welcome Home Loans increased steadily as the 2016/17 year progressed, with an annual increase of 21 percent compared with the 2016/17 year.

Kāinga Whenua loans

We also work with Kiwibank to help Māori to achieve home ownership on multiple-owned land, by providing lenders' mortgage insurance through the Kāinga Whenua loan scheme. To date we have settled 37 Kāinga Whenua loans, a further eight are in the process of being drawn down and another eight have received pre-approval.

KiwiSaver HomeStart

The KiwiSaver HomeStart grant was introduced by the Government in April 2015 and replaced the KiwiSaver Deposit Subsidy. During 2017/18 we received 36,414 KiwiSaver applications and approved 17,699, compared with 31,731 KiwiSaver applications received and 16,712 approved during 2016/17. We paid out $81.2 million in KiwiSaver HomeStart grant payments, compared with $75.3 million in 2016/17.

Grant applications and payments have increased consistently since the KiwiSaver HomeStart grant scheme was launched in April 2015. Demand for the grant has been significantly higher than for the KiwiSaver Deposit Subsidy it replaced.

Housing New Zealand affordability products

Tenant Home Ownership and FirstHome grant

We will offer our tenants the option of buying the house they are living in and this year we sold 49 homes under this scheme.

Eligible tenants outside Auckland, Wellington, Christchurch, Hamilton and Tauranga are able to access the FirstHome grant of 10 percent of the purchase price of selected Housing New Zealand houses up to a maximum of $20,000. This grant is available nationwide but excludes areas of significant high demand for our rental properties.

Community Group Housing

We rent some of our homes to government-funded community groups that provide specialist services like long-term residential care, and transitional housing, to people with specific needs. We have 1,492 homes that are part of the Community Group Housing programme, providing 5,119 bedrooms across approximately 203 groups. We also currently provide rent support to 597 of these providers through the Community Housing Rent Support appropriation. During 2017/18 the programme added 45 properties to the Community Group Housing portfolio through either new builds (three properties), buy-ins (18), or renewed/re-signed leases (24). These homes were provided to six different community groups across the country.

Legislation and functions

Policy settings

The Government's expectations and objectives for Housing New Zealand in 2017/18 were originally set as per detailed in our Statement of Intent 2017-2021. In October 2017 we had a change of government, which brought new mandates for Housing New Zealand.

The new policy settings confirmed the strategic objectives of Housing New Zealand in terms of housing delivery at pace and scale, and better care for our customers. However, two items have been stopped.

These are: stopping stock transfer and stopping the delivery of the Social Housing Reform Programme.

We have been working closely with the Government into 2018 towards the following objectives and expectations, and will continue to do so in the next financial year.

Crown social objectives for housing in 2018/19

The Crown identified the following social objectives for housing and services related to housing by Housing New Zealand in 2018/19:

- Addressing the shortage of housing to ensure that those most in need get access to appropriate services and support
- Providing good quality housing that is warm, dry and healthy to live in across New Zealand, in a cost-effective way. This includes upgrading and managing the portfolio to ensure it remains fit for purpose
- Assisting tenants to sustain their tenancy for the time they require public housing, supporting tenants to be well connected to the communities in which they live, and facilitating a transition into housing independence where appropriate
- Providing affordable and other housing in areas of high housing shortages, including undertaking urban development and building social amenities and other facilities necessary to support the communities that will live in the housing
- Aligning asset and tenancy management decisions with the Ministry of Social Development's contracting framework and purchasing strategy
- Supporting the Government's housing policy goals by working with Government on any restructure of housing responsibilities in the public sector and the design and delivery of KiwiBuild.

Letter of Expectations 2018/19

The Minister's expectations for Housing New Zealand for the 2018/19 year include to:

- increase state, affordable and market supply of housing, in both Auckland and the rest of the country
- achieve KiwiBuild outcomes for affordable housing through working with the KiwiBuild Unit in the Ministry of Business, Innovation and Employment
- support the delivery of housing through the use of longer-term contracts
- reduce build cost and promote innovation
- work with other agencies to identify and deliver urban development opportunities
- take a tenant-focused approach to tenancy management and partnerships and develop appropriate service models
- only sell properties where it is necessary for a redevelopment, where sale proceeds for a high-value property can be reinvested in new state housing, or where the cost of bringing the property back to service is uneconomic
- provide the Minister with advice on a sustainable funding strategy for Housing New Zealand
- work closely with the Government and relevant agencies to develop advice on any restructure of the delivery of public housing and the Government's other housing functions.

Business structure

We are a Statutory Corporation (Crown entity as defined by the Crown Entities Act 2004). The relevant legislation governing our operations and our subsidiaries (the HNZC Group) is the Crown Entities Act 2004, and the Housing Corporation Act 1974 (as amended). Our ultimate parent is the New Zealand Crown.

The core business of the HNZC Group is to give effect to the Crown's social objectives by providing housing, and housing-related services, in a business-like manner, to people in need for as long as that need exists, and to ensure the Minister Responsible for Housing New Zealand and the Minister for Social Housing, the Minister for Building and Construction and the Minister of Finance receive appropriate information on social housing and our operations.

The registered office of Housing New Zealand Corporation is Level 10, 80 Boulcott Street, Wellington. We and our subsidiaries are designated public benefit entities (PBEs), defined as "reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders".

The financial statements for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Board members on 30 October 2018.

How we work

Our organisation has two main delivery arms – our People and Property Group, which brings together our tenancy, maintenance and property ownership functions; and our Asset Development Group, responsible for redeveloping, purchasing, leasing and divesting our homes.

Our People and Property Group works closely with our contractors to maintain good quality homes, and to support our tenants to live well in them.

The focus of our Asset Development Group is on delivering well-designed, good quality homes in areas where they are needed and ensuring that those houses will remain fit for purpose for our future tenants.

Our delivery arms are supported by our Strategy; Finance and Performance; People, Technology and Change; Governance, Communications and Stakeholders; and Business Innovation and Development functions.

Responsible Ministers

We have two responsible Ministers:

- Hon Phil Twyford: Minister Responsible for Housing New Zealand and Minister of Housing and Urban Development
- Hon Jenny Salesa: Associate Minister of Housing and Urban Development

The Minister Responsible for Housing New Zealand conveys the government's expectations to Housing New Zealand and has direct responsibility for Housing New Zealand. As Minister of Housing and Urban Development he also has responsibility for key areas of government policy including the overall housing strategy, public and social housing, housing and rental market performance, and housing supply, quantity and affordability.

The Associate Minister, as delegated by the Minister of Housing and Urban Development, is responsible for operational issues relating to public and emergency housing, temporary accommodation services and Special Housing Areas. As Associate Minister of Housing and Urban Development she also has responsibility for housing responses for Pacific peoples and groups with particular needs, as well as relationships with community housing and emergency and transitional housing providers and the implementation of Housing First initiatives.

The primary relationship between the government and Housing New Zealand is between the Minister Responsible for Housing New Zealand (the Minister of Housing and Urban Development) and Housing New Zealand's Board.

Legislation

Our Governance Framework is based on two key pieces of legislation. The first is the Housing Corporation Act 1974, which prescribes Housing New Zealand's functions and objectives and in particular requires it to be responsible for giving effect to the Crown's social objectives.

The second is the Crown Entities Act 2004. This Act defines Crown entities and sets out the rules that govern them, similar to the way the Companies Act sets out the rules that govern companies.

The Housing New Zealand Board

The Housing New Zealand Board is responsible and accountable for managing the organisation and setting our strategic direction.

At 30 June 2018 the Board was made up of seven non-executive members, who are appointed for a fixed term, with the possibility of further reappointment.

- Adrienne Young-Cooper (Chair)
- Vui Mark Gosche (Deputy Chair)
- John Duncan
- Michael Schur
- Mark Ratcliffe
- Sandra Alofivae
- Peter Dow

Accountability

The Minister Responsible for Housing New Zealand provides us with an annual letter outlining their expectations. This guides the development of our Statement of Intent, which is tabled in Parliament. The Statement of Intent and the annual Statement of Performance Expectations set out what we intend to deliver and are the primary sources from which Parliament and Ministers are able to hold us to account. The Ministers' formal line of accountability with Housing New Zealand is through the Board. The Board selects, appoints and monitors the performance of the Chief Executive, Andrew McKenzie, who is responsible to the Board for the efficient and effective running of Housing New Zealand.

Executive Team

The Executive Team comprises the Chief Executive, Andrew McKenzie, and General Managers from the eight business groups: People and Property; Asset Development; Strategy; Finance and Performance; Governance (also Deputy Chief Executive); Communications and Stakeholder Relationships; People, Technology and Change; and Business Innovation and Development.

Delegations

The Housing New Zealand Board delegates various authorities to the Chief Executive, including the specific power to further delegate his or her authority. We operate a financial delegations framework that allows individuals to carry out their role and function. The framework provides a check and balance to ensure transactions that are of an exceptional nature, or are deemed to exceed a level of risk, are first approved by someone with the appropriate expertise, authority and experience. The Board delegates levels of authority to the Chief Executive and Housing New Zealand managers.

Conflicts of interest

The Crown Entities Act 2004 and Companies Act 1993 require a mechanism for the full disclosure of potential, perceived and actual conflicts of interest. A conflict of interest register is maintained and is visible to Board members. Conflicts of interest are a standing agenda item for all monthly Board meetings. Robust conflict of interest processes also exist for Housing New Zealand employees and contractors.

Remuneration

Remuneration for Board members was reviewed by the Cabinet Appointments and Honours Committee, with rates set effective 1 November 2015.

Induction and development

All Board members receive, on appointment, training and guidance on their duties, responsibilities and key Housing New Zealand policies and procedures.

Risk management

We recognise that risk management is integral to good corporate governance and management. Risk management activities include identifying new and emerging risks and reporting quarterly to the Board on key risks and our work to mitigate these.

Internal audit

The effective operation of the Internal Audit function is an integral part of Housing New Zealand's governance framework. It provides assurance and consulting services designed to add value and improve the organisation's operations. We are committed to a systematic, disciplined approach when evaluating and improving our control environment.

NZBN

A key compliance project currently underway for Housing New Zealand is the NZBN (New Zealand Business Number) Project, which was initiated 1 July 2018. The project is responsible for ensuring that Housing New Zealand meets its requirements under the NZBN legislation by 31 December 2018. An NZBN is a globally unique 13-digit identifier available to all businesses in New Zealand and is designed to create a highly connected and transparent business environment.

The project is progressing to schedule and will ensure NZBN is embedded within our day-to-day activities. The project has a committed governance structure in place to monitor and support the project to deliver on its agreed outcomes, and a project team which regularly engages with the external NZBN Project team (based in MBIE) for guidance on implementing NZBN within Housing New Zealand and meeting the legislated requirements.

Consultation with the Minister

As a Crown entity with $26.7 billion in state rental assets, we regularly engage with the Minister Responsible for Housing New Zealand and the Minister for Social Housing, the Minister for Building and Construction, Housing New Zealand's monitoring agencies, the Treasury, and the government's purchaser of social housing and the Ministry of Social Development. During 2017/18 we reported quarterly to the Minister Responsible for Housing New Zealand on:

- performance against all the main financial and non-financial performance measures set out in the Statement of Intent and Statement of Performance Expectations
- organisational capacity and capability. We also provided advice, reports and information to Ministers throughout the year and worked closely, and in consultation, with other government agencies.

Progress on Statement of Intent commitments

Customers satisfied with our customer services

Purpose	Measure	Target	Actual 2016/17	Actual 2017/18	Comment
Our services meet the needs of our tenants	The percentage of our customers who are satisfied with the services we provide	85% by June 2021	75%	76%	We still have room to improve and, as part of our Customer Programme, we are reviewing our Service Delivery Model to make sure the ways we help our tenants are fit for purpose.

Homes let

Purpose	Measure	Target	Actual 2016/17	Actual 2017/18	Comment
We optimise the management of our homes	The percentage of homes that are let	98% by June 2021	97.2%	98.2%	Target of 98% has been achieved ahead of time through our focus on the strategic priority to optimise the management of our homes.

Alignment of portfolio additions with the Ministry of Social Development purchasing strategy

Purpose	Measure	Target	Actual 2016/17	Actual 2017/18	Comment
We deliver the right volume supply of quality social housing in the right place and matched to customer needs, and we renew our existing portfolio of homes	Total number of net additions by TLA and typology where MSD has indicated an increase in existing or additional IRRS places / Total number of net Housing New Zealand additions to portfolio	90% or more by June 2021	91.3%	98.1%	Results based on Housing New Zealand's net additions by Territorial Local Authority and typology in areas where the Ministry of Social Development indicated an increase in its purchasing strategy.

Average age of our stock

Purpose	Measure	Target	Actual 2016/17	Actual 2017/18	Comment
We renew our portfolio	Average age of our homes	44 years by June 2021	45	45	We continue to renew our asset portfolio through redevelopment, retrofit and complex remediation projects.

Homes meet tenant bedroom requirements

Purpose	Measure	Target	Actual 2016/17	Actual 2017/18	Comment
Our homes are matched to our customers' needs	Homes meet tenants' bedroom requirements	>76% by June 2021	76%	76%	We strive to ensure our homes will meet tenants' bedroom requirements by delivering more new one- and two-bedroom homes to tenants who need them and transferring tenants to the matched homes.

Customers satisfied with their home

Purpose	Measure	Target	Actual 2016/17	Actual 2017/18	Comment
Our homes meet the needs of our tenants	The percentage of our customers who are satisfied with their Housing New Zealand home	85% by June 2021	82%	79%	The coordinated efforts to improve our understanding of our customers and their needs through our Customer Strategy and the Asset Management Strategy, and the review of our Service Delivery Model will be key to improving our customers' satisfaction with their homes.

Homes meet or exceed the baseline standard

Purpose	Measure	Target	Actual 2016/17	Actual 2017/18	Comment
Our homes meet the needs of our tenants	The percentage of surveyed lettable properties that meet or exceed the baseline standard[1]	95% by June 2021	90%[2] (82%)	90%	We are continuing to use our Property Condition Assessment Framework to assess and measure the condition of our portfolio. We use the results of this assessment to inform our maintenance programmes and ensuring the properties below the baseline standard are included in current planned programmes.

1. The baseline target for this measure has been set at 3.5 or less.
2. To report comparable results, the 2016/17 result has been restated using the revised approach used in the 2017/18 model. This is discussed in 'Property condition assessment' under Priority Three. The previously reported result is shown in brackets.

Number of affordable or market homes enabled (at least 20 percent affordable)

Purpose	Measure	Target	Actual 2016/17	Actual 2017/18	Comment
We contribute to the affordability and accessibility of the wider housing market	Number of new homes enabled on land previously owned by Housing New Zealand for affordable and general housing (at least 20% affordable)	2,380 by June 2020	N/A	259 44%	This measure shows the 2017/18 progress towards our June 2020 target in terms of numerical progress along with the percentage of these homes deemed affordable. For 2017/18 259 homes were enabled and 115 (44%) were affordable.

Reduction in construction programme build cost

- This is a measure of reduction of our build cost for our construction programmes.
- We are developing measures and information to monitor the cost performance of our construction programme. These measures are still under development and the information is still to be fully compiled and structured.

Tenants in need sustaining their tenancies

- This is a measure of how successful Housing New Zealand is at helping tenants sustain their tenancies during their time of need.
- Work on developing this measure has been delayed during 2017/18 as we produce a comprehensive Customer Strategy to improve our understanding of our customers and their needs and put these at the centre of our decision making. We will work through what are the most appropriate measures of the Customer Strategy's success, and of how successful we are at sustaining our customers' tenancies.

Success monitored through delivery of agreed volume of emergency housing supply

- Please refer to 'Transitional housing' under Priority One.

Quality advice and innovation

- We provide advice, reports and information to the Minister of Housing and Urban Development and other Ministers throughout the year and work closely, and in consultation, with other government agencies. Our quarterly report to the Minister of Housing and Urban Development provides detail on our capacity and capability as an organisation, and how we are performing against the performance measures set out in our Statement of Performance Expectations.
- We are actively progressing innovative ways to more efficiently and effectively deliver quality outcomes for our customers through:
  - the development of our Innovate, Partner, Build Programme and our investigation of offsite manufacturing, modular housing and standardised design to deliver our build programme
  - our approach to customer service through intensive tenancy management, our MyHousing New Zealandapp and our inaugural supportive housing development at 139 Greys Avenue
  - our approach to community engagement and the way we work with iwi to enable better outcomes for Māori.

Asset performance

Property asset performance measures

The following asset performance measures apply to both Housing New Zealand's owned and leased assets in our property portfolio. Targets quoted are those agreed in either our Statement of Performance Expectations or Statement of Intent. These results are discussed in the relevant sections.

Measure	Indicator	2015/16 Target	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2017/18 Actual
Percentage of homes that are let	Utilisation	97.0%	96.0%	96.2%	97.2%	97.2%	98.2%
Average number of days from a house becoming vacant to being 'ready to let'	Utilisation	N/A	N/A	N/A	N/A	24 days	19 days
Percentage of surveyed lettable properties that meet or exceed the baseline standard	Condition	95%	85%*	95%	90%* (82%)	89%	90%*
Percentage of our customers who are satisfied with their Housing New Zealandhome	Condition	68%	Established baseline	85%	82%	85%	79%
Homes meet tenant bedroom requirements	Functionality	N/A	N/A	N/A	76%	>76% By June 2021	76%
Alignment of portfolio additions with the Ministry of Social Development's purchasing strategy	Functionality	N/A	N/A	N/A	N/A	91.3%	98.1%

* To report comparable results with 2017/18, the 2016/17 results have been restated using the revised approach used in the 2017/18 model. These results are not comparable with the 2015/16 results.

Measure	Indicator	2015/16 Target	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2017/18 Actual	Note
Percentage of incidents resolved on first contact by ICT Service Desk	Condition	> 80.00%	91.19%	> 80.00%	88.18%	> 80.00%	87.36%	
Priority 1 incidents per 100 ICT users	Condition	< 6.5	3.6	< 6.5	6.3	< 7.0	3.3	
Core systems availability – Kotahi	Availability	> 99.90%	99.99%	> 99.90%	99.97%	> 99.90%	99.91%	
Core systems availability – Oracle EBS	Availability	> 99.90%	99.94%	> 99.90%	99.95%	> 99.90%	99.87%	
Core systems availability – websites	Availability	N/A	N/A	> 99.90%	99.97%	> 99.90%	99.97%	
Infrastructure as a service resource utilisation	Utilisation	N/A	N/A	> 90.00%	96.00%	> 90.00%	93.00%	The higher the actual %, the more effective is our utilisation

Annual information

Housing New Zealand Corporation

Statement of Responsibility for the year ended 30 June 2018

The Board is pleased to present the financial statements and statement of performance of the Housing New Zealand Corporation for the year ended 30 June 2018.

a) The Board is responsible for the preparation of the financial statements and statement of performance and the judgements used therein.

b) The Board is responsible for any end-of-year performance information provided by Housing New Zealand Corporation under section 19A of the Public Finance Act 1989.

c) The Board is responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

d) In the opinion of the Board, the financial statements and statement of performance for the year ended 30 June 2018 fairly reflect the financial position and operations of Housing New Zealand Corporation at that date.

For and on behalf of the Board.

Adrienne Young-Cooper
Chair

Vui Mark Gosche
Deputy Chair

30 October 2018

Output Class 1: Managing our homes

Scope

The scope of this output class is limited to the allocation and management of tenancies and maintenance of our homes, including Community Group Housing. It also covers the management of housing provided for the purpose of transitional housing. The output class relates only to properties owned by Housing New Zealand, or where Housing New Zealand holds a lease for privately owned properties or to third-party social housing providers.

Activities

The activities undertaken in this Output Class include:

- working with the Ministry of Social Development to place eligible applicants from the social housing register into Housing New Zealand homes and managing tenant exits
- managing existing tenancies
- undertaking planned maintenance programmes and improving amenities
- ensuring urgent repairs and maintenance are undertaken in response to tenants' requests
- undertaking debt collection activities for overdue rent, property damage, and residual income-related rent arrears
- setting and reviewing market rents
- responding to Government health and safety objectives
- linking tenants who have multiple or complex needs with specialist support services to sustain their tenancies.

Summary of performance

Measure	Actual 2016/17	Standard 2017/18	Actual 2017/18	Comment
Customer satisfaction with Customer Services Centre	91%	80%	83%	
Rental debt older than 7 days as a percentage of monthly rental income	2.9%	5%	3.8%	
Percentage of properties that are let	97.2%	97.2%	98.2%	
Average number of days from a house becoming vacant to being 'ready to let'	New measure	24 days	19 days	
Percentage of Auckland homes that are let to MSD applicants within 15 days	New measure	90%	88%	Not achieved
Percentage of surveyed lettable properties that meet or exceed the baseline standard*	90%**	89%	90%	
Percentage of customers satisfied with repairs and maintenance	70%	75%	67%	Not achieved
Average time to respond to urgent health and safety queries	3.5 hours	4 hours	2.8 hours	
Percentage of repairs and maintenance spend on planned activity	71%	69%	68%	Not achieved

* The baseline target for this measure has been set at 3.5 or less.

** To report comparable results, the 2016/17 result has been restated using the 2017/18 model.

Performance commentary

Performance highlights

We have met six of our nine targets in this output class. In particular, we have improved our occupancy rate and exceeded our target for 'vacant to ready to let'. These results are primarily due to reduced tenant turnover and our improved maintenance management practices. Our 'vacant to ready to let' result is a reflection of the focus of the Auckland Void Programme, along with an improvement across the whole of the country, where we have actively worked with contractors to get vacant property maintenance work done as quickly as possible.

The percentage of Auckland homes that are let to MSD applicants within 15 days

We narrowly missed our new measure for Auckland homes let to MSD applicants. We have consistently improved our performance for this measure through the year with the monthly results from February onwards all exceeding the target. The average turnaround time of just less than 11 days for the year is a significant improvement from last year.

The percentage of customers satisfied with repairs and maintenance

We have put initiatives in place and expect to see an improvement in the survey results for next year.

The percentage of repairs and maintenance spend on planned activity

This target was narrowly missed primarily due to an underspend in planned activity compared with budget.

Revenue and output expenses

	2016/17 Actual ($m)	2017/18 Budget ($m)	2017/18 Actual ($m)	Comment
Revenue Crown	771	803.7	827.9	All rental revenue from standard Housing New Zealandhouses and Community Group Housing is recognised as part of this Output Class. The expenses include the costs of administering state house tenancies, maintaining and upgrading state houses (including Community Group Houses) and other tenancy services.
Revenue Other	405	396.1	409.5	
Expenses	1,002	1,033.5	1,018.1	
Net surplus/(deficit)	**174**	**166.3**	**219.3**	

Output Class 2: Social housing supply

Scope

The scope of this output class is limited to activities associated with asset development and reconfiguration programmes aimed at increasing the supply of housing owned or leased by Housing New Zealand in high-demand areas and reducing supply in low-demand areas. This output class also includes providing new supply to community group and transitional housing providers.

Activities

The activities undertaken in this Output Class include:

- purchasing existing houses, building new houses, leasing privately owned houses, and purchasing and leasing land for building houses that meet the current and forecast demand
- delivering housing developments on greenfield and brownfield sites.

Summary of performance

Measure	Actual 2016/17	Standard 2017/18	Actual 2017/18	Comment
Number of additional newly built or existing homes for social, community group and transitional housing	1,421	1,460	2,188	Our SPE count of 2,188 includes lease renewals.

Performance commentary

Performance highlights

We exceeded our SPE target. In particular, we ramped up our build programme with 1,036 new homes added to our portfolio compared with 466 last year.

Revenue and output expenses

	2016/17 Actual ($m)	2017/18 Budget ($m)	2017/18 Actual ($m)	Comment
Revenue Crown				Rental revenues are recognised under Output Class 1. Expenses include all costs related to new housing supply or divestment.
Revenue Other	45	34.4	1.7	
Expenses	126	164.9	86.3	
Net surplus/(deficit)	**(81)**	**(130.4)**	**(84.6)**	

Output Class 3: Social Housing Reform Programme support and public accountability

Scope

The scope of this output class includes ministerial services provided to the Minister Responsible for Housing New Zealand, the Minister for Social Housing and the Minister for Building and Construction. It also includes the administration and support services costs of transferring ownership of Housing New Zealand properties to other community housing providers under the Social Housing Reform Programme.

Activities

The activities undertaken in this Output Class include:

- supporting the Government's Social Housing Reform Programme including activities associated with Housing New Zealand stock transfers as identified by the Crown
- working with the Ministry of Social Development on a purchasing strategy and a contracting framework
- maintaining relationships with the Ministry of Social Development, the Treasury, iwi, Ministers, and other stakeholders
- providing ministerial services, supporting select committee appearances, and providing external reporting
- providing Board and Executive support
- providing temporary tenancy and property management services to community housing providers following stock transfers to ensure a smooth transition
- answering Official Information Act requests and drafting ministerial responses.

Summary of performance

Measure	Actual 2016/17	Standard 2017/18	Actual 2017/18	Comment
Ministerial correspondence, parliamentary questions, and Official Information Act requests delivered meet the agreed deadline	99%	95%	100%*	
Ministerial services delivered meet the quality criteria	100%	95%	100%	
Delivery of Social Housing Reform Programme transfers to other social housing providers within the agreed timeframe as set out by the Treasury**	New measure for 2016/17	Milestones achieved		

* Actual result 99.5%.

** The new Government directed Housing New Zealand to cease all property transfers; hence, in train and proposed transfers were terminated. The Government has also replaced the Social Housing Reform Programme with a new housing and urban development strategic direction, priorities, and delivery approach.

Revenue and output expenses

	2016/17 Actual ($m)	2017/18 Budget ($m)	2017/18 Actual ($m)	Comment
Revenue Crown				Expenses include all costs associated with Ministerial Services, including supporting the Government's Social Housing Reform Programme, Board and Executive support, and government accountability functions.
Revenue Other				
Expenses	26	21.9	20.6	
Net surplus/(deficit)	**(26)**	**(21.9)**	**(20.6)**	

Output Class 4: Enabling housing supply and home ownership

Scope

The scope of this output class is limited to activities associated with the release of surplus Housing New Zealand land that enables or facilitates the development of affordable and market housing. It also includes the management of financial home ownership products that assist individuals and households to purchase their first home.

Activities

The activities undertaken in this Output Class include:

- increasing general and affordable housing supply including:
  - releasing land to enable or facilitate affordable and general housing supply in areas of high demand
  - selling housing assets or land that are no longer required
- the proactive management of financial home ownership products that assist individuals and households to purchase their first home, and administering the following programmes on behalf of the Crown and Housing New Zealand-initiated programmes:
  - Welcome Home Loans and Kāinga Whenua loans (Crown appropriated)
  - KiwiSaver HomeStart grant (Crown appropriated)
  - Housing New Zealand's First Home Ownership Scheme
  - Housing New Zealand's Tenant Home Ownership Scheme.

Summary of performance

Measure	Actual 2016/17	Standard 2017/18	Actual 2017/18	Comment
Number of new homes enabled on land previously owned by Housing New Zealand for affordable and market housing	New measure	166	259	
Proportion of enabled homes delivered by third parties within agreed timeframes	New measure	95%	86%	Not achieved
Average number of days taken to assess a completed KiwiSaver	3.9 working days	7 working days	3.9 working days	
Number of new loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme	1,381	<2,500	1,674	

Performance commentary

Performance highlights

We exceeded our SPE target for new homes enabled on land previously owned by Housing New Zealand for affordable and market housing. The 259 value consists of 59 homes completed and land sales that will result in 200 homes in the future.

This year we received 36,414 KiwiSaver applications and approved 17,699 compared with 31,731 received and 16,712 approved during 2016/17. The approved applications count only includes those applicants that go on to buy a house. Of the remainder, about 26 percent were declined or the application was pre-approved but did not result in a house purchase. We paid out over $81.2 million in KiwiSaver HomeStart grant payments, compared with over $75 million in 2017/18.

The rate of increase in grant applications and payments has been consistent since the launch of the KiwiSaver HomeStart grant scheme in April 2015. Demand has been significantly higher than for the KiwiSaver Deposit Subsidy it replaced.

Number of new loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme

During 2017/18 we processed 1,674 loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme, compared with 1,381 during 2016/17. The available appropriation allows a maximum of 2,500 loans that can be insured in a fiscal year; however, this is not a target.

Lender demand for the Welcome Home Loan is a reflection of lenders' own credit policies, as they respond to market conditions and Reserve Bank 'speed limits'. When banks tighten their own lending policies, demand for the Welcome Home Loan increases, as applications fall outside their own lending policies.

Demand for Welcome Home Loans steadily increased as the year progressed, with an annual increase of 21 percent.

Proportion of enabled homes delivered by third parties within agreed timeframes

The majority of housing projects were completed on time. However, eight of the 59 homes were completed after the agreed timeframe. These eight homes were in one project that was affected by external civil matters that resulted in a delay of over 12 months. We have learnt how to control for these issues in our current development agreements.

Revenue and output expenses

	2016/17 Actual ($m)	2017/18 Budget ($m)	2017/18 Actual ($m)	Comment
Revenue Crown	85	103.7	90.8	This Output Class delivers products that are managed on the Crown's behalf.
Revenue Other	8	8.1	8.4	
Net transfer to unearned premium provision	0	(5.1)	(3.8)	*Note: This Output Class no longer includes expenses associated with our Community Group Housing portfolio. These expenses are now accounted for in Output Class 1.*
Expenses	81	101.4	85.3	
Net surplus/(deficit)	**12**	**5.3**	**10.1**	

Output Class 5: Development services provided to the Housing Agency Account

Scope

This output class is limited to property management and development services on behalf of the Crown in relation to land and buildings that have been transferred to direct Crown control, and are accounted for within the Crown's Housing Agency Account. The services are provided by Housing New Zealand to the Housing Agency Account under the specific authority and requirements set out in the Housing Act 1955 and the Housing Agency Accountability Agreement between Housing Zealand and the Minister Responsible for Housing New Zealand.

Activities

The activities undertaken in this Output Class include:

- Most activity within this output class relates to the services provided by HLC, a subsidiary of Housing New Zealand, for the management and development of Hobsonville Point (under control of the Housing Agency Account). The project is a large-scale integrated urban development project in northwest Auckland on land formerly used by the New Zealand Defence Force.
- HLC is responsible for facilitating housing development at Hobsonville Point, with at least 20 percent of the housing constructed over the next 10 years to be sold as affordable housing.
- The remaining activity relates to properties managed by Housing New Zealand that are held within the Crown's Housing Agency Account.

Hobsonville Point Project

The Hobsonville Point Project, as the major component of the HAA, is a large-scale, integrated urban development project in northwest Auckland on the land formerly used by the New Zealand Defence Force and known as the Hobsonville Airbase. The Hobsonville Land Company (HLC) was established in 2005 as a wholly-owned subsidiary of Housing New Zealand Corporation to develop the land for state housing purposes under the Housing Act 1955.[7] The company changed its name in February 2017 to HLC (2017). The operating expenditure of HLC is fully recovered by a management fee charged to HAA. The vision for Hobsonville Point is to build a strong, vibrant community that sets new benchmarks for a quality and accessible urban development with an environmentally responsible focus.

When complete, Hobsonville Point will include over 4,000 homes as well as two new schools, community facilities, amenities, public transport facilities and neighbourhood centres to support this new community. The development will include up to 20 percent of homes in the affordable price bracket, as was agreed with Cabinet and the then Minister of Housing.

Summary of performance

Measure	Actual 2016/17	Standard 2017/18	Actual 2017/18	Comment
Revenue generated from land sale	New measure	>$72 million	$53 million	Not achieved
Value of HLC-led capex projects delivered	New measure	$38 million*	$21 million	Not achieved
Units delivered that are long-term rental or affordable housing as a percentage of total units delivered	New measure	>20%	25%	
Number of HLC community-led events that occur at Hobsonville Point	New measure	3	2	Not achieved
Percentage of residents satisfied with the overall living experience at Hobsonville Point	New measure	>75%	89%	

* The published SPE target was $4.15 million. This value was an early budget subset portion of the actual target. The total capex target for 2017/18 was $38.2 million and we have elected to report against this higher value.

8. State housing purposes in relation to this Act relates to the Crown's objectives with respect to housing.

Performance commentary

Performance highlights

To 30 June 2018, 1,823 homes and sections at Hobsonville Point have been sold, including 261 during 2017/18. To date, 523 affordable homes have been sold, including 95 during 2017/18.

Performance has been solid during 2017/18. Achievements include completing:

- market land sales revenue of $52.51 million
- enabling works for Launch Bay (Sunderland Block 10)
- the seawall upgrade and dredging works for Catalina Bay
- joint roading projects with Panuku
- titling to enable settlement of Catalina Bay Stage 1
- titling for Te Uru
- the sale of Block 14C to Panuku
- Te Uru Stage 2 enabling works
- the Coastal Walkway, and public deck works, which has been opened to the public
- Harrier Point Park, which is now open to the public.

Revenue generated from land sales

Our revenue sales target was not met. This was due to deferral of part payment for the Te Uru Project, and negotiations pending sale of Bomb Point and second stage Catalina Bay with partial release to be included in 2018/19.

Value of HLC-led capex projects delivered

Our target for HLC-led capex projects delivered was not met. Land titles were not released at the budgeted rate and, as funding is provided for these ongoing projects to meet our Development Agreement obligations to builder partners, we did not complete the capital expenditure for these projects in the budgeted financial year.

Number of HLC community-led events that occur at Hobsonville Point

HLC successfully ran two community-led events. During the year, we decided to pass management of these events back to the residents.

Revenue and output expenses

	2016/17 Actual ($m)	2017/18 Budget ($m)	2017/18 Actual ($m)	Comments
Revenue Crown				Housing New Zealand provides services to the Crown, for which it earns a management fee.
Revenue Other	4	4.8	2.6	
Expenses	4	4.8	2.6	
Net surplus/(deficit)	**0**	**0**	**0**	

Operating appropriations 2017/18

We deliver programmes on behalf of the Crown. The Crown provides funding for Housing New Zealand to deliver these programmes from a range of appropriations across Vote Social Housing (MSD), Vote Building and Housing (Vote MBIE), and Vote Finance (Treasury) with the administering agency identified in brackets. The income-related rent subsidy amounts noted below are Housing New Zealand's portion of a wider appropriation that includes appropriated funds for community housing.

The following table details the funding initially budgeted as reported in our 2017/18 Statement of Performance Expectations and compares this with the actual funding spent.

		Housing New Zealand's Output Classes				
Appropriation and Programme	SPE Expenditure ($m)	Managing our Homes	Social Housing Supply	SHRP Support & Public Accountability	Enabling Housing Supply & Home Ownership	Services to the Housing Agency Account
HNZ Housing Support Services						
Mortgage Insurance Scheme (Welcome Home Loan)	8.700				7.085	
KiwiSaver Housing Deposit Subsidy – Administration	2.998				2.635	
Total HNZ Support Services	**11.698**				**9.720**	
Community Owned Rural Rental Housing Loans Interest Subsidy	0.420				0.072	
Housing Innovation Fund Interest Subsidy	0.370				0.210	
Other Legacy Loan Costs	0.700				0.700	
Sold Loans Interest Subsidy*	0.010				0	
Special Housing Action Zone Bridging Finance	0.007				0.006	
Total Housing Assistance	**1.507****				**0.988**	
Purchase of Housing and Related Services for Tenants Paying Income-Related Rent	789.516	813.792				
KiwiSaver Deposit Subsidy	102.451				80.574	
Total Operating Appropriations	**905.172**	**813.792**			**80.574**	

* Sold loans guaranteed interest rates are now higher than the current market rate which resulted in refunded interest.

** $1.507m is the original SPE appropriation. The Crown BEFU 2018 forecast subsequently updated this value to $1.159m.

Multi-Category appropriations 2017/18

Appropriation and Programme	SOI Expenditure ($m)	Output Class: Managing our Homes	Output Class: Social Housing Supply	Output Class: SHRP Support & Public Accountability	Output Class: Enabling Housing Supply & Home Ownership	Output Class: Services to the Housing Agency Account
Community Group Housing Multi-Category Appropriation ($m)						
Community Group Housing Market Rent Top-Up	10.106	10.106				
Community Housing Rent Relief Programme	4.104	4.051				
Acquisition and Improvement of Community Group Housing Properties	6.186		6.186			
Total Multi-Category Expenses and Capital Expenditure	**20.369**	**14.157**	**6.186**			

Capital appropriations 2017/18

Appropriation and Programme	SOI Expenditure ($m)	Output Class: Managing our Homes	Output Class: Social Housing Supply	Output Class: SHRP Support & Public Accountability	Output Class: Enabling Housing Supply & Home Ownership	Output Class: Services to the Housing Agency Account
Refinancing of HNZC and HNZL Debt	335.854		335.854			
Total HNZ Capital Appropriations	**335.854**		**335.854**			

Jennings Jersey development, Mt Albert, Auckland

The numbers every day, everywhere

Statement of Financial Position

As at 30 June 2018

	NOTES	GROUP ACTUAL 2018 $M	GROUP ACTUAL 2017 $M	BUDGET UNAUDITED 2018 $M
Assets				
Current assets				
Cash and cash equivalents	18	523	56	30
Mortgage advances	5(a)	2	4	4
Receivables from non-exchange transactions	6(a)	11	8	35
Receivables from exchange transactions	6(b)	33	57	30
Prepayments		8	8	7
Available-for-sale investments		–	–	10
Short-term investments	7	148	472	97
Properties held for sale	8	5	302	51
Total current assets		**730**	**907**	**264**
Non-current assets				
Property, plant and equipment	9	26,645	24,911	26,346
Properties under development	10	55	11	30
Mortgage advances	5(a)	33	37	38
Interest rate derivatives	19	1	3	3
Software	11	26	38	25
Total non-current assets		**26,760**	**25,000**	**26,442**
Total assets		**27,490**	**25,907**	**26,706**
Liabilities				
Current liabilities				
Rent received in advance from non-exchange transactions		35	36	9
Accounts payable and other liabilities from exchange transactions	12	133	98	91
Income tax payable	15(b)	5	27	50
Crown loans	20	127	336	123
Market debt - commercial paper	20	200	–	12
Provisions	13	3	10	1
Employee entitlements	14	8	7	6
Interest rate derivatives	19	35	41	29
Total current liabilities		**546**	**555**	**321**

Statement of Financial Position (continued)

As at 30 June 2018

	NOTES	GROUP ACTUAL 2018 $M	GROUP ACTUAL 2017 $M	BUDGET UNAUDITED 2018 $M
Non-current liabilities				
Crown loans	20	1,826	1,617	1,837
Market debt - bonds	20	500	–	148
Deferred tax liability	15(c)	2,206	2,044	2,128
Interest rate derivatives	19	59	63	80
Mortgage Insurance Scheme unearned premium reserve	16(a)	32	28	28
Provisions	13	1	1	1
Employee entitlements	14	1	1	1
Total non-current liabilities		**4,625**	**3,754**	**4,223**
Total liabilities		**5,171**	**4,309**	**4,544**
Net assets		**22,319**	**21,598**	**22,162**
Equity				
Equity contributed by the Crown		3,555	3,557	3,560
Retained earnings		596	536	789
Revaluation reserve		18,234	17,577	17,889
Hedging reserve	19	(66)	(72)	(76)
Total equity		**22,319**	**21,598**	**22,162**

For and on behalf of the Board, who authorised the issue of the financial statements on 30 October 2018.

Adrienne Young-Cooper
Chair

Vui Mark Gosche
Deputy Chair

30 October 2018

The above statement should be read in conjunction with the accompanying notes to the financial statements.

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2018

	NOTES	GROUP ACTUAL 2018 $M	GROUP ACTUAL 2017 $M	BUDGET UNAUDITED 2018 $M
Revenue from non-exchange transactions				
Crown appropriation revenue	21(b)	94	88	107
Rental revenue from income-related rent subsidy		814	758	790
Rental revenue from tenants receiving income-related rent subsidy		350	338	344
Rent relief fund revenue		4	4	4
Revenue from exchange transactions				
Rental revenue from tenants at market rent		48	51	51
Interest revenue	21(a)	12	17	3
Mortgage insurance scheme	21(c)	9	10	6
Other revenue	21(d)	7	52	44
Total operating revenue		**1,338**	**1,318**	**1,349**
Expenses				
Repairs and maintenance		319	315	332
Rates on properties		117	113	116
Water rates		33	33	32
Third-party rental leases		53	59	50
Depreciation on rental properties	22(a)	237	224	246
Depreciation and amortisation on other property, plant and equipment	22(a)	22	22	21
Personnel	22(b)	127	104	123
Interest expense	21(a)	84	87	96
Grants	22(d)	81	77	95
Other expenses	22(c)	112	163	147
Total expenses		**1,185**	**1,197**	**1,258**
Other gains/(losses)				
Gain/(loss) on disposal of assets	22(f)	5	8	–
(Loss) on asset write-offs	22(f)	(33)	(48)	(72)
Total other (losses)/gains		**(28)**	**(40)**	**(72)**
Operating surplus before tax		**125**	**81**	**19**
Current tax expense		97	82	93
Deferred tax expense/(benefit)		(48)	(66)	(65)
Income tax expense/(benefit)	15(a)	**49**	**16**	**28**
Net surplus after tax		**76**	**65**	**(9)**
Other comprehensive revenue and expense				
Revaluation of property, plant and equipment				
Revaluation reserve gains		847	2,400	1,539
Financial assets at fair value through equity				
Hedging reserve gains/(losses)	19	8	62	–
Income tax (expense) on items of other comprehensive revenue and expense	15(a)	(208)	(91)	(101)
Other comprehensive revenue and expense net of tax		**647**	**2,371**	**1,438**
Total comprehensive revenue and expense net of tax		**723**	**2,436**	**1,429**

The above statement should be read in conjunction with the accompanying notes to the financial statements.

Statement of Changes in Equity

For the year ended 30 June 2018

	NOTES	GROUP ACTUAL 2018 $M	GROUP ACTUAL 2017 $M	BUDGET UNAUDITED 2018 $M
Total equity at 1 July		**21,598**	**19,167**	**20,733**
Revaluation of property, plant and equipment				
Revaluation reserve gains/(losses)		847	2,400	1,539
Deferred tax (expense) on property, plant and equipment revaluations		(206)	(74)	(101)
Financial assets at fair value through other comprehensive revenue and expense				
Hedging reserve gains/(losses)	19	8	62	–
Deferred tax (expense)/benefit on hedging reserve gains/(losses)	19	(2)	(17)	–
Net surplus for the year		76	65	(9)
Total comprehensive revenue and expense for the period		**723**	**2,436**	**1,429**
Contributions from and distributions to the Crown				
Net capital contributions (to)/from the Crown		(2)	(5)	–
Withdrawal of capital relating to the transfer of properties from social housing reform		–	–	–
Annual distribution to the Crown		–	–	–
Total net contributions from/(distributions to) the Crown		**(2)**	**(5)**	**–**
Total changes in equity		**721**	**2,431**	**1,429**
Total equity at 30 June		**22,319**	**21,598**	**22,162**
Equity attributable to the Crown				
Equity attributable to the Crown at 1 July		3,557	3,562	3,560
Net capital contributions (to)/from the Crown		(2)	(5)	–
Withdrawal of capital relating to the transfer of properties from social housing reform		–	–	–
Equity attributable to the Crown at 30 June		**3,555**	**3,557**	**3,560**
Retained earnings				
Retained earnings at 1 July		536	287	489
Net surplus/(deficit) for the year		76	65	(9)
Net transfers from asset revaluation reserve on disposal of properties		(16)	184	309
Annual distribution to the Crown	23	–	–	–
Retained earnings at 30 June		**596**	**536**	**789**
Revaluation reserve				
Revaluation reserve at 1 July		17,577	15,435	16,760
Asset revaluations on property, plant and equipment		847	2,400	1,539
Deferred tax on property, plant and equipment	15(c)	(206)	(74)	(101)
Net transfers to retained earnings on disposal of properties		16	(184)	(309)
Revaluation reserve at 30 June		**18,234**	**17,577**	**17,889**
Hedging reserve				
Hedging reserve at 1 July		(72)	(117)	(76)
Fair value gains/(losses)	19	8	62	–
Deferred tax on derivative fair value movement	15(a)	(2)	(17)	–
Hedging reserve at 30 June		**(66)**	**(72)**	**(76)**
Total equity at 30 June		**22,319**	**21,598**	**22,162**

The above statement should be read in conjunction with the accompanying notes to the financial statements.

Cash Flow Statement

For the year ended 30 June 2018

	NOTES	GROUP ACTUAL 2018 $M	GROUP ACTUAL 2017 $M	BUDGET UNAUDITED 2018 $M
Cash flows from/(used in) operating activities				
Rent receipts - tenants		391	383	392
Rent receipts - income-related rent subsidy		813	756	790
Rent relief fund income		4	4	4
Other receipts from the Crown		92	88	119
Mortgage insurance scheme income		12	10	11
Interest received from customers and investments		11	20	3
Other receipts		38	16	41
Payments to suppliers and employees		(797)	(814)	(914)
Income tax paid		(121)	(89)	(93)
Interest paid		(83)	(90)	(97)
Net cash flows from/(used in) operating activities	24	**360**	**284**	**256**
Cash flows from/(used in) investing activities				
Sale of rental properties and property plant and equipment		37	209	319
Mortgage and other lending repayments		8	7	–
Net short-term investments (made)/realised		324	19	154
Purchase of rental property assets		(946)	(579)	(905)
Purchase of other property, plant and equipment		(5)	(5)	(5)
Purchase of intangible assets		(6)	(2)	(3)
Repayments to/(advances from) Housing Agency Account		(2)	5	–
Net cash flows from/(used in) investing activities		**(590)**	**(346)**	**(440)**
Cash flows from/(used in) financing activities				
Net capital contributions (to)/from the Crown		(2)	(5)	–
Loans drawn down from the New Zealand Debt Management Office		(1)	94	184
Loans drawn down from the market		700	–	–
Annual distribution to the Crown	23	–	–	–
Net cash flows from/(used in) financing activities		**697**	**89**	**184**
Net cash flows		467	27	–
Opening cash and cash equivalents		56	29	30
Closing cash and cash equivalents	18	**523**	**56**	**30**

The above statement should be read in conjunction with the accompanying notes to the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2018

1. Reporting entity

Housing New Zealand Corporation (HNZC) is a Statutory Corporation (Crown entity as defined by the Crown Entities Act 2004) and is domiciled and operates in New Zealand. The relevant legislation governing the operations of HNZC and its subsidiaries (the HNZC Group) is the Crown Entities Act 2004 and the Housing Corporation Act 1974 (as amended). HNZC's ultimate parent is the New Zealand Crown.

The core business of the HNZC Group is to give effect to the Crown's social objectives by providing housing, and housing-related services, in a business-like manner to people in the greatest need for as long as that need exists, and to ensure the Minister Responsible for HNZC, the Minister for Building and Housing, the Minister for Social Housing, and the Treasury receive appropriate information on social housing and housing-related services.

In order to achieve its core objective of facilitating housing solutions for those most in need, the HNZC Group operates a network of 63,996 residential properties across New Zealand (2017: 63,276). Accordingly, its principal activities are:

- matching applicants with available houses, managing tenancies, and providing housing for organisations that provide specialised housing support for tenants with multiple or complex needs
- managing assets to provide suitable and affordable homes to those with the greatest housing needs, including acquiring, maintaining, upgrading and divesting state homes.

The registered office of Housing New Zealand Corporation is Level 10, 80 Boulcott Street, Wellington.

HNZC and its subsidiaries are designated public benefit entities (PBEs), defined as "reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders".

The financial statements for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the members on 30 October 2018.

2. Summary of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year.

The financial statements have been prepared on a historical cost basis, with the exception of rental properties, freehold land, derivative financial instruments, actuarially assessed provisions, available-for-sale investments and financial assets at fair value through net surplus/(deficit), all of which are measured at their fair values.

The financial statements are presented in New Zealand dollars, which is the functional currency of the HNZC Group, and all values are rounded to the nearest million dollars ($M) unless stated otherwise.

(b) Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with PBE Standards.

(c) New accounting standards and interpretations

(i) Changes in accounting policies and disclosures

The accounting policies adopted in these financial statements are consistent with those of the previous financial year, with the exception of changes to accounting or reporting requirements under PBE accounting standards as commented on below as per the 2016 Omnibus Amendments to PBE Standards:

PBE IFRS 5 clarifies that the income tax expense as required by paragraph 81(h) of PBE IAS 12 needs to be disclosed separately for revenue, expenses and pre-tax surplus or deficit from discontinued operations; and the gain or loss recognised on the measurement of fair value less cost to sell or on the disposal of the asset or disposal group(s) constituting the discontinued operation.

The application of these amendments does not have a material impact on HNZC Group's financial statements.

(ii) Accounting standards and interpretations issued but not effective and not early adopted

The 2016 Omnibus Amendments to PBE Standards stated other changes that are effective for reporting periods beginning on or after 1 January 2018 and later dates. The HNZC Group will apply these amendments in preparing its 30 June 2019 financial statements; however it is expected that there will be no significant impact on the financial statements from applying this amendment. Also, the following standards and amendments have been issued but are not yet effective:

- PBE IFRS 9 relating to financial instruments, which introduces a new classification model for financial assets; a new, more forward-looking impairment model based on expected credit losses; a more flexible hedge accounting model that allows hedge accounting to apply to a wider range of risk management strategies; and additional disclosure requirements around impairment and hedge accounting. It is expected that there will be no significant impact on the financial statements from applying this standard. HNZC Group will apply this standard in the year ended 30 June 2019.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

- Amendment to PBE IPSASs 21 and 26, which makes revalued plant, property and equipment subject to the impairment assessment requirements of PBE IPSASs 21 and 26. HNZC Group will apply this amendment in the year ended 30 June 2020. It is expected that there will be no significant impact on the financial statements from applying this amendment.
- PBE IPSAS 34-38 relating to interests held in other entities, which are effective for the year ending 30 June 2020. It is expected that there will be no significant impact on the financial statements from applying these standards.
- PBE IPSAS 39 relating to employee benefits, which is effective for the year ending 30 June 2020. It is expected that there will be no significant impact on the financial statements from applying this standard.

(d) Basis of the HNZC Group

The HNZC Group financial statements comprise the financial statements of Housing New Zealand Corporation (the Parent) and its subsidiaries as at 30 June each year.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies.

All inter-entity balances and transactions have been eliminated in full.

(e) Rental property land and buildings

Housing for community groups held by HNZC, and state housing held by Housing New Zealand Limited (HNZL), is recognised at cost upon purchase or completion of construction. Such costs include the cost of repairs and renewals that are eligible for capitalisation according to the recognition principles in PBE IPSAS 17 *Property, Plant and Equipment*. All other repairs and maintenance costs are recognised in net surplus/(deficit).

Subsequent to initial recognition, land and buildings are revalued to fair value at the end of each year and recognised at their revalued amounts. Buildings are depreciated during the year through to the next revaluation.

Fair value is determined by reference to market-based evidence and is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Independent valuations are performed annually to ensure that the carrying amount does not differ materially from the asset's fair value at the balance date.

Any revaluation surplus is recognised in the asset revaluation reserve in other comprehensive revenue and expense, except to the extent that it offsets a previous revaluation deficit for the same asset class that was recognised in the net surplus/(deficit) for the year. In such circumstances, the surplus is recognised in the net surplus/(deficit) for the year.

Any revaluation deficit is recognised in the net surplus/(deficit) for the year except to the extent that it offsets a previous revaluation surplus for the same asset class that was recognised in the asset revaluation reserve in other comprehensive revenue and expense. In such circumstances, the deficit is offset to the extent of the credit balance existing in the revaluation reserve for that asset class.

An item of property is derecognised upon disposal or when no future economic benefit, or service potential is expected to arise from the continued use of the asset. Upon disposal any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Any gain or loss arising on derecognition of an asset is included in the net surplus/(deficit) for the year, in the period the item is derecognised. Gain or loss on derecognition is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

Depreciation is calculated on a straight-line basis over the estimated useful life of buildings and their components, including chattels, as follows:

Rental properties	10 - 60 years

The HNZC Group applies the following estimates of economic lives to the components of its rental properties:

Buildings	40 - 60 years
Improvements	25 years
Chattels	10 years

(f) Work in progress

Construction work in progress is recognised at cost. On completion, the property will be held by the same entity and accounted for as rental property.

(g) Properties held for sale

Properties identified as meeting the criteria for recognition as held for sale are re-classified as properties held for sale. This classification is used where the carrying amount of the property will be recovered through sale or transfer, the property is available for immediate sale in its present condition and a sale or transfer is highly probable.

Property held for sale is recorded at the lower of the carrying amount and fair value less costs to sell. From the time a property is classified as held for sale, depreciation is no longer charged on the properties.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(h) Properties under development

The HNZC Group subdivides large pieces of land where it does not intend to retain the resulting titles. These properties will not be retained for the long term. As these properties are held to develop for sale in the ordinary course of business, they are classified as inventory.

Properties under development are recorded at the lower of cost and net realisable value (selling price less costs to complete and sale costs). Any write-downs to net realisable value are recognised as an expense in the net surplus/(deficit).

(i) Other property, plant and equipment

Motor vehicles, office equipment, furniture and fittings, computer hardware and leasehold improvements are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the equipment as follows:

Motor vehicles	5 years
Office equipment	5 years
Furniture & fittings	10 years
Computer hardware	4 years
Leasehold improvements	the shorter of the period of lease or estimated useful life.

An item of property, plant or equipment is derecognised upon disposal or when future economic benefits are no longer expected to arise from its use. Any gain or loss is included in the net surplus/(deficit) for the year in which the item is derecognised. Gain or loss on sale is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

(j) Intangible assets

The HNZC Group has computer software, a non-monetary asset without physical substance, which is therefore classified as an intangible asset. Intangible assets include software that has been externally purchased as well as software that has been internally developed. Software is developed to meet Board-approved changes and improvements to the HNZC Group's way of working, structures, processes, products and systems.

Computer software is capitalised at cost and amortised over a four to seven year period on a straight-line basis. Following initial recognition, it is carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation is recognised as an expense in the net surplus/(deficit).

Computer software is tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis, and adjustments, where applicable, are made on a prospective basis.

Gains or losses arising from derecognition of computer software are recognised in the net surplus/(deficit) when the asset is derecognised. They are measured as the difference between the net disposal proceeds and the carrying amount of the asset.

(k) Impairment of plant and equipment and intangible assets

The HNZC Group's primary objective from its non-financial assets is to provide social housing rather than to generate a commercial return, and consequently it does not hold any material cash-generating property, plant and equipment or intangible assets.

Non-cash-generating plant and equipment and intangible assets

Plant and equipment and intangible assets held at cost have a finite useful life and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is determined by using either a depreciated replacement cost approach, restoration cost approach, or a service units approach. Selection of the most appropriate approach used to measure value in use in each case will depend on the nature of the impairment and availability of information.

If an item of plant and equipment or intangible asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the net surplus/(deficit).

The reversal of an impairment loss is recognised in the net surplus/(deficit).

(l) Mortgages and housing-related lending

Mortgage advances are classified as loans and receivables at amortised cost and are stated at amounts outstanding net of provisions made on advances considered doubtful for collection, ensuring mortgage advances' carrying values do not exceed their recoverable amount.

The mortgage provision reflects an amount considered adequate to provide for incurred losses based on the best information available at balance date, for loans identified as having particular risk, where security is considered inadequate.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(m) Investments and other financial assets

Investments and financial assets in the scope of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through net surplus/(deficit), loans and receivables, or available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired or originated. Designation is re-evaluated at each reporting date while having regard for restrictions on reclassification to other categories.

When financial assets are recognised initially, they are measured at fair value plus, in the case of assets not at fair value, through net surplus/(deficit), directly attributable transaction costs.

Recognition and derecognition

Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the HNZC Group commits to purchase the asset. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

(i) Financial assets at fair value through net surplus/(deficit)

Shared Equity Loan scheme loans are designated at fair value through net surplus/(deficit). Fair value is determined by reference to market-based evidence. Independent valuations are performed annually to ensure the carrying amount does not differ materially from the asset's fair value at balance date.

Under the Shared Equity scheme, the home buyer can opt to repay the loan early. The loan is adjusted on day one to reflect the early repayment option in the Statement of Financial Position and a grant expense in the net surplus/(deficit) for the year. Subsequent movements in fair value are recognised in the net surplus/(deficit).

(ii) Loans and receivables (including short- and long-term investments in money market)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in net surplus/(deficit) when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(n) Trade and other receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Collectability of receivables is reviewed on an ongoing basis. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. Financial difficulties of the debtor and/or default payments are considered objective evidence of impairment.

(o) Long-term receivables

Long-term receivables represent the present value of debts that are expected to be settled beyond the next 12 months and are measured at amortised cost using the effective interest rate method.

(p) Cash and cash equivalents

Cash and cash equivalents are cash on hand and short-term liquid investments, with original maturities of up to 90 days, held specifically for working capital purposes.

(q) Mortgage insurance liabilities

Insurance contract liabilities are recognised when entered into and a premium is charged.

Mortgage Insurance Scheme liabilities include the outstanding claims liability and the unearned premium reserve. The outstanding claims liability is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, irrespective of whether a claim has been reported or not, including related claims handling costs. It can take a significant period of time before the ultimate claims cost can be established with certainty. The liability is determined at reporting date using a range of actuarial valuation techniques. Any liability is derecognised when the contract expires, is discharged or is cancelled. The unearned premium reserve represents that portion of premiums received or receivable that relate to risks that have not yet expired at the reporting date. A reserve includes amounts recognised when contracts are entered into and premiums charged, and reduces as premium income recognised over the term of the contract in accordance with the pattern of insurance service provided under the contract. This liability is discounted to recognise the time value of money. Also a risk margin percentage is factored in using the 75 percent probability of sufficiency level.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

At each reporting date, the HNZC Group reviews its unexpired risk and a liability adequacy test is performed as laid out under PBE IFRS 4 *Insurance Contracts Appendix D*, to determine whether there is any overall excess of expected claims over the unearned premium liabilities. This calculation uses a stochastic frequency/severity model. The ultimate outcome for each loan is randomly simulated. The distribution of results is analysed and the average and various percentiles are calculated. If these estimates show that the carrying amount of the unearned premium reserve is inadequate, the deficiency is recognised in the net surplus/(deficit) for the year by establishing a provision for liability adequacy.

The HNZC Group holds, at all times, short-term investments, equivalent to at least the total value of the Mortgage Insurance Scheme liabilities, to meet any claims under the scheme.

(r) Interest-bearing borrowings

All borrowings are initially recognised at the fair value of the consideration received plus transaction costs associated with the borrowing.

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(s) Derivative financial instruments

The HNZC Group uses derivative financial instruments such as interest rate swap contracts to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. Changes in fair value are charged to net surplus/(deficit), unless they are in a hedge relationship.

(i) Fair value

The HNZC Group carries its interest rate swaps at fair value through net surplus/(deficit), unless they are in a hedge relationship calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of derivative financial instruments is determined by referencing to current rates for similar instruments with similar maturity profiles, and is calculated as the net discounted estimated cash flows of the instrument and based on the NZ Dollar swap borrowing curve, as reported by Thomson Reuters, which is an active market interest rate benchmark.

(ii) Hedge accounting

The HNZC Group uses financial instruments, such as interest rate swaps, to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value.

For the purposes of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability of a forecasted transaction.

For interest rate swaps that meet the conditions for hedge accounting as cash flow hedges, any effective portion of the gain or loss on a hedging instrument is recognised in other comprehensive revenue and expense while any ineffective portion is recognised in the net surplus/(deficit).

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in the hedging reserve is kept in the reserve until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive revenue and expense is transferred to the net surplus/(deficit).

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken direct to the net surplus/(deficit) for the year.

(t) Financial guarantees

Provision is made for amounts that may be payable under either guarantees in relation to mortgages previously sold to Westpac Banking Corporation, or the Mortgage Insurance Scheme. The carrying value of these guarantees approximates fair value as both the underlying loans that were sold and the likely amount of payments under the Mortgage Insurance Scheme are subjected to an actuarial reassessment each year.

(u) Employee benefits

Employee benefits include wages and salaries (including non-monetary benefits such as medical, trauma, life and income continuance insurance), annual leave, long-service leave and sick leave. They are measured as the amounts expected to be paid when the liabilities are settled. A present value model is used for calculating long-service leave and accumulated sick leave in accordance with instructions from the Treasury. Employee benefits expected to be settled within 12 months of the balance date are recognised as current liabilities at 30 June. Long-service leave, where entitlements are not vested at balance date, is treated as a non-current liability.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(v) Provisions

Provisions are recognised when the HNZC Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

The expense relating to any provision is presented in the net surplus/(deficit) for the year.

(w) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortised cost. Due to their short-term nature they are not discounted.

They represent liabilities for goods and services provided to the HNZC Group prior to the end of the financial year that are unpaid and arise when the HNZC Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(x) Leases

The determination of whether an arrangement is, or contains, a lease includes the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, and the extent to which the arrangement conveys a right to use the asset, even if that right is not explicitly specified in the arrangement.

(i) Group as a lessee

Operating lease payments are recognised as an operating expense in the Statement of Comprehensive Revenue and Expense on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of liability.

(ii) Group as a lessor

Leases in which the HNZC Group retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(y) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the HNZC Group and the revenue can be reliably measured.

(i) Revenue from non-exchange transactions

Revenue from non-exchange transactions is where the HNZC Group receives value from another entity for which it provides either no, or below-market, consideration, directly in return or when the consideration received by the HNZC Group directly in return for its services is below market. Revenue from non-exchange transactions is recognised when initial control over the resources is gained as a result of a past event, receipt of future economic benefits or service potential from those resources is expected, there are no conditions attached to the resources gained, and the fair value of the assets can be measured reliably.

Revenue generated from non-exchange transactions is represented below:

Income-related rental from tenants and income-related rent subsidies

Income-related rental revenue received from tenants, and income-related rent subsidies received from the Crown, is recognised on a straight-line basis over the term of the lease.

Crown operating appropriations

The HNZC Group receives revenue from the Crown as operating appropriations. Crown appropriation revenue is received to subsidise third-party revenue to equate market value (for example, mortgage insurance premiums and interest subsidies), to pay for services provided to the Crown (for example, government relations, research and evaluation), or to reimburse the Group for expenses incurred by operating various programmes (for example, Welcome Home loans). All Crown appropriation revenue is recognised when the right to receive the asset has been established, whether in advance of, or subsequent to, provision of the services relating to the appropriation.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(ii) Revenue from exchange transactions

Revenue from exchange transactions is generated when an exchange of transactions of approximately equal value has occurred between the HNZC Group and a third party.

The following represents the revenue of the HNZC Group from exchange transactions:

Rental revenue from tenants at market rent

Rental revenue received from those tenants who pay market rent is recognised on a straight-line basis over the term of the lease.

Mortgage Insurance Scheme revenue

Revenue from premiums and the movement in outstanding claims liability during the year is recognised in the net surplus/(deficit). Premium revenue, including premium subsidies from the Crown, is recognised over the estimated term of the contract according to actuarial assessment of the risk exposure under the contract.

Interest revenue

Interest revenue on mortgages, including interest subsidies from the Crown, and short-term investments is recognised as the interest accrues (using the effective interest rate method which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Management fees

The HNZC Group receives management fees, on a cost recovery basis, from the Housing Agency Account for managing the development of land.

(z) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

(aa) Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authority, based on the current period's taxable income. Deferred income tax is measured on all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, unless the initial recognition exemption (IRE) applies.

Deferred income tax liabilities are amounts of income taxes payable in future periods in respect of taxable temporary differences, when the carrying amount for financial reporting purposes exceeds its tax base.

Under PBE IAS 12 *Income Taxes*, the IRE applies, and deferred tax is not required to be recognised, if, on acquisition of an asset, the accounting and tax bases differ (provided it is not part of a business combination). As the tax depreciation rate for buildings is 0 percent, the tax base of the HNZC Group's buildings is nil; therefore the tax and accounting bases differ for buildings and the IRE applies. The IRE applies to the acquisition of buildings and to some additions to buildings post 1 July 2010.

Deferred income tax assets are amounts of income taxes recoverable in future periods in respect of all deductible temporary differences, carry-forward of unused tax losses or tax credits. The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.

(ab) Other taxes

The HNZC Group is mainly an exempt supplier in relation to GST. GST on the majority of inputs cannot be reclaimed; therefore it is included in expenditure. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

Commitments and contingencies are disclosed gross of the amount of GST recoverable from, or payable to, the taxation authority.

(ac) Contingent assets

The HNZC Group has made grants and suspensory loans to third parties, with conditions attached for an agreed period. If the conditions are breached, the grant or suspensory loans will be repayable. Where conditions have been breached, or are likely to be breached, a contingent asset relating to the possibility of a future inflow of resources will be disclosed, but not recognised.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

3. Financial risk management objectives and policies

The HNZC Group's principal financial instruments, other than derivatives, comprise Crown loans, market bonds, commercial paper, cash and short-term deposits. These financial instruments are used to finance the HNZC Group's operations.

The HNZC Group's mortgage portfolio is managed in-house by HNZC and the processes of mitigating losses to the portfolio are monitored via monthly reports.

Derivative transactions consist of NZ Dollar interest rate swaps, which are used to manage interest rate risk arising from Crown floating rate borrowings.

The HNZC Group's other financial instruments are trade debtors and trade creditors arising directly from its operations.

The main risks arising from the HNZC Group's financial instruments are interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks. They are summarised below.

(a) Interest rate risk

The HNZC Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations.

The HNZC Group's policy is to limit the portion of floating rate debt. To achieve this, it has entered into interest rate swaps to convert floating rate borrowings to fixed rate borrowings.

Management monitors interest rate levels on an ongoing basis and, when appropriate, will lock in fixed rates within Board-approved interest rate risk policy. Forward rate agreements, interest rate swaps and interest rate options are instruments available for use. During 2018, interest rate swaps designated to hedge underlying debt obligations were the primary financial instrument used.

At 30 June 2018, after taking into account the effect of interest rate swaps, approximately 79 percent of borrowings were at a fixed rate of interest (2017: 73 percent).

(b) Interest rate sensitivity

The following sensitivity analysis is based on the interest rate risk exposures in existence at 30 June.

The following table sets out the respective differences in the annual net surplus/(deficit) after tax, and the equity balance (after tax adjustments) at 30 June, had interest rates been 1 percent higher or lower than the year-end market rate:

	2018 ($M)	2017 ($M)
Net surplus higher/(lower)		
Interest rates + 1%	(3)	(3)
Interest rates - 1%	3	3
Equity higher/(lower)		
Interest rates + 1%	38	43
Interest rates - 1%	(39)	(46)

The difference in net surplus/(deficit) would arise as a consequence of changes in interest costs from variable rate debt from variable interest rates being 1 percent higher or lower (based on reference to the forward interest rate yield curve as at year end). The difference in equity would arise from the effect that a 1 percent higher or lower interest rate yield curve at year end would have on the fair value of derivative instruments designated as cash flow hedges.

(c) Foreign currency risk

The HNZC Group had no foreign currency borrowings during the year.

It is the HNZC Group's policy to mitigate foreign currency risks as they arise and not to enter into forward contracts until a firm commitment is in place. The HNZC Group does not hedge account for foreign currency risks.

(d) Credit risk

Credit risk is the risk that a third party will default on its obligations to the HNZC Group, resulting in a loss being incurred. Due to the timing of its cash inflows and outflows, surplus cash is invested only with Board-approved counterparties with a specified Standard & Poor's credit rating of A or better. Treasury Policy limits the amount of credit exposure to any one institution. Maximum credit exposure for the classes of financial instrument is primarily represented by the carrying amount of cash, money market investments, derivative financial assets, receivables and mortgage advances. There is no collateral held as security against these financial instruments.

Further, the HNZC Group has made commitments to advance new Housing Innovation Fund loans (that are yet to be disbursed) to third parties of $1.6 million (2017: $2.2 million). This commitment extends the potential maximum credit exposure. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 17.

Concentration of credit risk exists in relation to money market investments, but this risk is mitigated by the fact that the counterparties are Board-approved and have a high credit rating (note 3(f)). Other than this, no exposure to any material concentration of credit risk exists as the HNZC Group has only a small number of credit customers and has Treasury exposure only with the Crown and Board-approved counterparties with specified Standard & Poor's credit ratings.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

All individuals/organisations are assessed for credit worthiness and affordability before a mortgage is approved. In addition, receivable balances are monitored on an ongoing basis with the result that exposure to bad debts is not significant.

Credit quality of financial assets not impaired or not yet due

The HNZC Group does not rate its individual debtors as it has a large number of customers with minimal debtor balance. The incidence of default on financial assets not impaired or not yet due is minimal. The HNZC Group has no other significant exposure to credit risk from financial assets not impaired or not yet due, nor has there been any renegotiation of terms on any of these assets.

(e) Liquidity risk

Liquidity risk is the risk that the HNZC Group may encounter difficulty in raising funds at short notice to meet its financial commitments as they fall due. The Borrowing Protocol with the Crown allows the HNZC Group to borrow a principal amount up to $3,050 million from sources other than the Crown to deliver the increased level of redevelopment activities required to assist with the Government's social housing objectives.

The HNZC Group has a $350 million (2017: $150 million) standby borrowing facility with a group of banks, which provides back-up financing in the event that the HNZC Group is unable to raise finance under its commercial paper programme, due to events such as a financial market disruption.

The HNZC Group has an unsecured bank overdraft facility of $1 million (2017: $1 million) with an interest rate of 6 percent (2017: 6 percent).

The HNZC Group's policy is that not more than 25 percent of borrowings should mature in any 12-month period. As at 30 June 2018, 12 percent of the HNZC Group's debt will mature in less than one year (2017: 17 percent).

As at 30 June 2018 the contractual maturity (undiscounted cash flow) of the HNZC Group's financial liabilities was as follows:

	0-1 YEAR ($M)	1-2 YEARS ($M)	2-3 YEARS ($M)	3-5 YEARS ($M)	5+ YEARS ($M)	TOTAL ($M)
At 30 June 2018						
Crown loans floating interest rate	167	293	183	577	1,011	2,231
Market bonds	16	16	16	282	267	597
Commercial paper	200	-	-	-	-	200
Accounts payable and other liabilities	133	-	-	-	-	133
Financial guarantees - sold loans	–	-	–	-	1	1
Interest rate derivatives - net settled	36	27	18	17	1	99
Total	**552**	**336**	**217**	**876**	**1,280**	**3,261**
At 30 June 2017						
Crown loans floating interest rate	375	168	296	532	852	2,223
Accounts payable and other liabilities	98	–	–	–	–	98
Financial guarantees - sold loans	–	–	–	–	1	1
Interest rate derivatives - net settled	41	29	18	16	5	109
Total	**514**	**197**	**314**	**548**	**858**	**2,431**

As at 30 June 2018 the contractual maturity (discounted cash flow) of the HNZC Group's financial liabilities is as follows:

	0-1 YEAR ($M)	1-2 YEARS ($M)	2-3 YEARS ($M)	3-5 YEARS ($M)	5+ YEARS ($M)	TOTAL ($M)
At 30 June 2018						
Crown loans floating interest rate	127	253	143	506	924	1,953
Market bonds	–	–	–	250	250	500
Total	**127**	**253**	**143**	**756**	**1,174**	**2,453**
At 30 June 2017						
Crown loans floating interest rate	336	127	254	481	755	1,953
Market bonds	–	–	–	–	–	–
Total	**336**	**127**	**254**	**481**	**755**	**1,953**

The HNZC Group does not consider the discounted cash flow in relation to short term liabilities to be material for disclosure purposes.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(f) Concentration of risk

The HNZC Group has substantial deposits in excess of $582 million with four different banks, of which more than $126 million each is maintained with ANZ Bank, ASB Bank, Bank of New Zealand and Westpac New Zealand Limited. These are reputable banks and have a Standard & Poor's long-term credit rating of AA-.

(g) Ageing of receivables and loans

(i) Ageing analysis of receivables

	NEITHER PAST DUE NOR IMPAIRED $(M)	PAST DUE BUT NOT IMPAIRED 0-30 DAYS $(M)	IMPAIRED 30 DAYS PLUS $(M)	TOTAL $(M)
At 30 June 2018				
Rent	2	2	–	4
Damages*	–	–	3	3
Other receivables	40	–	–	40
Total	**42**	**2**	**3**	**47**
At 30 June 2017				
Rent	1	1	–	2
Damages	–	–	5	5
Other receivables	63	–	–	63
Total	**64**	**1**	**5**	**70**

*Methamphetamine contamination related damage costs amounts to $257k as at 30 June 2018.

(ii) Ageing analysis of mortgage advances

	NEITHER PAST DUE NOR IMPAIRED $(M)	PAST DUE BUT NOT IMPAIRED 0-60 DAYS $(M)	PAST DUE BUT NOT IMPAIRED 60-90 DAYS $(M)	90 DAYS PLUS* $(M)	TOTAL $(M)
At 30 June 2018					
Mortgage advances past due not impaired	–	2	–	2	4
Other mortgage advances	31	–	–	–	31
Total	**31**	**2**	**-**	**2**	**35**
At 30 June 2017					
Mortgage advances past due not impaired	–	2	–	2	4
Other mortgage advances	37	–	–	–	37
Total	**37**	**2**	**-**	**2**	**41**

*Loan arrears that are over 90 days are reviewed for impairment but are not automatically treated as impaired or provided for.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(h) Fair value hierarchy

The HNZC Group uses various methods in estimating the fair value of its financial instruments.

Depending on the inputs used in these methods, a financial instrument measured at fair value is categorised as one of the following levels:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments, as well as the methods used to estimate the fair value, are summarised in the table below. No Level 1 or 3 financial instruments are held at 30 June 2018 (2017: nil).

	30 JUNE 2018 VALUATION TECHNIQUE - MARKET OBSERVABLE INPUTS (LEVEL 2) $(M)	30 JUNE 2017 VALUATION TECHNIQUE - MARKET OBSERVABLE INPUTS (LEVEL 2) $(M)
Financial assets		
Interest rate derivatives	1	3
Total	**1**	**3**
Financial liabilities		
Interest rate derivatives	94	104
Financial guarantees – sold loans	1	1
Total	**95**	**105**

Quoted market price represents the fair value determined based on prices quoted on active markets as at the reporting date without any deduction for transaction costs.

For financial instruments not quoted in active markets, the HNZC Group uses valuation techniques such as present value techniques, comparison with similar market observable prices that exist and other relevant models used by market participants. These include observable market inputs.

HNZC Group financial instruments revalued to fair value have been deemed to be Level 2.

(i) Capital management

The HNZC Group's capital is in equity, which comprises accumulated funds contributed by the Crown, retained earnings, revaluation reserves and hedging reserves. Equity is represented by net assets.

The HNZC Group is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which imposes restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

The HNZC Group has complied with the financial management requirements of the Crown Entities Act 2004 during the year.

The HNZC Group manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure it effectively achieves its objectives and purpose while remaining a going concern.

The HNZC Group is funded by the Crown for capital programmes, with new capital drawn down in the ratio of 78 percent equity and 22 percent debt.

There has been no change in the HNZC Group's capital management during the year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

4. Critical judgements, assumptions and estimates in applying accounting policies

(a) Judgements

In the process of applying accounting policies to the preparation of its financial statements, management has identified the following judgements it has had to make, as having the most significant effect on amounts recognised in the financial statements:

(i) Classification of rental properties as property, plant and equipment

The HNZC Group manages 63,996 residential properties (2017: 63,276), from each of which it receives revenue based on a level of rent equivalent to that which the property could be expected to generate in the open rental market. In most circumstances a portfolio of rental properties would be classified as investment properties. The Crown, however, subsidises the balance between the level of market rent and that deemed affordable from the tenant based on the tenant's level of income. Management therefore considers the prime strategic purpose for holding rental properties is for social housing, and as such, according to PBE IPSAS 16 *Investment Property*, they are to be accounted for under PBE IPSAS 17 *Property, Plant and Equipment*.

(ii) Classification of non-financial assets as non-cash-generating assets

For the purposes of assessing impairment indicators and impairment testing, the HNZC Group classifies its non-financial assets as non-cash-generating assets including its portfolio of rental properties. Although cash revenue, equivalent to a market rent, is generated from rental properties, the revenue comprises income-related rent received from tenants and subsidies received from the Crown, as the primary objective of providing these assets is social housing, rather than to generate a commercial return.

(iii) Classification of assets as held for sale or for distribution to the owner

Management reclassifies assets, or any group of assets, as held for sale or held for distribution to the owner, upon determining that it is has become highly probable that the carrying amount of those assets, or group of assets, will, in their present condition, be recovered through a respective sale or distribution transaction within the next 12 months. For a sale or distribution transaction to be highly probable, the assets, or group of assets, must be available for immediate sale or distribution and the HNZC Group committed to the impending sale or distribution transaction (refer note 8).

(iv) Classification of revenue as being from exchange or non-exchange transactions

The HNZC Group receives revenue primarily from rent received from its tenants, Crown operating appropriations, and interest received from mortgage advances and short-term investments. In determining whether its various revenues are from exchange transactions or non-exchange transactions, management exercises judgement as to whether the HNZC Group gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) in exchange for the revenue it receives.

As there are no assets or services of approximately equal value provided back to the Crown in exchange for the funding it receives from the Crown, management has determined that revenue from income-related rent subsidies and other Crown appropriations is to be classified as being from non-exchange transactions.

(v) Classification of leases as operating or finance leases – HNZC Group as lessor

The HNZC Group enters lease arrangements with respect to rental properties leased from third parties, properties it occupies, motor vehicles, and office equipment.

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the HNZC Group. Judgement on various aspects is required including, but not limited to, fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset will be recognised in the Statement of Financial Position as property, plant and equipment, whereas no such asset is recognised for an operating lease.

The HNZC Group has exercised its judgement on the appropriate classification of all its leases, and determined that they are all operating leases.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(b) Key assumptions applied and other sources of estimation uncertainty

(i) Fair value of rental properties

The HNZC Group revalues rental properties annually. Fair value is determined by reference to market-based evidence from independent valuers Quotable Value New Zealand. Market-based evidence provides an indication of value by comparing the asset with identical or comparable traits for which price information is available. Market evidence is compared on either a direct comparison or on the summation approach after adjustments for material differences such as size, location, quality, and condition.

The HNZC Group manages 63,996 properties around New Zealand (2017: 63,276). In performing the valuation, the entire portfolio has not been individually inspected due to its size. A market indexation approach has been adopted for the remaining uninspected properties within the portfolio due to the homogeneous nature of the portfolio. Properties are valued based inherently on their 'highest and best use' (refer note 9).

Properties identified as earthquake prone needed remediation to bring them up to the required standard. During the revaluation exercise, amounts estimated as relating to remediating the earthquake prone buildings were categorised as a downward revaluation, and deducted from both the value of the relevant properties and the revaluation reserve for that class of asset.

(ii) Fair value of derivative financial instruments

The value of the HNZC Group's interest rate derivatives is adjusted to their fair values on a daily basis using current market interest rates (bank bill mid rate, swap pricing curve). There is no additional impairment adjustment on these interest rate derivatives as transactions are entered into only with counterparties who are highly creditworthy (refer note 19).

(iii) Mortgage guarantee provision

The mortgage guarantee provision is an actuarially assessed amount, likely to be payable under that guarantee. The value of the provision depends on various factors, some of which are the value of the loans expected to default, the number of active mortgages, and the average loan balance (refer note 13).

(iv) Impairment of non-financial assets

As at each balance date, all assets are assessed for impairment by evaluating conditions specific to the HNZC Group and to the particular asset that may lead to impairment. These include technological, economic and political factors and future expectations, as the primary objective is to provide services for community or social benefit rather than financial return. If an impairment trigger exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

(v) Taxation

Application of the HNZC Group's accounting policy for income tax requires management's judgement. Judgement is also required in assessing whether deferred tax assets and liabilities are to be recognised in some cases. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only when they may be recovered, dependent upon the generation of sufficient future taxable profits.

The judgements and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised in the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some, or all, of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the net surplus/(deficit) for the year.

(vi) Estimation of useful lives of assets

The HNZC Group reviews the useful lives and residual values of its property, plant and equipment annually. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the HNZC Group to consider a number of factors such as the physical condition of the asset, expected period of use and expected disposal proceeds from the future sale of the asset. An incorrect estimate of the useful life or residual value would impact on the depreciation expense recognised in the net surplus/(deficit) for the year and the carrying amount of the asset in the Statement of Financial Position.

The HNZC Group applies the following estimates of economic lives to the components of its rental properties:

Buildings	40-60 years
Improvements	25 years
Chattels	10 years

Depreciation rates are set out in notes 2(e) and 2(i) and amortisation rates are set out in note 2(j) above.

Any estimates of future monetary amounts are in nominal dollars and no inflationary increases have been built in.

(vii) Recoverability of loans and receivables

At each balance date, the HNZC Group makes an assessment as to the recoverability of its loans and other receivables and recognises the impact of movements in the value of loans or any provision for doubtful debts within surplus/(deficit).

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

5. Mortgages

(a) Mortgage advances

	2018 ($M)	2017 ($M)
Non-current mortgage advances	33	38
Provision for doubtful debts	–	(1)
Net non-current mortgage advances	**33**	**37**
Current mortgage advances	**2**	**4**
Total net mortgage advances	**35**	**41**

These loans consist of Housing Innovation Fund (HIF) loans of $22 million (2017: $26 million) and historical loan products such as general and residual lending of $13 million (2017: $15 million). Maturity periods of the mortgages range from 1 to 25 years. Borrowers may settle loans at any time; however, expected cash flows, based on contractual maturity dates, are as follows:

	WEIGHTED AVERAGE INTEREST RATE (ALL LOANS) 2018 (%)	WEIGHTED AVERAGE INTEREST RATE (EXCL 0% LOANS) 2018 (%)	2018 ($M)	WEIGHTED AVERAGE INTEREST RATE (ALL LOANS) 2017 (%)	WEIGHTED AVERAGE INTEREST RATE (EXCL 0% LOANS) 2017 (%)	2017 ($M)
Up to 1 year	0.00	0.00	2	5.49	5.49	4
1 to 5 years	0.14	6.91	12	0.20	6.77	16
Over 5 years	2.76	5.59	21	2.52	5.77	21
Total weighted average	**2.62**	**5.60**	**35**	**2.41**	**5.78**	**41**

Interest rates on mortgages range from 0 to 7.95 percent (2017: 0 to 7.95 percent).

The mortgages on land and improvement assets and deeds are held as security against these loans. For the purposes of allocating the net mortgage balance between current and non-current, all of the doubtful debts provision is assumed to relate to the non-current mortgages.

Housing Innovation Fund mortgage advances

At 30 June 2018 the HIF mortgage advances are recognised at fair value upon inception. The fair value is calculated as the present value of the estimated future cash flows discounted at the effective interest rate. In subsequent years the discount unwind for each loan is recognised in the net surplus/(deficit).

At the end of the financial year, the total fair value of HIF mortgage advances was $22 million (2017: $26 million).

(b) Movements in provision for doubtful debts

	2018 ($M)	2017 ($M)
Balance at 1 July	1	1
Written off	(1)	–
Balance at 30 June	**–**	**1**

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

6. Receivables

(a) Receivables from non-exchange transactions

	2018 ($M)	2017 ($M)
Rental debtors	7	7
Provision for doubtful debts	(3)	(5)
Sub-total	**4**	**2**
Other receivables	7	6
Total receivables from non-exchange transactions	**11**	**8**

An impairment loss of $6 million (2017: $7 million) relating to the credit risk associated with rental debtors and the recovery of the cost of damages has been recognised at year end.

(b) Receivables from exchange transactions

	2018 ($M)	2017 ($M)
Current receivables from exchange transactions		
Interest receivable	4	5
Receivable from related parties	2	–
Other receivables	27	52
Sub-total - receivables from exchange transactions	**33**	**57**
Non-current receivables from exchange transactions		
Long-term receivables from exchange transactions	–	–
Total receivables from exchange transactions	**33**	**57**

(c) Movements in provision for doubtful debts

	2018 ($M)	2017 ($M)
Balance at 1 July	5	4
Bad debts expense	6	7
Bad debts written off	(8)	(6)
Balance at 30 June	**3**	**5**

7. Investments

	2018 ($M)	2017 ($M)
Loans and receivables		
Short-term investment on money market	148	472

Bank registered certificates of deposits, and short- and long-term investments are funds which have been set aside to support the provisions relating to Housing Innovation Fund, sold mortgage loans, the Mortgage Insurance Scheme and funds not required for meeting obligations over the next three months.

8. Properties held for sale

	2018 ($M)	2017 ($M)
Properties held for sale	5	302

At balance date, certain properties have been reclassified from property, plant and equipment to properties held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is on the basis that these properties are available for immediate sale in its present condition in the next 12 months, and HNZC Group deems such sales to be highly probable along with its commitment to a plan to sell such properties.

Properties held for sale are valued under PBE IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. At 30 June 2018, the total fair value of properties held for sale, less selling and other costs, was $5 million (2017: $302 million).

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

9. Property, plant and equipment

Revaluation Cost

	RENTAL PROPERTIES OPERATING ASSETS			OTHER PROPERTY, PLANT AND EQUIPMENT			TOTAL PROPERTY, PLANT AND EQUIPMENT ($M)
	FREEHOLD LAND ($M)	RENTAL PROPERTIES ($M)	CAPITAL WORK IN PROGRESS* ($M)	LEASEHOLD IMPROVEMENTS ($M)	FURNITURE AND FITTINGS ($M)	COMPUTER EQUIPMENT ($M)	
Year ended 30 June 2018							
At 1 July 2017, Revaluation Cost	**16,303**	**8,426**	**184**	**31**	**15**	**32**	**24,991**
Additions	172	466	288	3	1	2	932
Disposals	(23)	(42)	-	-	-	-	(65)
Reversal of devaluation for encumbrances	270	255	-	-	-	-	525
Other revaluations	(75)	197	-	-	-	-	122
Transfer to PPE from held for sale	153	151	-	-	-	-	304
Transfer from PPE to held for sale	(1)	(4)	-	-	-	-	(5)
Transfer from PPE to properties under development	(28)	(3)	-	-	-	-	(31)
At 30 June 2018, Revaluation Cost	**16,771**	**9,446**	**472**	**34**	**16**	**34**	**26,773**
Year ended 30 June 2017							
At 1 July 2016, Revaluation Cost	**14,222**	**8,204**	**120**	**31**	**15**	**32**	**22,624**
Additions	114	416	64	-	-	-	594
Disposals	(33)	(75)	-	-	-	-	(108)
Revaluation for encumbrances	(265)	(239)	-	-	-	-	(504)
Other revaluations	2,419	268	-	-	-	-	2,687
Transfer from PPE to held for sale	(154)	(148)	-	-	-	-	(302)
At 30 June 2017, Revaluation Cost	**16,303**	**8,426**	**184**	**31**	**15**	**32**	**24,991**

Accumulated Depreciation

	FREEHOLD LAND ($M)	RENTAL PROPERTIES ($M)	CAPITAL WORKIN PROGRESS* ($M)	LEASEHOLD IMPROVEMENTS ($M)	FURNITURE AND FITTINGS ($M)	COMPUTER EQUIPMENT ($M)	TOTAL PROPERTY, PLANTAND EQUIPMENT ($M)
Year ended 30 June 2018							
At 1 July 2017, Accumulated Depreciation	**-**	**17**	**-**	**24**	**12**	**27**	**80**
Disposals	-	(3)	-	-	-	-	(3)
Depreciation charge for the year	-	238	-	1	1	2	242
Revaluation write-back	-	(191)	-	-	-	-	(191)
At 30 June 2018, Accumulated Depreciation	**-**	**61**	**-**	**25**	**13**	**29**	**128**
Year ended 30 June 2017							
At 1 July 2016, Accumulated Depreciation	**-**	**-**	**-**	**23**	**11**	**27**	**61**
Disposals	-	1	-	-	-	-	1
Transfer from PPE to held for sale	-	(1)	-	-	-	-	(1)
Depreciation charge for the year	-	224	-	1	1	-	226
Revaluation write-back	-	(207)	-	-	-	-	(207)
At 30 June 2017, Accumulated Depreciation	**-**	**17**	**-**	**24**	**12**	**27**	**80**
Net book value 2017	**16,303**	**8,409**	**184**	**7**	**3**	**5**	**24,911**
Net book value 2018	**16,771**	**9,385**	**472**	**9**	**3**	**5**	**26,645**

*Capital work in progress additions/(disposals) are shown net of costs capitalised to freehold land and rental properties during the year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

Valuation

Freehold land and rental properties in the portfolio were revalued as at 30 June 2018 at fair value in accordance with PBE IPSAS 17 *Property, Plant and Equipment*. The valuation was performed by Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being Andrew F Parkyn (B-Com (VPM), PG-Dip-Com, SPINZ, ANZIV).

The total gross amount of the valuation, excluding properties held for sale, and excluding selling and other costs, was $26,158 million (2017: $24,714 million).

Christchurch rental properties

In November 2016, the Treasury's Transaction Unit announced the Government's intention to dispose of a portion of HNZC Group rental properties in Christchurch. By March 2017, an Expression of Interest process had identified two prospective purchasers for the Christchurch properties. Based on this level of interest, encumbrances were then placed on the titles of the Christchurch properties in order to ensure their purpose for social housing would be maintained for at least 25 years into the future, with the expectation to renew for a further 25 years. The effective date of the encumbrance was 5 June 2017.

During the current financial year, this transaction has been cancelled and the Christchurch properties have been reclassified from current assets held for sale to non-current property, plant and equipment. The associated encumbrances have also been reversed accordingly.

The reversal of encumbrances on the property titles prompted the need to recognise the increase in book value. The impact of such a reversal on the carrying amount of these properties was an increase of $504 million. This increase was recognised through the revaluation reserve as at 30 June 2018.

Invercargill rental properties

In August 2015, the Treasury's Transaction Unit announced the Government's intention to dispose of HNZC Group rental properties in Invercargill. By March 2016, an Expression of Interest process had identified one prospective purchaser for the Invercargill properties. Based on this level of interest, encumbrances were then placed on the titles of the Invercargill properties in order to ensure its purpose for social housing would be maintained for at least 25 years into the future. The effective date of the encumbrances was 4 March 2016.

The impact of the encumbrances on the carrying amount of these properties was a decrease of $21 million for Invercargill. This reduction was recognised through the revaluation reserve at 30 June 2016.

During the current financial year, this transaction has been cancelled and the Invercargill properties have been reclassified from current assets held for sale to non-current property, plant and equipment. The associated encumbrances have also been reversed accordingly.

The reversal of encumbrances on the property titles prompted the need to recognise the increase in book value. This increase was recognised through the revaluation reserve as at 30 June 2018.

Rights of First Refusal for sale of surplus HNZC land

Treaty settlement legislation has granted Rights of First Refusal (RFR) over some of the HNZC Group's properties. The RFR restricts the disposal of properties except in accordance with legislation. Iwi/hapū granted RFR have the right to refuse to purchase properties held for sale first, before they can be disposed of to anyone else. More recent Treaty settlement legislation including RFR over HNZC Group properties authorises the Board to override the RFR if the disposal is to achieve any of the Crown's social objectives in relation to housing (commonly known as social housing exemption).

The following Acts grant RFR over various HNZC Group properties:

- Waikato Raupatu Claims Settlement Act 1995 (an exemption for sales to tenants is available but no general right for the Minister or Board to exempt sales for other housing purposes)
- Port Nicholson Block (Taranaki Whānui ki Te Upoko o Te Ika) Claims Settlement Act 2009 (housing exemption exercisable by the Minister of Housing available)
- Ngati Porou Claims Settlement Act 2012 (Board-initiated social exemption available)
- Ngati Toa Rangatira Claims Settlement Act 2014 (Board-initiated social exemption available)
- Raukawa Claims Settlement Act 2014 (Board-initiated social exemption available)
- Ngāti Kōata, Ngāti Rārua, Ngāti Tama ki Te Tau Ihu, and Te Ātiawa o Te Waka-a-Maui Claims Settlement Act 2014 (Board-initiated social exemption available)
- Ngāti Apa ki te Rā Tō, Ngāti Kuia, and Rangitāne o Wairau Claims Settlement Act 2014 (Board-initiated social housing exemption available)
- Ngāti Kuri Claims Settlement Act 2015 (Board-initiated social housing exemption available)
- NgāiTakoto Claims Settlement Act 2015 (Board-initiated social housing exemption available)
- Te Rarawa Claims Settlement Act 2015 (Board-initiated social housing exemption available)
- Te Aupouri Claims Settlement Act 2015 (Board-initiated social housing exemption available)

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

Provided the Treaty settlement negotiations with the Crown include RFR legislation acceptable to the HNZC Group Board, RFR over HNZC Group properties will be granted to the following iwi:

- Ngāti Ranginui (Tauranga)
- Te Tira Whakaemi (Wairoa)
- Ngāti Rangi (Ohakune)
- Ngāti Hinerangi (Matamata)
- Hauraki Collective (Thames, Coromandel)
- Ngāti Maru (Taranaki)
- Ngāti Maniapoto (Waikato-Waitomo)
- Te Korowai O Wainuiārua (Central Whanganui)
- Whanganui Lands (Lower Whanganui)

The Crown signed a Deed of Settlement with Ngāti Turangitukua in 1998 and agreed that a Deed be signed with the HNZC Group defining the terms and conditions of an RFR over HNZC Group properties in Turangi. The form of the Deed has yet to be agreed. Properties subject to the RFR are being offered for sale.

Discussions with other iwi interested in securing a similar Right of First Refusal will proceed along similar lines.

10. Properties under development

	2018 ($M)	2017 ($M)
Properties under development	**55**	**11**

Properties under development held by HNZL are recognised as inventory. The net realisable value of the land, buildings and improvements, as per the annual market valuation as at 30 June 2018 was $86 million (2017: $66 million) compared with the inventory's carrying amount of $55 million (2017: $11 million), of which $35 million represents those assets carried at net realisable value (and the rest are carried at cost incurred).

Properties under development recognised as inventory are recorded under PBE IPSAS 12 *Inventories*. The net realisable valuation was performed by Quotable Value New Zealand, a company employing registered and qualified valuers, with the registered valuers for the valuation being Hugh Robson (SPINZ, ANZIV), David Cornford (BBS (VPM)) and James Steele (B-Com, BProp, MPINZ).

11. Software

	SOFTWARE EXTERNAL ($M)	SOFTWARE INTERNAL ($M)	PROJECTS WORK IN PROGRESS ($M)	TOTAL ($M)
Year ended 30 June 2018				
At 1 July 2017, net of accumulated amortisation	**-**	**37**	**1**	**38**
Additions	2	1	2	5
Capitalised from projects work in progress	–	–	–	–
Amortisation for the year	(1)	(16)	–	(17)
At 30 June 2018, net of accumulated amortisation	**1**	**22**	**3**	**26**
Year ended 30 June 2017				
At 1 July 2016, net of accumulated amortisation	**1**	**54**	**1**	**56**
Additions	–	1	–	1
Capitalised from projects work in progress	–	–	–	–
Amortisation for the year	(1)	(18)	–	(19)
At 30 June 2017, net of accumulated amortisation	**-**	**37**	**1**	**38**

These assets are tested for impairment where an indicator of impairment arises. There was no impairment write-down charged to the net surplus/(deficit) for the year (2017: nil).

External software is purchased from a third party and is usually implemented as an 'off the shelf' product. Internally generated software is developed for specific applications.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

12. Accounts payable and other liabilities

	2018 ($M)	2017 ($M)
Accounts payable	66	50
Maintenance accrual	6	3
Rates accrual	5	3
Payroll accrual	6	3
Contract retentions	12	4
Interest payable	16	16
Other payables and accruals	22	19
Total accounts payable and other liabilities	**133**	**98**

13. Provisions

	SOLD MORTGAGE PROVISIONS ($M)	HOUSING INNOVATION FUND PROVISIONS ($M)	WARRANTY STOCK TRANSFER ($M)	TOTAL ($M)
At 1 July 2017	1	1	9	11
Release of unused amounts	–	–	–	–
Provision released and spent	–	–	(7)	(7)
At 30 June 2018	**1**	**1**	**2**	**4**
Current	–	1	2	3
Non-current	1	–	–	1
At 30 June 2018	**1**	**1**	**2**	**4**
At 1 July 2016	2	1	–	3
Release of unused amounts	(1)	–	–	(1)
New provision recognised	–	–	9	9
At 30 June 2017	**1**	**1**	**9**	**11**
Current	–	1	9	10
Non-current	1	–	–	1
At 30 June 2017	**1**	**1**	**9**	**11**

(a) Mortgage guarantee provision

As part of the agreements to sell mortgages to Westpac Banking Corporation in 1996, 1998 and 1999, a certain number of mortgages were guaranteed. In particular, guarantee agreements indemnified the purchaser against credit losses and, with respect to the 1998 sale, against interest rate movements under an Interest Rate Adjustment Agreement. These indemnities last for as long as the underlying loan remains outstanding. The Crown has in turn indemnified the HNZC Group for its payment obligations in respect of these sales up to an agreed capped liability between the HNZC Group and the Crown.

The mortgage guarantee provision is an actuarially assessed amount, likely to be payable under that guarantee. The actuarial assessment was made, as at 30 June 2018, by Andrea Gluyas of PricewaterhouseCoopers, a Fellow of the New Zealand Society of Actuaries and of the Institute of Actuaries of Australia. The value of the provision depends on various factors, some of which are the value of loans expected to default, the number of active mortgages, and the average loan balance. Liability exposure under this guarantee is currently estimated to continue until 2026 (being the latest repayment date of the guaranteed mortgages). The maximum combined liability under the insurance scheme at 30 June was $6.33 million (2017: $10.0 million), being the outstanding amount owed under the guaranteed mortgages. The actuaries have expressed their satisfaction as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims provision.

The probability of sufficiency and risk margin used is between 75 and 90 percent.

The Crown's exposure is the lower of total remaining outstanding loan balances or the amount of the insured capped liability between the HNZC Group and the Crown.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

SOLD MORTGAGES	ORIGINAL SOLD AMOUNT ($000)	CORPORATION'S EXPOSURE ($000)	PROVISION MADE ($000)	SUFFICIENCY MARGIN (%)	
				2018	2017
September 1998	196,000	318	20	80	80
December 1998	98,000	4,281	437	90	90
November 1999	34,500	927	79	75	75
1996 portfolio	250,000	807	30	75	75
	578,500	**6,333**	**566**		

To minimise its guarantee obligations under the 1998 sale to Westpac Banking Corporation, the HNZC Group obtained an indemnity on losses of more than $23.3 million from Raukura Whare Limited (a wholly-owned subsidiary of Waikato Raupatu Lands Trust). The Raukura Whare Limited indemnity does not, however, relieve the HNZC Group from its primary liability to Westpac Banking Corporation under the guarantee. The Trustee of the Waikato Raupatu Lands Trust has guaranteed (capped at $20 million) Raukura Whare Limited's liability to the HNZC Group. The HNZC Group's maximum liability under the above guarantee as at 30 June was $3.9 million (2017: $6.7 million), being the amount owed under the 449 guaranteed mortgages as at 30 June.

(b) Warranty stock transfer provisions

The contractual agreement for the sale of Tauranga properties allowed for a warranty provision to the purchaser. This provision covers those properties that have structural damage or had been adversely affected by methamphetamine identified by the purchaser subsequent to the sale. The purchaser is entitled to make a claim for structural damage and methamphetamine contamination by 30 June 2017 and 31 March 2018, respectively.

Based on the HNZC Group's experience in dealing with these matters, a calculation of the cost associated with the possible claims exposure has been provisioned at $9 million at the end of last financial year, and $7 million of the same provision was released during the current financial year.

14. Employee entitlements

	2018 ($M)	2017 ($M)
Current accumulated leave provisions	8	7
Non-current long-service leave provision	1	1
Total employee entitlements	**9**	**8**

15. Income tax

The major components of income tax expense for the year were:

(a) Income tax expense/(benefit)

	2018 ($M)	2017 ($M)
Net surplus/(deficit)		
Current income tax	98	97
Prior period adjustments	(1)	(15)
Deferred income tax relating to temporary differences	(48)	(66)
Income tax expense/(benefit) reported in net surplus/(deficit)	**49**	**16**
Statement of changes in equity		
Deferred income tax		
Net change in deferred tax due to revaluation of buildings	206	78
Reduction in deferred tax due to the transfer of properties	-	(4)
Net change in deferred tax due to hedged financial derivatives from the NZDMO	2	17
Income tax expense/(benefit) reported in other comprehensive revenue and expense	**208**	**91**

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

The reconciliation between the tax expense recognised in the net surplus/(deficit) for the year and tax expense calculated on pre-tax accounting profit at the statutory rate is:

	2018 ($M)	2017 ($M)
Accounting profit/(loss) before tax from continuing operations	**125**	**81**
Taxation at the statutory income tax rate of 28%	35	23
Plus tax effect of:		
Permanent/temporary differences		
Non-deductible expenses	20	32
Deferred tax adjustments in relation to disposal of rental properties	(3)	(22)
Non-deductible losses on disposal of rental properties	(2)	(2)
Prior period adjustments	(1)	(15)
Income tax expense/(benefit) reported in net surplus/(deficit)	**49**	**16**

Income tax expense/(benefit) reported in net surplus/(deficit) is at an effective rate of 39% (2017: 20%)

(b) Current income tax liability

	2018 ($M)	2017 ($M)
Net current tax liability/(asset) at 1 July	27	40
Current year tax charge to net surplus/(deficit)	97	82
Prior period adjustment	(4)	(21)
Income tax paid	(121)	(108)
Income tax credits sold through pooling account	6	34
Net current tax liability/(asset) at 30 June	**5**	**27**

(c) The net deferred tax liability relates to the following:

	2018 ($M)	2017 ($M)
Deferred tax liabilities		
Rental property building revaluations	2,117	1,959
Other property, plant and equipment	3	7
Earthquake insurance proceeds	55	55
Other differences relating to other property improvements	61	54
Gross deferred tax liabilities	**2,236**	**2,075**
Deferred tax assets		
Provisions – employee entitlements	(3)	(2)
Provisions – other	(2)	(2)
Financial derivatives	(25)	(27)
Gross deferred tax assets	**(30)**	**(31)**
Net deferred tax liability	**2,206**	**2,044**

The deferred tax liability movements were:

	2018 ($M)	2017 ($M)
Net deferred tax liability/(asset) at 1 July	2,044	2,013
Recognised through other comprehensive income:		
Rental property building revaluations	206	74
Financial derivatives	2	17
Recognised through net surplus/(deficit):		
Temporary differences relating to properties disposals	–	(29)
Temporary differences relating to Christchurch properties transferred to held for sale	(2)	2
Other temporary differences	(46)	(39)
Prior period adjustment	2	6
Net deferred tax liability/(asset) at 30 June	**2,206**	**2,044**

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(d) Imputation credits

	2018 ($M)	2017 ($M)
Imputation credits available for use in subsequent reporting periods	**1,088**	**995**

16. Mortgage Insurance Scheme unearned premium reserve

The HNZC Group provides mortgage insurance to 13 (2017: 11) commercial lenders for loans issued under the Welcome Home Loans scheme. The insurance premium is 2.2 percent of the loan value, of which 1 percent is paid by the borrower and 1.2 percent by the Government. The total value of amounts originally lent, and which remained insured under the scheme at 30 June, was $1,672 million (2017: $1,472 million).

The Mortgage Insurance Scheme (MIS) was assessed last December, March and June by an independent actuary to ensure that the mortgage insurance liability is sufficient to cover any future claims. The outstanding claims liability is determined at that point and is factored into determining the total insurance liability.

The actuarial assessment of the MIS insurance liability was made as at 30 June 2018 by Jeremy Holmes of Melville Jessup Weaver, Fellow of the New Zealand Society of Actuaries.

The assessment reports comply with professional standards applicable to actuarial reports on technical liabilities for general insurance operation and requirements of PBE IFRS 4 *Insurance Contracts*. The actuaries have expressed their satisfaction as to the nature, sufficiency and accuracy of the data used to perform the actuarial valuation of the scheme.

The insured underlying loans have a maturity period of between 8 and 30 years. The cash flows relating to the claims are expected to fall mainly in the first 7 years of the insured loans; however, there is a degree of uncertainty as to the exact timing (see note 16(b) for estimated timing of future cash outflows).

(a) Reconciliation of MIS unearned premium reserve

	2018 ($M)	2017 ($M)
MIS unearned premium reserve at 1 July	28	29
Insurance premium receipts	13	10
Insurance claims	–	–
Insurance premium income deferred/(recognised) for the year	4	–
Actuarially assessed increase/(decrease) in premium reserve	(13)	(11)
MIS unearned premium reserve at 30 June	**32**	**28**

(b) Estimated timing of net cash outflows

The following shows the estimate of timing of net cash outflows arising from claims:

	2018 ($M)	2017 ($M)
0 – 1 year	–	–
1 – 2 years	5	4
2 – 3 years	5	4
3 – 4 years	4	4
4 – 6 years	7	6
6+ years	11	10
Total estimated liability	**32**	**28**

(c) Mortgage insurance risk

The principal risk under insurance contracts is that the actual timing of claims and claims payment differs from expectations. This is influenced by the frequency of claims, severity of claims, actual claims paid and subsequent development of long-term claims. Claims frequencies and sizes could be significantly impacted by any of the following:

- A downturn in the New Zealand housing market
- An increase in interest rates
- An increase in unemployment

The objective of the HNZC Group is to ensure that sufficient reserves are available to cover these liabilities and it has set aside funds specifically to support its insurance liability obligations (refer to note 7). The present value of the estimated future claims is invested in short-term bank securities in accordance with Board-approved HNZC Treasury Policies.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

The HNZC Group does not reinsure its risk through third parties. The risk exposure is mitigated by the insured lending agencies establishing and actively maintaining prudent lending standards through their credit policies and procedures established for the product. Claims analysis allows periodic adjustments to the credit policy to lower the risk. The HNZC Group is working closely with the lending organisations to proactively manage mortgage holders with the intention to minimise mortgage failure and subsequent insurance claims from the lending institutions. Cases that are under management are reviewed closely and regularly by both the lender and the Housing New Zealand Corporation Financial Products Unit team.

Although approximately 38 percent of the original value of settled loans as at 30 June (2017: 41 percent) is with one bank, Kiwibank, there is no material concentration of risk at individual mortgage holder level.

(d) Sensitivity analysis

The actuarial assessment of the MIS also included a summary of the sensitivity of the valuation results to changes in the valuation assumptions.

	PROBABILITY OF ADEQUACY (%)	DISCOUNTED CENTRAL ESTIMATE ($000)	RISK MARGIN ($000)	OUTSTANDING CLAIMS LIABILITIES ($000)
Baseline	75%	6,260	2,187	8,447
Risk margin				
85% Probability of adequacy	85%	6,260	3,361	9,621
95% Probability of adequacy	95%	6,260	5,341	11,601
Claim probability assumptions				
+0.2 percentage point	75%	10,899	3,751	14,650
-0.2 percentage point	75%	1,974	754	2,728
Claim size assumptions				
+5% of loan amount	75%	7,278	2,547	9,825
-5% of loan amount	75%	5,204	1,831	7,035
Repayment probability assumptions				
+1 percentage point	75%	5,836	2,040	7,876
-1 percentage point	75%	6,664	2,321	8,985

(e) Liability Adequacy Test

At each reporting date, an assessment is made of whether the recognised insurance liabilities are adequate by using an existing Liability Adequacy Test (LAT) as laid out under PBE IFRS 4 *Insurance Contracts*. The liability value is adjusted to the extent that it is insufficient to meet future claims and expenses. In performing the adequacy test, current best estimates of expected future contractual cash flows, relating to future claims arising from the rights and obligations under the MIS contract, are assessed.

The discount rates used were risk-free rates determined based on spot rates provided by the New Zealand Treasury with an average of 2.73 percent (2017: 3.15 percent).

The probability of sufficiency associated with the risk margin used is 75 percent. Under Reserve Bank insurance regulations, provisions are required to be at a 75 percent probability adequacy level. The HNZC Group has deemed that MIS has a similar risk profile and that this adequacy level is appropriate.

The actuarial assessment of the LAT for MIS as at 30 June 2018 was $8.4 million (2017: $7.9 million). This is the present value of the amount that will be sufficient for future claims arising from the rights and obligations under the MIS insurance contracts plus an additional risk margin.

The risk margin used in calculating the present value of the expected future payments for claims incurred as at 30 June was 34.9 percent (2017: 34.9 percent) to allow for the inherent uncertainty in the central estimate. The risk margin determination included uncertainty or risks which are a combination of the random or process risk and the systemic risk.

The process risk is estimated by using stochastic models to estimate future claims costs involving a number of simulations for each of the outstanding claims and premium liabilities. Estimating systemic risk is a subjective process. The estimate for systemic risk has been expressed as an additional coefficient of variation (CoV), which is the ratio of standard deviation of a distribution to the average of the distribution.

The table below shows the details of the LAT performed:

	2018 ($M)	2017 ($M)
Central estimate claims (undiscounted)	7	7
Discounting	(1)	(1)
Central estimate claims (discounted)	6	6
Risk margin at 75% probability of sufficiency	2	2
Premium liabilities based on LAT	8	8

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(f) Outstanding Claims Liability

Outstanding Claims Liability (OCL) is measured at the present value of expected future payments or claims incurred, including a risk margin. This includes a liability for claims handling costs and a liability for incurred but not yet reported (IBNR) claims.

The table below sets out the components of the outstanding claims liabilities as at 30 June 2018:

	2018 ($M)	2017 ($M)
Approved claims incurred	–*	–*
Central estimate IBNR claims (undiscounted)	1	1
Discounting	–*	–*
Central estimate claims (discounted)	1	1
Risk margin at 75% probability of sufficiency	–*	–*
Claims handling expenses	–*	–*
OCL at 75% PoA	2	2

* below $500K

When determining the risk margin, the risk components included in the assumption were the random or process risk and the systemic risk. In determining the random or process and the systemic risks, the same methodology was adopted as when the LAT was performed. The only difference was that the additional CoV used for systemic risk in calculating the OCL was lower than that used for the LAT. This is due to the fact that the OCL represents a much shorter-term obligation than the premium liabilities in the LAT.

The discount rate used was a series of interest rates dependent upon term to payment. The rates used were risk-free rates determined based on spot rates provided by the New Zealand Treasury. The weighted average rate used in determining the OCL at 30 June was 1.76 percent (2017: 1.91 percent).

(g) Claims history and asset backing

Actual claims under the MIS are lower than those projected by the actuarial assessment at the 75 percent level (2017: lower than those projected by the actuarial assessment at the 75 percent level).

PROJECTED CLAIM LIABILITIES 2018 ($M)	ACTUAL CLAIMS 2018 ($M)	PROJECTED CLAIM LIABILITIES 2017 ($M)	ACTUAL CLAIMS 2017 ($M)
1.62	0.09	1.80	0.25

The date on which a bank first advises that a loan is in arrears is treated as the date for determining when a claim has been incurred.

The total of claims paid out under the MIS from the start of the scheme to 30 June 2018 was $12.8 million (to 30 June 2017: $12.6 million).

(h) Credit rating

Both the Parent (which manages the MIS) and HNZL have a long-term credit rating of AA+ from credit rating agency Standard & Poor's.

17. Categories and fair value of financial assets and liabilities

At 30 June, the carrying amounts of financial assets and liabilities in each of the categories of financial instruments were as follows:

	2018 ($M)	2017 ($M)
Financial assets		
Loans and receivables		
Cash and cash equivalents	523	56
Receivables (current and non-current)	44	65
Money market investments (current and non-current)	148	472
Mortgages	35	41
Total loans and receivables	**750**	**634**
Financial assets at fair value through net surplus/(deficit)		
Financial assets designated at fair value through net surplus/(deficit)		
Shared equity loans	–	–
Total financial assets at fair value through net surplus/(deficit)	**-**	**-**
Financial assets at fair value through other comprehensive revenue and expense		
Financial assets – cash flow hedge relationships		
Interest rate swaps - cash flow hedges	1	3
Total financial assets – cash flow hedge relationships	**1**	**3**
Total financial assets at fair value through other comprehensive revenue and expense	**1**	**3**
Financial liabilities		
Financial liabilities – cash flow hedge relationships		
Interest rate swaps – cash flow hedges	94	104
Financial liabilities – financial guarantees		
Financial guarantees – sold loans	1	1
Total financial liabilities at fair value through other comprehensive revenue and expense	**95**	**105**
Financial liabilities measured at amortised cost		
Crown loans – floating interest rate	1,953	1,953
Market bonds	500	–
Commercial paper	200	–
Accounts payable and other liabilities	94	98
Total financial liabilities measured at amortised cost	**2,747**	**2,051**

For all categories of financial assets and liabilities, the carrying value approximates fair value, except for the following:

	CARRYING AMOUNT		FAIR VALUE	
	2018 ($M)	2017 ($M)	2018 ($M)	2017 ($M)
Financial assets				
Mortgage advances	35	41	34	38
Total	**35**	**41**	**34**	**38**

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

18. Cash and cash equivalents

	2018 ($M)	2017 ($M)
Overnight investments	26	38
Term deposits	497	18
Total cash and cash equivalents	**523**	**56**

Cash and cash equivalents, other than term deposits, represent cash available for working capital purposes. Term deposits are deposits with original maturities of three months or less and include funds restricted for payments of HIF loans, grants and MIS claims of $35 million (2017: $33 million).

Overnight investments earn interest at floating rates based on daily bank deposit rates. The weighted average effective interest rate for overnight money market investments at 30 June was 1.95 percent (2017: 1.95 percent).

The weighted average effective interest rate for term deposits at 30 June was 2.32 percent (2017: 2.56 percent) with a term of up to three months.

19. Interest rate derivatives

The HNZC Group has interest-bearing borrowings that incur a floating rate of interest, and uses interest rate swaps to hedge its exposure to changes in the floating interest rate applying to its Crown borrowings. All derivatives are entered into with the Crown and have been designated as hedging instruments.

At 30 June 2018, there were 120 interest rate swap agreements that had commenced (2017: 113), with a notional amount of $1,544 million (2017: $1,428 million), paying a weighted average fixed rate of interest of 4.58 percent (2017: 5.18 percent) and receiving a variable rate equal to the 90-day bank bill rate.

After taking into account the effect of interest rate swaps, approximately 79 percent of borrowings at 30 June were effectively at a fixed rate of interest (2017: 73 percent).

Set out below are the fair values of interest rate derivatives at 30 June:

	2018 ($M)	2017 ($M)
Interest rate derivatives – assets		
Interest rate derivatives – current assets	–	–
Interest rate derivatives – non-current assets	1	3
Interest rate derivatives – total assets	**1**	**3**
Interest rate derivatives – liabilities		
Interest rate derivatives – current liabilities	35	41
Interest rate derivatives – non-current liabilities	59	63
Interest rate derivatives – total liabilities	**94**	**104**

The table below shows the maturity analysis of interest rate derivative assets and liabilities at 30 June:

	0-1 YEAR ($M)	1-2 YEARS ($M)	2-3 YEARS ($M)	3-5 YEARS ($M)	5+ YEARS ($M)	TOTAL ($M)
Year ended 30 June 2018						
Interest rate derivatives – net settled						
Liabilities	(35)	(26)	(16)	(15)	(1)	(93)
Net assets/(liabilities)	**(35)**	**(26)**	**(16)**	**(15)**	**(1)**	**(93)**
Year ended 30 June 2017						
Interest rate derivatives – net settled						
Liabilities	(41)	(27)	(17)	(15)	(1)	(101)
Net assets/(liabilities)	**(41)**	**(27)**	**(17)**	**(15)**	**(1)**	**(101)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

Notional principal amounts, and period of expiry, of interest rate swap contracts in effect at 30 June were as follows:

	2018 ($M)	2017 ($M)
0 – 1 year	203	201
1 – 2 years	249	203
2 – 3 years	177	249
3 – 5 years	586	328
5+ years	329	447
Total notional principal	**1,544**	**1,428**

The interest rate swaps require settlement of net interest receivable or payable every 90 days. The settlement date coincides with the dates on which interest is payable on the underlying debt. All swaps are matched directly against the appropriate loans and interest expense and measured for effectiveness. They are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk (other than any ineffective portion) are recognised in other comprehensive revenue and expense.

Movement in interest rate swaps contract cash flow hedge reserve

	2018 ($M)	2017 ($M)
Balance at 1 July	**(72)**	**(117)**
Fair value movement of interest rate swaps	(36)	15
Interest expense charged to net surplus/(deficit)	44	47
Amount included in other comprehensive revenue and expense	**8**	**62**
Hedging reserve deferred tax	(2)	(17)
Balance at 30 June	**(66)**	**(72)**

20. Loans

Interest-bearing borrowings

	CARRYING AMOUNT	
	2018 ($M)	2017 ($M)
Loans – current		
Commercial paper	200	–
Crown loans – floating interest rate	127	336
Total loans – current	**327**	**336**
Loans – non-current		
Market bonds	500	–
Crown loans – floating interest rate	1,826	1,617
Total loans – non-current	**2,326**	**1,617**
Total loans	**2,653**	**1,953**

Commercial paper

The HNZC Group has a Note Issuance Facility Agreement dated 20 June 2017. At 30 June 2018, the HNZC Group issued $200 million commercial paper (2017: nil), paying a weighted average fixed rate of interest of 2.07 percent (2017: nil).

The aggregate principal amount of commercial paper outstanding will not exceed $500 million at any time. The HNZC Group has given a negative pledge that it will not, subject to certain exceptions, create or permit any charge or lien over any of its assets.

Medium term notes

The HNZC Group has a Medium Term Notes Facility Agreement dated 17 January 2018 for the issue of unsubordinated, unsecured medium term notes to wholesale investors.

At 30 June 2018, HNZC Group had on issue $500 million of medium term notes (2017: nil), in two tranches, with $250 million maturing on 12 June 2023 and $250 million maturing on 12 June 2025, paying a weighted average fixed rate of interest of 3.17 percent (2017: nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

Crown funding

As at 30 June 2018, the HNZC Group had borrowed $1,953 million from the Crown, with maturity dates ranging from 2018 to 2028 (2017: $1,953 million maturing from 2017 to 2027), paying a weighted average fixed rate of interest of 2.01 percent (2017: 1.95 percent).

The HNZC Group has given a negative pledge that, while any Crown borrowing remains outstanding, it will not, subject to certain exceptions, create or permit any charge or lien over any of its assets.

The current portion of loans represents those maturing within the next 12 months.

Bank overdraft facility

As at 30 June 2018 the HNZC Group had an unsecured bank overdraft facility of $1 million (2017: $1 million) at an interest rate of 6 percent (2017: 6 percent).

The HNZC Group's policy is that not more than 25 percent of borrowings should mature in any 12-month period. As at 30 June 2018, 12 percent of the HNZC Group's debt will mature in less than one year (2017: 17 percent).

21. Revenue

(a) Interest income and expense

	2018 ($M)	2017 ($M)
Interest income		
Interest on temporary investments and bank accounts	11	15
Interest on mortgage advances	1	2
Total interest income	**12**	**17**
Interest expense		
Interest on short-term borrowing	1	–
Interest on long-term borrowing	40	39
Interest on derivatives	44	48
Total interest expense	**84**	**87**

(b) Crown appropriation income

	2018 ($M)	2017 ($M)
KiwiSaver deposit subsidy/HomeStart	80	75
Other housing related appropriations	14	13
Total Crown appropriation income	**94**	**88**

Total Crown appropriations were $102 million (2017: $94 million); however $8 million (2017: $6 million) has been classified as 'Crown appropriation premium receipts' in note 21(c) below.

(c) MIS revenue

	2018 ($M)	2017 ($M)
Third-party premium receipts	5	4
Crown appropriation premium receipts	8	6
Premium revenue deferred and actuarial (increase)/decrease in premium reserve	(4)	–
Recognised insurance premium revenue	**9**	**10**
Claims expense	–	–
Net surplus/(deficit) for MIS	**9**	**10**

(d) Other revenue

	2018 ($M)	2017 ($M)
Management fees from related parties	3	4
Release of HIF impairment	1	1
Other revenue	3	47
Total other revenue	**7**	**52**

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

22. Expenses

(a) Depreciation and amortisation

	2018 ($M)	2017 ($M)
Depreciation – rental properties	237	224
Depreciation – other property, plant and equipment	4	3
Amortisation of intangible assets	18	19
Total depreciation and amortisation	**259**	**246**

(b) Personnel

	2018 ($M)	2017 ($M)
Wages and salaries	116	95
Employee benefits	8	6
Other personnel costs	3	3
Total personnel	**127**	**104**

(c) Other expenses

	2018 ($M)	2017 ($M)
Professional services*	25	26
Insurance	13	13
Communication	3	3
Computer costs and software maintenance fees	8	8
Accommodation, travel and allowances	5	4
Bad debts	4	7
Selling costs	1	2
MIS claims expenses	–	–
Stationery and publications	1	1
Vehicle costs	3	3
Demolition costs	9	13
Property acquisition and development costs	12	41
Other property related costs	6	5
Other	22	37
Total other expenses	**112**	**163**

* Professional services expenditure is a combination of outsourced business activities (including cost associated with the delivery of new properties), and business improvement activities.

(d) Grants

	2018 ($M)	2017 ($M)
KiwiSaver deposit/First home ownership subsidies	81	77
Total grant expenses	**81**	**77**

(e) Included in other expenses are the following fees paid to external auditors:

	2018 ($M)	2017 ($M)
(i) Amount paid or payable to Ernst & Young (acting on behalf of the Auditor-General) for:		
– Auditing the financial report of the entity and any other entity in the HNZC Group	0.51	0.52
(ii) Other assurance services		
– Other professional services relating to provision of remuneration and available market data	0.02	0.02
Total amounts paid or payable to the auditors	**0.53**	**0.54**

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(f) Realised losses on sales, write-off and impairment of assets

	2018 ($M)	2017 ($M)
Assets impairment, write-off/demolition	(33)	(48)
Gain/(loss) on asset sales	5	8
Total realised gains/(losses) on sales, write-off and impairment of assets	**(28)**	**(40)**

23. Annual distribution

	2018 ($M)	2017 ($M)
Annual distribution	**-**	**-**

Under section 40 of the Housing Corporation Act 1974, as amended, the HNZC Group is required to pay its annual surplus (operating and capital) to the Crown, unless the Minister of Finance and the Minister Responsible for Housing New Zealand Corporation agree otherwise.

24. Reconciliation of net surplus/(deficit) after tax with cash flows from operating activities

	2018 ($M)	2017 ($M)
Net surplus/(deficit) after tax	**76**	**65**
Adjustments for:		
Depreciation and amortisation	259	246
Asset impairments and write-offs	33	48
(Gains)/losses on asset disposals	(5)	(8)
Bad debts expense	4	7
Deferred tax recognised	(48)	(66)
Accumulated interest and fair value (gains)/losses on mortgage advances	(2)	(2)
Other non-cash items and non-operating items	14	6
Total non-cash and non-operating items	**255**	**231**
Increase/(decrease) in provisions	(7)	8
Increase/(decrease) in income tax payable/(receivable)	(22)	(13)
Increase/(decrease) in employee entitlements	1	1
Increase/(decrease) in MIS unearned premium reserve	4	(1)
Increase/(decrease) in rent in advance	(1)	(1)
Increase/(decrease) in accounts payable and other liabilities	35	16
(Increase)/decrease in net advances to subsidiaries or related parties	(2)	5
(Increase)/decrease in receivables and prepayments	21	(27)
Total working capital movements	**29**	**(12)**
Net cash from operating activities	**360**	**284**

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

25. Commitments and contingencies

Operating lease commitments – HNZC Group as lessee

The HNZC Group enters into various operating leases for premises it occupies, motor vehicles and office equipment.

These leases have an average term of between three and six years with renewal options included in the contracts. Renewals are at the option of the specific entity that holds the lease.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June were as follows:

	2018 ($M)	2017 ($M)
Within 1 year	55	48
After 1 year but not more than 5 years	119	85
More than 5 years	24	14
Total	**198**	**147**

(a) Sub-lease receivables

The HNZC Group had no sub-leases as at 30 June (2017: nil).

(b) Operating lease commitments – HNZC Group as lessor

The HNZC Group has entered into property leases for its property portfolio. These properties held under operating leases, are measured under the fair value model in accordance with PBE IPSAS 17 *Property, Plant and Equipment* as their primary purpose is to provide a social benefit rather than being held solely to provide rental income.

There are no non-cancellable leases executed by the HNZC Group.

(c) Capital commitments

At 30 June 2018 capital commitments amounted to $447 million (2017: $203 million) for property projects.

(d) Lending commitments

At 30 June 2018 the HNZC Group had lending commitments approved but not yet paid amounting to $1.6 million (2017: $2.2 million).

(e) Contingencies

Home Equity Scheme

At 30 June 2018, there was no contingent liability (2017: $0.6 million) recognised in relation to properties underwritten for the Home Equity Scheme, a community-based home ownership programme to assist more people into their first home. In the event of any part of this amount translating to an actual liability in future, the amount in the property acquisition budget is expected to be sufficient to fund settlement of the liability without material effect on the financial position.

Housing New Zealand Limited

The Crown has provided a warranty in respect of title to the assets transferred to HNZL. HNZL was incorporated into the HNZC Group as a subsidiary in 2001 as part of the legislated consolidation of government housing functions.

The Crown has indemnified HNZL against any breach of this warranty. In addition, the Crown has indemnified HNZL against third-party claims that are a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of HNZL against any liability arising from the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

26. Related party disclosure

The HNZC Group financial statements include the financial statements of Housing New Zealand Corporation and the subsidiaries listed in the following table:

(a) Subsidiaries

NAME	COUNTRY OF INCORPORATION	2018	2017	INVESTMENT 2018 ($M)	INVESTMENT 2017 ($M)
Housing New Zealand Limited	New Zealand	100%	100%	3,415	3,415
Housing New Zealand Build Limited	New Zealand	100%	–	–	–
HLC (2017) Limited	New Zealand	100%	100%	–	–
				3,415	**3,415**

(b) Terms and conditions of transactions with related parties

- Sales to and purchases from related parties are made in arm's length transactions at normal market prices and at normal commercial terms.
- Outstanding balances as at both 30 June 2018 and 30 June 2017 were unsecured with settlement being in cash.
- There have been no guarantees provided or received for any related party receivables.
- Based on their excellent payment history, no provision for doubtful debts relating to amounts owed by related parties has been necessary at 30 June 2018 (2017: nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

(c) Key management personnel

Key management personnel are defined as senior management of the HNZC Group and all directors. During the year ended 30 June 2018, 21 employees were key management personnel (2017: 20 employees), and no employee was acting in a temporary position (2017: nil).

Key management personnel compensation

	2018 FTES	2017 FTES	2018 ($000)	2017 ($000)
Board members				
Remuneration			535	534
Full-time equivalent members	11.90	10.08		
Leadership team				
Remuneration			3,687	3,579
Full-time equivalent members	9.40	9.96		
Total key management personnel remuneration			**4,222**	**4,113**
Total full-time equivalent personnel	**21.30**	**20.04**		

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

(d) Remuneration details of members of Housing New Zealand Corporation and directors of subsidiaries

	2018 $	2017 $
Both HNZC and HLC Directors		
Adrienne Young-Cooper	115,260	115,637
John Duncan	95,770	96,006
HNZC Directors		
Sandra Alofivae	49,000	49,188
Peter Dow	49,000	49,189
Tau Henare	49,000	49,188
Michael Schur	49,004	49,000
Alick Shaw	47,115	49,188
Jeff Meltzer	–	44,600
Mark Ratcliffe	42,781	–
Vui Mark Gosche	3,063	–
HLC Directors		
Peter Alexander	17,260	6,668
Richard Didsbury	–	8,720
Matthew Harker	17,260	6,668
Carlie Eve	–	4,350
Kerry Stotter	–	5,542
Total Board members' remuneration	**534,513**	**533,944**

Tau Henare resigned in June 2018
Alick Shaw resigned in May 2018
Mark Ratcliffe was appointed in August 2017
Vui Mark Gosche was appointed in June 2018

The above table includes all remuneration paid or payable to each director during the year.

Graeme Mitchell is a member of the Finance and Assurance Committee and is not on the Board of Directors. HNZC paid $15,000 to this committee member at 30 June 2018.

Directors' insurance

HNZC acquired directors' and officers' liability and professional indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees.

The total annual premium for the directors' and officers' liability insurance was $66,125 (2017: $63,250).

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

27. Remuneration of employees - $100,000 and over

	2018	2017
$100,000-$110,000	81	76
$110,001-$120,000	69	52
$120,001-$130,000	33	29
$130,001-$140,000	31	23
$140,001-$150,000	23	24
$150,001-$160,000	24	13
$160,001-$170,000	16	3
$170,001-$180,000	6	6
$180,001-$190,000	5	10
$190,001-$200,000	9	8
$200,001-$210,000	9	2
$210,001-$220,000	3	5
$220,001-$230,000	4	1
$230,001-$240,000	5	–
$240,001-$250,000	2	–
$260,001-$270,000	1	1
$270,001-$280,000	–	3
$280,001-$290,000	2	–
$300,001-$310,000	1	2
$310,001-$320,000	2	–
$320,001-$330,000	2	–
$330,001-$340,000	2	–
$340,001-$350,000	1	1
$350,001-$360,000	1	1
$360,001-$370,000	1	–
$400,001-$410,000	–	1
$410,001-$420,000	1	1
$430,001-$440,000	–	2
$440,001-$450,000	1	1
$470,001-$480,000	1	–
$560,001-$570,000	1	–
Total employees with remuneration of $100,000 and over	**337**	**265**

Where remuneration bands are not shown in the table above, this represents that no employees were paid within those bands during the financial year.

During the year ended 30 June 2018, 22 employees (2017: 52) received benefits in relation to cessation, totalling $601,491 (2017: $1,058,397).

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

28. Events subsequent to balance date

There were no material events subsequent to balance date.

29. Budgeted comparison analysis

(a) 2018 significant variations from budget

The unaudited budget figures reported in these financial statements are the financial performance targets that were included in the HNZC Group's 2017/18 Statement of Performance Expectations.

(b) Net surplus/(deficit)

Operasting revenue

Rental revenue from income-related rent subsidy and tenants was $27 million higher than budget, reflecting higher rent growth across all regions combined with an improved rate of occupancy.

Crown appropriation revenue was $13 million lower than budget, largely due to a lower uptake of HomeStart deposit subsidies being provided to first home buyers than had been anticipated when the budget was established.

Interest revenue was $9 million higher than budget, due to higher levels of investments for longer periods throughout the year.

Operating expenses

Repairs and maintenance $13 million lower than budget due largely to tenant churn and lower spend in unoccupied repairs.

Depreciation on rental properties, were $9 million lower than budget as the actual 2016/17 revaluation resulted in lower than budgeted increases in building values. Most of the increase was recognised in land value.

Grants were $14 million lower than budget, largely due to a lower uptake of HomeStart deposit subsidies being provided to first home buyers than had been anticipated when the budget was established.

Other expenses were $35 million lower than budget, largely due to the delivery of a large portion of the McLennan programme being moved out into future years.

(c) Statement of Financial Position

Overall total assets of $27.5 billion were $0.8 billion above the budget level, primarily due to higher cash balance than expected.

Current assets were $466 million above budget largely due to more than anticipated cash and short-term investments available on hand.

Overall total liabilities of $5 billion were $627 million above the budget level, primarily due to higher bond issued than expected.

(d) Statement of Changes in Equity

The total equity at 30 June 2018 was $22,319 million, which is $157 million higher than budget. The opening reserve position being $865 million higher than budget was the main driver of the variance, which was due to larger revaluation gains in prior years than anticipated. This was partially offset by the annual property valuation (of $847 million) being $692 million less than that expected in the budget.

(e) Cash Flow Statement

Net cash flows from operating activities were $104 million higher than budget due to payments to suppliers and employees being $117 million lower than budgeted. The sale of rental properties and other property, plant and equipment were $282 million lower than budgeted offset by cash flows from relinquishing investments being $170 million above budget resulting in net cash flows from investing activities being $150 million better than budgeted. Net cash flow received from financing activities was $513 million higher than budgeted due to more market debt being issued than anticipated.

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF HOUSING NEW ZEALAND CORPORATION'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of Housing New Zealand Corporation (the Group). The Auditor-General has appointed me, Grant Taylor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information of the Group on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 72 – 111, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and [the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Group on pages 55 to 58 and 60 to 69.

In our opinion:

- the financial statements of the Group on pages 72 – 111:
  - present fairly, in all material respects:
  - its financial position as at 30 June 2018; and
  - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information on pages 55 to 58 and 60 to 69:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2018, including:
  - for each class of reportable outputs:
    - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 30 October 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board Members and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Responsibilities of the Board Members for the financial statements and the performance information

The Board Members are responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board Members are responsible for such internal control as they determine is necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board Memebrs are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board Members are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board Member's responsibilities arise from the Crown Entities Act 2004 and the Housing Corporation Act 1974.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board Members and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board Members are responsible for the other information. The other information comprises the information included on pages 2 to 53, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have provided market remuneration data, which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the Group.

Grant Taylor
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

The numbers every day, everywhere

Statement of Responsibility

The Housing Agency Account is administered by Housing New Zealand Corporation on behalf of the Crown. It does not form part of the Housing New Zealand Corporation Group.

The Board of Housing New Zealand Corporation is pleased to present the financial statements of the Housing Agency Account for the year ended 30 June 2018.

a) The Board is responsible for the preparation of the financial statements and the judgements used.

b) The Board is responsible for establishing and maintaining a system of internal control to provide reasonable assurance as to the integrity and reliability of financial reporting.

c) In the opinion of the Board, the financial statements for the year ended 30 June 2018 fairly reflect the financial position and financial performance of the Housing Agency Account at that date.

For and on behalf of the Board of Housing New Zealand Corporation.

Adrienne Young-Cooper
Chair
Housing New Zealand Corporation

30 October 2018

Vui Mark Gosche
Deputy Chair
Housing New Zealand Corporation

HOUSING AGENCY ACCOUNT

Statement of Financial Position

As at 30 June 2018

	NOTES	2018 $000	2017 $000
ASSETS			
Current assets			
Cash at bank		110,334	74,528
Receivables from exchange transactions	8	31,881	59,693
Prepayments		2	21
Advances to related parties	10	–	492
GST receivable		351	206
Total current assets		**142,568**	**156,075**
Non-current assets			
Long term receivables from exchange transactions	8	17,870	35,279
Mortgage advances	12	871	836
Land under development	3	8,260	7,392
Work in progress	4	2,029	3,913
Rental properties	5	13,993	13,873
Plant and equipment	6	441	446
Properties intended for sale	7	22,268	–
Total non-current assets		**65,732**	**61,739**
Total assets		**208,300**	**217,814**
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities from exchange transactions	9	1,492	1,958
Advances from related parties	10	1,895	–
Provision for future development costs	11	3,647	32,220
Total current liabilities		**7,034**	**34,178**
Non-current liabilities			
Provision for future development costs	11	26,564	4,415
Total non-current liabilities		**26,564**	**4,415**
Total liabilities		**33,598**	**38,593**
Net assets		**174,702**	**179,221**
EQUITY			
Crown funds		179,349	179,349
Retained earnings		(10,419)	(5,638)
Revaluation reserve		5,772	5,510
Total equity		**174,702**	**179,221**

The above statement should be read in conjunction with the accompanying notes.

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2018

	NOTES	2018 $000	2017 $000
REVENUE			
Revenue from non-exchange transactions			
Rental income from tenants		211	216
Rental income from income-related rent subsidy		425	385
Crown appropriation income	10	8	8
Total revenue from non-exchange transactions		**644**	**609**
Revenue from exchange transactions			
Rental income from tenants		45	1,646
Interest income		1,453	1,096
Recovery from impairment on work in progress	4	–	289
Recovery from impairment on mortgage advance	12	–	152
Other income		120	92
Total revenue from exchange transactions		**1,618**	**3,275**
Total revenue		**2,262**	**3,884**
EXPENSES			
Losses on sale of properties		3,531	10,781
Impairment on work in progress	4	116	–
Operating expenses	2	3,396	5,701
Total expenses		**7,043**	**16,482**
Net operating (deficit)/surplus		**(4,781)**	**(12,598)**
Other comprehensive revenue and expense			
Revaluation reserve gains/(losses) on properties	5	262	2,440
Total comprehensive revenue and expense		**(4,519)**	**(10,158)**

The above statement should be read in conjunction with the accompanying notes.

HOUSING AGENCY ACCOUNT

Statement of Changes in Equity

For the year ended 30 June 2018

	2018 $000	2017 $000
Total equity at 1 July	**179,221**	**189,379**
Net surplus/(deficit) for the year	(4,781)	(12,598)
Revaluation reserve gains/(losses)	262	2,440
Total comprehensive revenue and expense for the period	**(4,519)**	**(10,158)**
Contributions from/(distributions) to the Crown		
Contributions from the Crown	–	–
Return of capital to the Crown	–	–
Total contributions from/(distributions) to the Crown	**–**	**–**
Total changes in equity	**(4,519)**	**(10,158)**
Total equity at 30 June	**174,702**	**179,221**
Equity attributable to the Crown		
Opening balance	179,349	179,349
Closing equity attributable to the Crown	**179,349**	**179,349**
Retained earnings		
Opening retained earnings	(5,638)	6,972
Net surplus/(deficit) for the year	(4,781)	(12,598)
Net transfers from asset revaluation reserve on disposal	–	(12)
Closing retained earnings	**(10,419)**	**(5,638)**
Revaluation reserve		
Opening revaluation reserve	5,510	3,058
Asset revaluations on properties	262	2,440
Net transfers from asset revaluation reserve on disposal	–	12
Closing revaluation reserve	**5,772**	**5,510**
Total equity at 30 June	**174,702**	**179,221**

The above statement should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2018

	2018 $000	2017 $000
Cash flows from operating activities		
Rent receipts - tenants	210	215
Rent receipts - income-related subsidy	424	384
Rent receipts - other rental properties	182	1,646
Crown operating appropriation receipts	8	8
Receipts from sale of developed assets	60,254	54,568
Contract deposits received	336	5
Interest received	1,453	1,096
Development costs paid	(21,712)	(26,217)
Other payments to suppliers	(5,522)	(20,136)
Management fee paid to related party	(2,592)	(3,854)
Net cash flows from operating activities	**33,041**	**7,715**
Cash flows from investing activities		
Sale of assets	2,899	6,006
Purchases of assets	(99)	(82)
Mortgage advances received	(35)	534
Net cash flows from investing activities	**2,765**	**6,458**
Net cash flows	35,806	14,173
Opening cash and cash equivalents	74,528	60,355
Closing cash and cash equivalents	**110,334**	**74,528**

The above statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2018

1. Statement of accounting policies

Reporting entity

The Housing Agency Account (HAA) is administered as an agency of the Crown by Housing New Zealand Corporation (the Corporation) under the Housing Act 1955 (Housing Act). Under the Housing Act, the Corporation is empowered to act as an agent of the Crown in carrying out the Crown's decisions in relation to the acquisition, setting apart, and development of land, and the acquisition of assets for state housing purposes.

HAA does not form part of the Corporation's Group Financial Statements.

HAA has designated itself as a public benefit entity (PBE) for financial reporting purposes. PBEs are defined as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view of supporting that primary objective rather than for a financial return to equity holders. HAA applies New Zealand PBE Standards Reduced Disclosure Regime (RDR). These standards are similar to International Public Sector Accounting Standards, with amendments for the New Zealand environment.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

The financial statements comprise Statement of Financial Position, Statement of Comprehensive Revenue and Expense, Statement of Changes in Equity, Statement of Cash Flows, accounting policies and explanatory notes. They have been prepared on a historical cost basis, except where otherwise stated in the relevant accounting policy, and are presented in New Zealand dollars with all values rounded to the nearest thousand dollars ($000) unless otherwise stated.

Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice.

HAA qualifies for PBE Standards RDR as it is not publicly accountable and non-large. The financial statements have been prepared in accordance with PBE Standards RDR and disclosure concessions have been applied. These financial statements comply with PBE Accounting Standards.

Cash at bank

Cash comprises cash at bank and short-term liquid investments with original maturities up to 90 days held specifically for working capital purposes.

Accounts receivable

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Collectability of receivables is reviewed on an ongoing basis. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. Financial difficulties of the debtor and/or default payments are considered objective evidence of impairment.

Receivables are recorded as current, except for those expected to be received beyond the next 12 months which have been recorded as non-current.

Properties intended for sale

Properties intended for sale comprises:

- superlots from Hobsonville development.
- land that is regarded as surplus to the Crown and is no longer required.

A property is classified as intended for sale when its carrying amount will be recovered principally through sale, it is available for immediate sale in its present condition and the sale is highly probable.

Properties intended for sale are recorded at the lower of the carrying amount and fair value less costs to sell. Any write-downs to net realisable value are charged to net surplus/(deficit) for the year.

Mortgage advances

Mortgage advances are designated at fair value through net surplus/(deficit).

Fair value is determined by reference to market-based evidence. Independent valuations are performed annually to ensure the carrying amount does not differ materially from the asset's fair value at balance date. Movements in fair value are recognised in the net surplus/(deficit) during the year.

Mortgage advances are included in non-current assets as their maturities are greater than 12 months after balance date.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

Land under development

Land and related developments that are held for further development and sale in the ordinary course of business are classified as inventory.

Land under development is recorded at the lower of cost or net realisable value (selling price less cost to complete and sales cost). Any write-downs to net realisable value are charged to net surplus/(deficit) for the year.

Work in progress

Land and related developments for eventual use as state housing stock are classified as work in progress. Work in progress is held at cost, which is defined as all costs incurred that are directly related to the development of these assets, and are annually reviewed for any impairment.

Provision for future development costs

HAA estimates future development costs expected to be incurred by each precinct within Hobsonville Point. A provision for future development costs is recognised in the Statement of Financial Position for those costs estimated as required to complete the development process associated with properties sold at the time a sale is recognised. The net movement in the provision for the year is recognised as net gains or losses on the sale of properties in the Statement of Comprehensive Revenue and Expense.

Those costs within the provision expected to be incurred within 12 months after the balance date are classified as current liabilities with the remaining balance of the provision classified as non-current liabilities.

Rental property

Rental properties are initially recorded at historical cost and subsequently measured to fair value on an annual basis. Where an asset is acquired for nominal or zero consideration, the asset is recognised at fair value as at the date of acquisition, with a corresponding recognition of revenue in net surplus/(deficit).

Fair value is determined by reference to market-based evidence and is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Independent valuations are performed annually to ensure that the carrying amount does not materially differ from the asset's fair value at the balance date.

Unrealised gains and losses arising from changes in the fair value of rental property are recognised at balance date. Where a gain reverses a loss previously charged to net surplus/(deficit) for the same asset class, the gain is credited to net surplus/(deficit). Otherwise gains are credited to an asset revaluation reserve in other comprehensive income for that asset class.

An item of property is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of this asset. Upon disposal any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Any gain or loss arising on derecognition of an asset is included in net surplus/(deficit) in the year the item is derecognised. Gain or loss on derecognition is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

Depreciation is calculated on a straight-line basis over the estimated useful life of rental properties as follows:

Buildings	60 years
Improvements	25 years
Chattels	10 years

Property, plant and equipment

Office equipment and furniture and fittings are measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Office equipment	5 years
Furniture & fittings	10 years
Leasehold improvements	the shorter of the period of lease or estimated useful life

An item of property, plant or equipment is derecognised upon disposal or when future economic benefits are not expected to arise from its use. Any gain or loss is included in net surplus/(deficit) for the year in which the item is derecognised. Gain or loss on sale is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortised cost. Due to their short-term nature they are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

They represent liabilities for goods and services provided to HAA prior to the end of the financial year that are unpaid and arise when HAA becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Accounts payable and other liabilities are recorded as current, except for those expected to be settled beyond the next 12 months, which have been recorded as non-current.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to HAA and the revenue can be reliably measured.

(i) Revenue from non-exchange transactions

Revenue from non-exchange transactions is when HAA receives resources for which it provides either no, or nominal consideration, directly in return. Revenue from non-exchange transactions is recognised when initial control over the resources is gained as a result of a past event, receipt of future economic benefits or service potential from those resources is expected, and the fair value of the assets can be measured reliably.

Revenue generated from non-exchange transactions is income-related rental revenue received from tenants, income-related rent subsidies received from the Crown, and Crown operating appropriation.

(ii) Revenue from exchange transactions

Revenue from exchange transactions is generated when an exchange of transactions of approximately equal value has occurred between HAA and a third party.

Revenue shown in net surplus/(deficit) for the year comprises the amounts received and receivable by HAA for providing rental properties to tenants at market value, gains on sale of land and buildings, and interest on bank balances. Any non-cash gains in the fair value of investment properties and reversal of previous impairment of assets are recognised in net surplus/(deficit) for the year.

Financial instruments

HAA is party to a number of financial instruments including cash at bank, accounts receivable, Crown debtors, mortgage advances, contract deposits, accounts payable, and other liabilities plus advances to/(from) related parties.

Gains or losses on financial instruments are recognised in net surplus/(deficit) in the period in which they occur.

Taxation

HAA is not liable for income tax by virtue of section CW 38(2) of the Income Tax Act 2007. However, HAA is subject to Goods and Services Tax (GST).

All amounts within the financial statements are stated exclusive of GST, except for accounts receivable and accounts payable, which are GST inclusive.

Capital management

HAA's capital is in equity, which comprises accumulated funds generated from its operating and investment activities, Crown appropriation and other reserves. These funds will be held by HAA in order to meet its state housing objectives, and will only be held for the purposes for which they were originally appropriated. Any residual accumulated funds that are not utilised by HAA will be returned to the Crown.

Equity is represented by net assets. HAA manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings, to ensure it effectively achieves its objectives and purpose, while remaining a going concern.

Contract deposits

Contract deposits arising from Hobsonville development sale transactions reflect contractual consideration paid by prospective purchasers prior to settlement. These deposits are recognised as income as land settlement occurs or title transfers.

Significant judgements and estimates

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements.

Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and reasonable current assumptions, the results of which form the basis of the carrying values for assets and liabilities that are not readily apparent from other sources.

Rental properties

HAA revalues rental properties on an annual basis. Fair value is determined by reference to market-based evidence from independent valuers Quotable Value New Zealand.

In performing the valuation, the entire portfolio has not been individually inspected. A market indexation approach has been adopted for the remaining uninspected portfolio due to the homogeneous nature of the portfolio. 'Highest and Best Use' scenario was used in the property valuation.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

Impairment of plant and equipment, work in progress and land under development

HAA's primary objective from its non-financial assets is to develop land for housing rather than to generate a commercial return.

Plant and equipment, work in progress and land under development are held at the lower of cost or net realisable value and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be fully recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit.

Reversal of an impairment loss is recognised in the surplus or deficit.

Provision for future development costs

Management makes significant judgements when estimating the amount of the provision for future development costs. As a prerequisite for establishing a provision in relation to each development, management needs to determine whether that development site has been sold. All relevant factors are assessed in ascertaining whether or not the significant risks and rewards of ownership have transferred to the purchaser, when determining whether a sale has occurred.

Management estimates future development costs using a model that includes both development-specific costs as well as a share of Hobsonville site-wide costs. Those costs specific to a particular development are those that provide a direct benefit to that development and typically include construction, landscape design and engineering costs. Site-wide costs are those that are incurred on a total site-wide basis that benefit all developments in the Hobsonville site area, and typically include site-wide amenity assets, site-wide remediation, and coastal walkway costs.

An apportionment of site-wide costs is allocated to each individual development based on the proportion of that development's area to the total Hobsonville site area.

At each balance date, the estimate of future development costs is revised by updating the underlying assumptions and taking account of latest available information in the future development cost model. This includes consideration of development costs incurred to date, internal business planning strategies, and external experts' assessments as to the likely cost of work required to complete both the particular development and the entire Hobsonville site development.

Mortgage advances

HAA designates its mortgage advances at fair value through net surplus/(deficit). An embedded derivative was identified from this financial instrument due to the existence of a prepayment option and the interest rate cap within the mortgage agreements.

Mortgage advances are independently valued at the end of the year by reference to market-based evidence by PricewaterhouseCoopers.

There is no active market currently available for this type of loan. To determine an appropriate discount rate at which to value the loans, the standard bank mortgage and personal lending rates were used as the starting point. These were then adjusted to reflect the average quality and security for the loans. A cap valuation model within Bloomberg was used to estimate the value of the embedded derivative.

Estimation of useful lives of assets

HAA reviews the useful lives and residual values of its property, plant and equipment annually.

Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires HAA to consider a number of factors such as the physical condition of the asset, expected period of use and expected disposal proceeds from the future sale of the asset. An incorrect estimate of the useful life or residual value will impact the depreciation expense recognised in the net surplus/(deficit) for the year and the carrying amount of the asset in the Statement of Financial Position.

Any estimates of future monetary amounts are in nominal dollars and no inflationary increases have been built in.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

2. Operating expenses

	2018 ($000)	2017 ($000)
Management fee	2,592	3,854
Consultants	27	–
Depreciation on rental property	183	144
Depreciation on property, plant and equipment	69	66
Premises security	15	118
Property maintenance	422	1,000
Insurance	32	136
Land rates	418	550
Water rates*	32	56
Communal property costs	6	8
Audit fees	40	40
Legal fees	4	6
Land management costs	–	3
Rental expense	118	–
Property acquisition and development costs	118	3
Commission on rent	2	50
Valuations	19	31
Community development costs	23	–
Net discount on deferred settlement debtors and future development costs**	(757)	(552)
Other expenses	33	188
Operating expenses	**3,396**	**5,701**

* Resolved outstanding wastewater charges with Watercare Services Limited for 2014 to 2017 financial years inclusive.

** Future cash flows associated with deferred settlement debtors and future development costs have been discounted to their net present values accordingly.

3. Land under development

	2018 ($000)	2017 ($000)
Land under development for resale	**8,260**	**7,392**

Land under development is measured at the lower of cost or net realisable value. This relates to purchases of land at the former Hobsonville Airbase from the New Zealand Defence Force, Ministry of Education and Auckland Council, and those costs associated with the development of the Hobsonville site.

For the purposes of assessing the realisable value of this property, land under development for resale has been valued as at 30 June 2018 as part of the overall Hobsonville site valuation.

The valuation was carried out by Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being James Steele (BCom, BProp, MPINZ). The fair value less cost to sell is $10.82 million (2017: $10.98 million).

Movements in land under development

	2018 ($000)	2017 ($000)
Land under development for resale at 1 July	7,392	17,428
Transferred to properties intended for sale	–	(16,137)
Transfer to property, plant and equipment	(5)	–
Development costs incurred during the year	873	6,101
Land under development for resale at 30 June	**8,260**	**7,392**

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

4. Work in progress

	2018 ($000)	2017 ($000)
Work in progress 1 July	3,913	3,631
Transfers (to)/from rental properties	–	(7)
Recovery of prior year impairment	–	289
Impairment	(116)	–
Disposal	(1,768)	–
Work in progress at 30 June	**2,029**	**3,913**

Work in progress (land under development for purposes of the state) is held at cost and is tested annually for impairment. Land value comprises properties transferred from various sections of the Crown under the Public Works Act 1981.

5. Rental properties

	2018 ($000)	2017 ($000)
Land	7,476	6,962
Buildings	6,517	6,911
Rental properties at 30 June	**13,993**	**13,873**

	MOVEMENTS			
	2018		2017	
	LAND ($000)	BUILDINGS ($000)	LAND ($000)	BUILDINGS ($000)
Rental properties at 1 July	6,962	6,911	6,052	5,540
Additions during the year	–	81	–	79
Disposals	–	–	–	(101)
Revaluation	514	(252)	910	1,530
Depreciation for the year	–	(183)	–	(144)
Transfers from/(to) work in progress	–	–	–	7
Transfer to property, plant and equipment	–	(40)	–	–
Rental properties at 30 June	**7,476**	**6,517**	**6,962**	**6,911**

Rental properties comprising land and buildings were revalued to fair value as at 30 June 2018.

The valuation was carried out by an independent valuer, Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being James Steele (BCom, BProp, MPINZ).

The revaluation effect relating to rental properties was a net increase of $0.26 million (2017: an increase of $2.44 million). This net increase has been recognised in the revaluation reserve.

HOUSING AGENCY ACCOUNT

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

6. Plant and equipment

	EQUIPMENT ($000)	FURNITURE ($000)	LEASEHOLD IMPROVEMENTS ($000)	TOTAL ($000)
2018				
COST				
Balance at 1 July	75	152	359	586
Additions	–	19	–	19
Disposals	–	–	–	–
Transfers	–	5	40	45
Balance at 30 June	**75**	**176**	**399**	**650**
LESS:				
ACCUMULATED DEPRECIATION				
Balance at 1 July	(29)	(33)	(78)	(140)
Reversal of disposals	–	–	–	–
Depreciation charged for the year	(15)	(17)	(37)	(69)
Balance at 30 June	**(44)**	**(50)**	**(115)**	**(209)**
2018 Net carrying amount	**31**	**126**	**284**	**441**
2017				
COST				
Balance at 1 July	74	151	359	584
Additions	1	1	–	2
Disposals	–	–	–	–
Balance at 30 June	**75**	**152**	**359**	**586**
LESS:				
ACCUMULATED DEPRECIATION				
Balance at 1 July	(14)	(18)	(42)	(74)
Reversal of disposals	–	–	–	–
Depreciation charged for the year	(15)	(15)	(36)	(66)
Balance at 30 June	**(29)**	**(33)**	**(78)**	**(140)**
2017 Net carrying amount	**46**	**119**	**281**	**446**

7. Properties intended for sale

	2018 ($000)	2017 ($000)
Properties intended for sale at 1 July	21,135	28,097
Disposals during the year	(1,991)	(23,099)
Transfers from land under development	–	16,137
Transferred development costs	3,124	–
Properties intended for sale at 30 June	**22,268**	**21,135**

For the purposes of testing whether an impairment has occurred to the properties intended for sale as at 30 June 2018, a valuation was carried out by Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being James Steele (BCom, BProp, MPINZ).

As at 30 June 2018, the fair value less cost to sell was $72.29 million (2017: $75.35 million).

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

8. Receivables

	2018 ($000)	2017 ($000)
Current receivables		
Accounts receivable	31,883	59,698
Provision for doubtful debts	(2)	(5)
Net realisable value of current accounts receivable	**31,881**	**59,693**
Non-current receivables		
Long-term accounts receivable	17,870	35,279
Total non-current receivables	**17,870**	**35,279**
Total receivables	**49,751**	**94,972**

Long-term receivables relate to sales of developments subject to deferred settlement terms. Deferred settlements arise from sales being recognised when management considers that the risks and rewards of ownership have transferred to a purchaser/developer prior to completion of the development. Long-term receivables associated with deferred settlement debtors have been discounted to their net present value accordingly with an impact of $0.66 million gain recognised directly in the net surplus/(deficit) for the year (2017: $0.67 million gain). Treasury-published discount rates ranging from 1.83 percent to 2.25 percent (2017: 2.27 percent to 2.52 percent) were used to calculate the net present value.

9. Accounts payable and other liabilities

	2018 ($000)	2017 ($000)
Current accounts payable and other liabilities		
Trade creditors	1,463	1,947
Accrued expenses and other liabilities	29	11
Total current accounts payable and other liabilities	**1,492**	**1,958**

10. Transactions with related parties

HAA is an account of the Crown. It undertakes some transactions with statutory corporations, state-owned enterprises and government departments on an arm's length basis.

In the current financial year, HAA received nil capital appropriations (2017: nil) and $0.008 million in operating appropriations (2017: $0.008 million) from the Crown.

In the year to 30 June 2018, the Corporation provided management services to HAA. A management fee of $2.6 million (2017: $3.9 million) was charged by HLC (2017) Limited (HLC) for services relating to the Hobsonville development. No management fee has been charged for other services provided to HAA since this requires ministerial approval under the Housing Agency Accountability Agreement.

The Corporation administers HAA as an agent of the Crown under the Housing Act 1955. As at 30 June 2018, the balance of the total amount owed by HAA to the Corporation and its subsidiaries was $1.9 million (2017: $0.5 million was owed to HAA by the Corporation resulting in a net movement of $2.4 million). This balance was fully paid in July 2018.

In its capacity as agent for HAA, the Corporation manages the rental income and expenses of HAA's rental properties. No fee is charged for this service.

HOUSING AGENCY ACCOUNT

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

11. Provision for future development costs

	2018 ($000)	2017 ($000)
Current provisions		
Provision for development costs	3,647	32,220
Total current provisions	**3,647**	**32,220**
Non-current provisions		
Provision for development costs	26,564	4,415
Total non-current provisions	**26,564**	**4,415**
Total provisions for development costs	**30,211**	**36,635**
Movement in carrying amounts		
Provision for development costs		
Carrying amount at 1 July	36,635	26,802
Additional provisions recognised	11,291	29,949
Development expenditure incurred	(17,715)	(20,116)
Total carrying amount at 30 June	**30,211**	**36,635**

The additional provisions recognised are those costs estimated as required to complete the development process associated with those properties that have been sold to 30 June 2018. An additional 3,943 square metres of land was sold during the year bringing the total land area for which future costs have been included in the provision to 769,396 square metres. The increase in estimates relates to the effect of applying revised estimates to those amounts previously provided for in prior years that still remain at the latest balance date and those additional amounts relating to current year sales.

The non-current portion of the provision has been discounted accordingly with an impact of $0.098 million gain recognised directly in the net surplus/(deficit) for the year (2017: $0.12 million gain). Treasury-published discount rates ranging from 1.83 percent to 2.25 percent (2017: 2.27 percent to 2.52 percent) were used to calculate the non-current provision.

In the year to 30 June 2018, site remediation costs of $3.99 million are included in the future development costs provision based on estimates provided by Thomas Consultants Limited and reassessment by HLC management (2017: $13.26 million).

12. Mortgage advances

	2018 ($000)	2017 ($000)
Beginning of year	836	1,201
Fair value gain/(loss)	–	152
Increase/(Repayment) of advances	35	(517)
Total mortgage advances at 30 June	**871**	**836**

Gateway Housing is an initiative approved by Cabinet in 2009 to assist community housing organisations by selling surplus Crown land to build houses for home ownership for first home owners. Where there is no demand for sections by housing organisations or no suitable proposal for land use, land may be offered to individual moderate-income households.

The sale price of the land is treated as a loan to the buyer, secured by a second mortgage on the title. The interest rates charged on the loan are as follows:

- Years 1 to 5 – 3 percent
- Years 6 to 7 – 1 percent or market rate, whichever is lower
- Years 8 to 9 – 3 percent or market rate, whichever is lower
- Year 10 – 5 percent or market rate, whichever is lower

Gateway loans are designated at fair value through net surplus/(deficit). Any movement in fair value is taken to net surplus/(deficit).

The Gateway loans were revalued independently by Andrea Gluyas of PricewaterhouseCoopers, a member of the New Zealand Society of Actuaries and the Institute of Actuaries of Australia.

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

13. Financial instruments

	LOANS & RECEIVABLES ($000)	FAIR VALUE THROUGH NET SURPLUS/ (DEFICIT) ($000)	AMORTISED COST ($000)	TOTAL ($000)
30 June 2018				
Financial assets				
Cash at bank	110,334	–	–	110,334
Receivables	49,751	–	–	49,751
Mortgage advances	–	871	–	871
Total financial assets	**160,085**	**871**	**-**	**160,956**
Financial liabilities				
Accounts payable and other liabilities	–	–	1,492	1,492
Advances to related parties	–	–	1,895	1,895
Total financial liabilities	**-**	**-**	**3,387**	**3,387**
30 June 2017				
Financial assets				
Cash at bank	74,528	–	–	74,528
Receivables	94,972	–	–	94,972
Mortgage advances	–	836	–	836
Advances to related parties	–	–	492	492
Total financial assets	**169,500**	**836**	**492**	**170,828**
Financial liabilities				
Accounts payable and other liabilities	–	–	1,958	1,958
Total financial liabilities	**-**	**-**	**1,958**	**1,958**

14. Rights of First Refusal for sale of land

The Right of First Refusal (RFR) restricts the disposal of Crown properties except in accordance with legislation. Iwi/hapū granted RFR have the right to refuse to purchase properties held for disposal first, before they can be disposed of to anyone else.

The following are examples of Acts that grant RFR over those Crown lands set aside for a state housing purpose and administered by Housing New Zealand Corporation under the Housing Act:

- Ngā Mana Whenua o Tāmaki Makaurau Collective Redress Act 2014 (Minister of Housing exemption is available for the sale of Crown land for housing. If housing is to be built on the land by a third party (and no exemptions apply), the Limited Partnership is to be offered the opportunity to submit a proposal to be the developer). MBIE administers the RFR development opportunity offers in accordance with the Redevelopment Protocol
- Waikato-Tainui Raupatu Claims Settlement Act 1995 (some exemptions available)
- Port Nicholson Block (Taranaki Whānui ki Te Upoko o Te Ika) Claims Settlement Act 2009 (some exemptions available)
- Ngāi Tahu Claims Settlement Act 1998 (some exemptions available)

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

15. Commitments

Capital commitments

As at 30 June 2018, there is a commitment to pay $1.9 million in relation to the completion of civil project works within the Hobsonville development site (2017: $4.4 million).

16. Contingencies

Contingent assets

Venture sale proceeds Hobsonville Point Development

Buckley B

The sale agreement for the Buckley B precinct superblocks, identified as Stage 2, Stage 3a and Stage 3b, to AVJ Hobsonville Ltd, provides for venture proceeds that are due in the event that the net saleable per-square-metre value of the land being on-sold to builder partners and end purchasers exceeds the agreed minimum on-sale per-square-metre price of that land. In such circumstances, a 50 percent share of the additional revenue would be due to HAA. As at 30 June 2018, $5.3 million of venture proceeds for Stage 2 and Stage 3a is accrued.

Catalina Bay

The sale agreement for Catalina Bay to The Landing Holdings Limited Partnership (TLHLP), provides for venture proceeds to be shared equally for the profits achieved from the sale and/or leasing of Catalina Bay calculated as follows:

Venture proceeds for each stage shall be the balance over and above that calculated based on gross sales prices and market value of dwellings and commercial units respectively on Catalina Bay that results in a gross return to TLHLP (inclusive of its cost of capital calculated monthly) of 12.5 percent (excluding any GST, if payable) as at the Venture Proceeds Calculation Date of the relevant Stage. The cost of capital charge is an amount equal to the then five-year swap rate plus 5 percent, on debt and equity contributed in respect of each stage, and is calculated monthly.

Any amount of venture proceeds that may arise from sales will be recognised as a gain on sale in net surplus/(deficit) but the respective amounts can only be determined when sale negotiations are completed.

Contingent liabilities

There are no contingent liabilities at balance date (2017: nil).

17. Subsequent events after balance date

There have been no significant events since balance date (2017: nil).

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF HOUSING AGENCY ACCOUNT'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of Housing Agency Account (the Account). The Auditor-General has appointed me, Grant Taylor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Account on his behalf.

Opinion

We have audited:

- the financial statements of the Account on pages 117 – 131, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion:

- the financial statements of the Account on pages 117 – 131:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards with disclosure concessions.

Our audit was completed on 30 October 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board Members of Housing New Zealand Corporation and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Board Members for the financial statements

The Board Members are responsible on behalf of the Account for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board Members are responsible for such internal control as they determine is necessary to enable them to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board Members are responsible on behalf of the Account for assessing the Account's ability to continue as a going concern. The Board Members are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Account, or there is no realistic alternative but to do so.

The Board Members' responsibilities arise from the Housing Act 1955.

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Chartered Accountants

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Account's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board Members and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Account to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board Members are responsible for the other information. The other information comprises the information included on page 115, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Chartered Accountants

Independence

We are independent of the Account in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with or interests in the Account.

Grant Taylor
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

hnzc.co.nz

Every day

Everywhere

Housing New Zealand
Housing New Zealand Corporation

New Zealand Government

HOUSING NEW ZEALAND CORPORATION

ANNUAL REPORT **2017/18**