Housing New Zealand Annual Report

2018 ▸ 2019

Housing New Zealand
Housing New Zealand Corporation

Contents

Our vision

Building lives and communities by housing New Zealanders.

He pukenga wai, he nōhanga tāngata, he nōhanga tāngata, he putanga kōrero.

Who we are

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 in 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. And 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

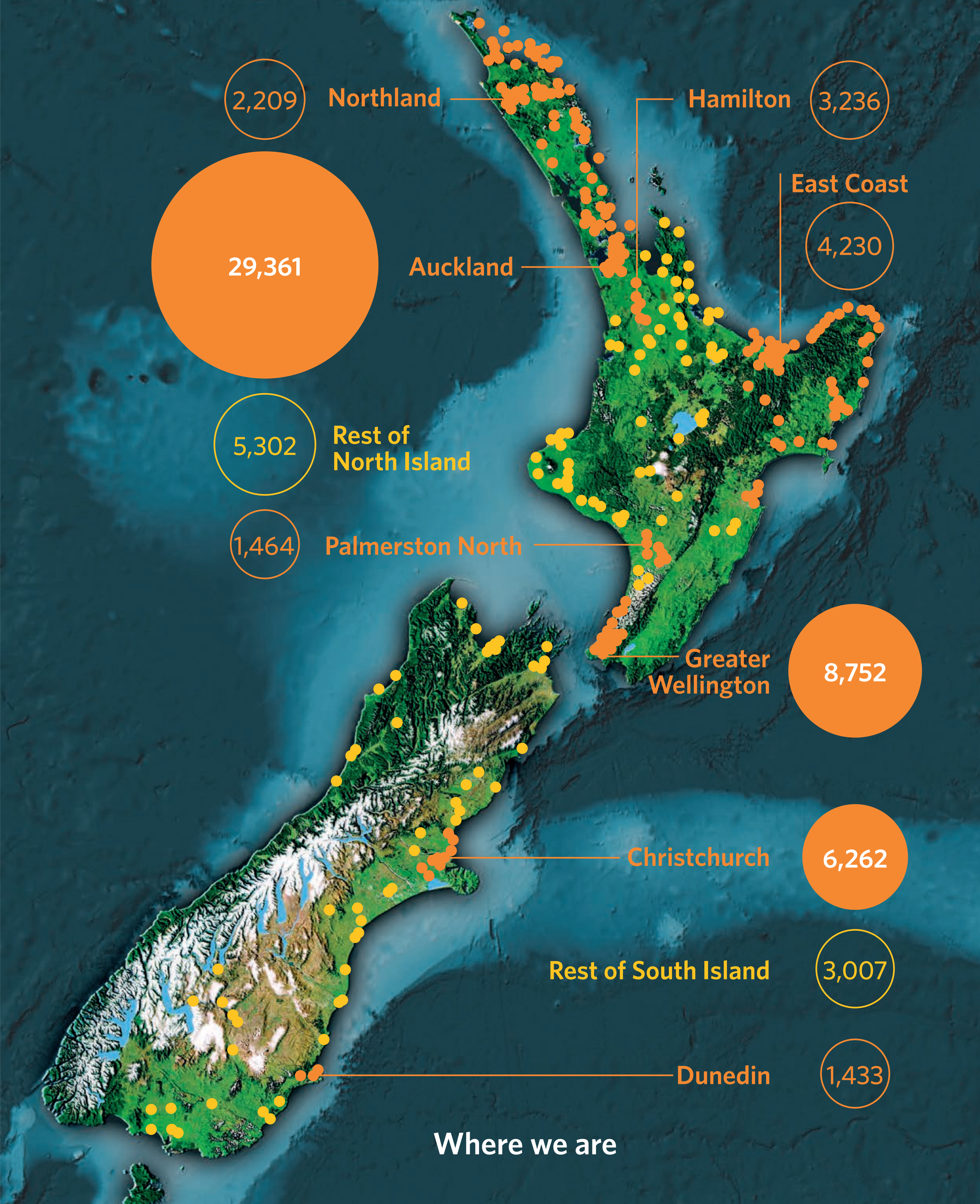
This is about valuing what we know while being open to the knowledge of others. When we are humble we respect the knowledge of others. Humility creates space for us all to contribute, build trust and learn.

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.

Every day we strive to have a positive impact on New Zealand



2,209
Northland
Hamilton
3,236
East Coast
4,230
29,361
Auckland
5,302
Rest of North Island
1,464
Palmerston North
Greater Wellington
8,752
Christchurch
6,262
Rest of South Island
3,007
Dunedin
1,433

Where we are

At a glance

Our homes

We own or manage a large property portfolio of approximately

65,300 properties

1,300 from 2018

45 years

average age of our homes

42% of our homes were constructed before 1968

40% of our homes have **three bedrooms**

45% of our homes are located in **Auckland**

We recognise that a home is more than a house

We spent nearly

$500m

maintaining, upgrading and improving our homes during 2018/19

1,500

of our homes are rented to community groups to help them provide residential specialist services to people with complex needs

We are strengthening our focus to **ensure** our customers have **stable housing** that will enable **better life** outcomes

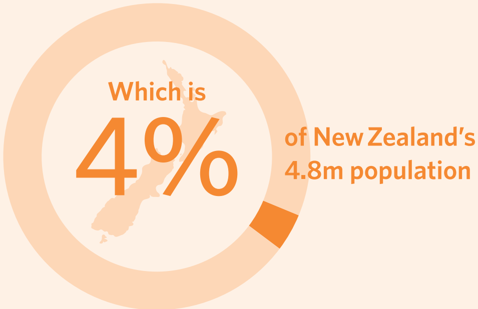
$28.6b

value of our assets

Our customers

Our customers are diverse

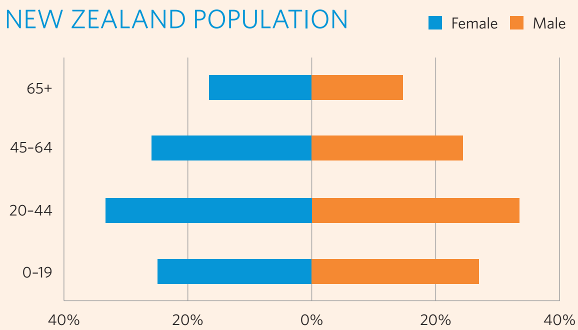
Nearly **187,000** people live in our properties

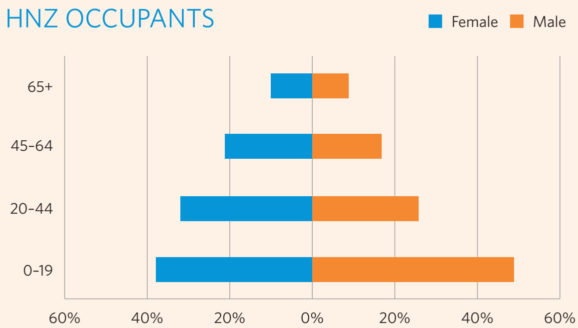


...a lot of tamariki and rangatahi

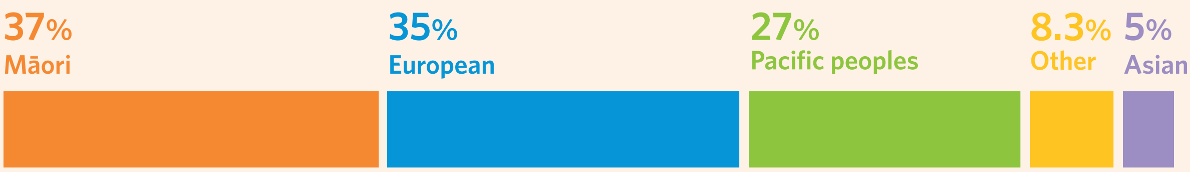
31%
Our most common household type is a **single parent with children**

30%
Closely followed by **single person** households





Our customers are diverse



* People may identify with more than one ethnicity

Our achievements

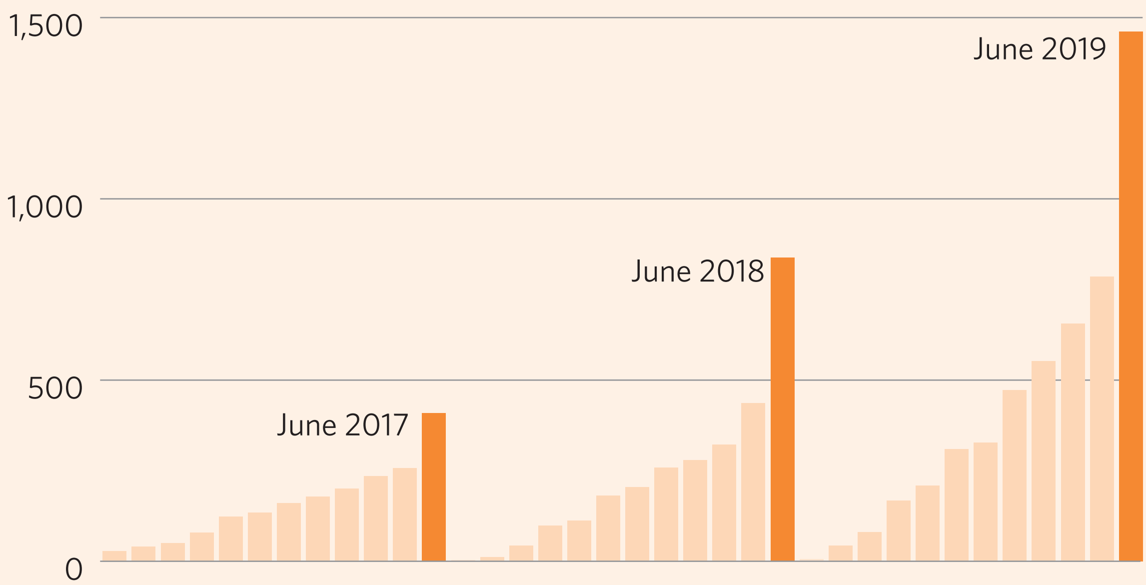
Renewing and growing the housing supply

We are building more warm, safe, dry homes for our customers to live in than we have in many decades. We've succeeded comprehensively across the board in home delivery-related measures: state homes delivered, the net increase in state homes, market homes delivered, the KiwiBuild percentage of homes built and the affordable homes percentage of total deliveries are all above targets.

But there is still more to do: the housing register continues to grow. We will continue to deliver more homes, with 2,354 state homes under construction or under contract at the end of June 2019.

1,461 NEWLY BUILT STATE HOMES

2018/19 SPE target: 1,380



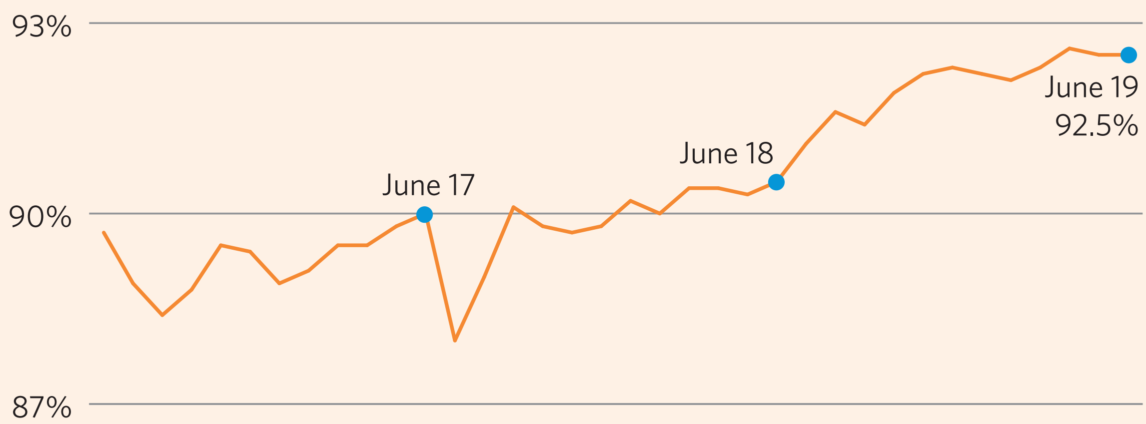
Sustaining tenancies

We're getting more people into our homes faster. We have reduced the time taken between a tenancy ending and the home being ready to let again – to an average of 16.4 days this year, compared with 19.3 days last year and 29.6 days in 2016/17.

We continue to help our new customers sustain their tenancies, with 92.5 percent of new customers staying 12 months or more. This measure is still in development. While not official, this measure shows how many customers leave within a year that we deem to be still in need. As an indicative measure, it shows the positive effect of our new policies.

WE HELPED MORE OF OUR NEW CUSTOMERS SUSTAIN TENANCIES

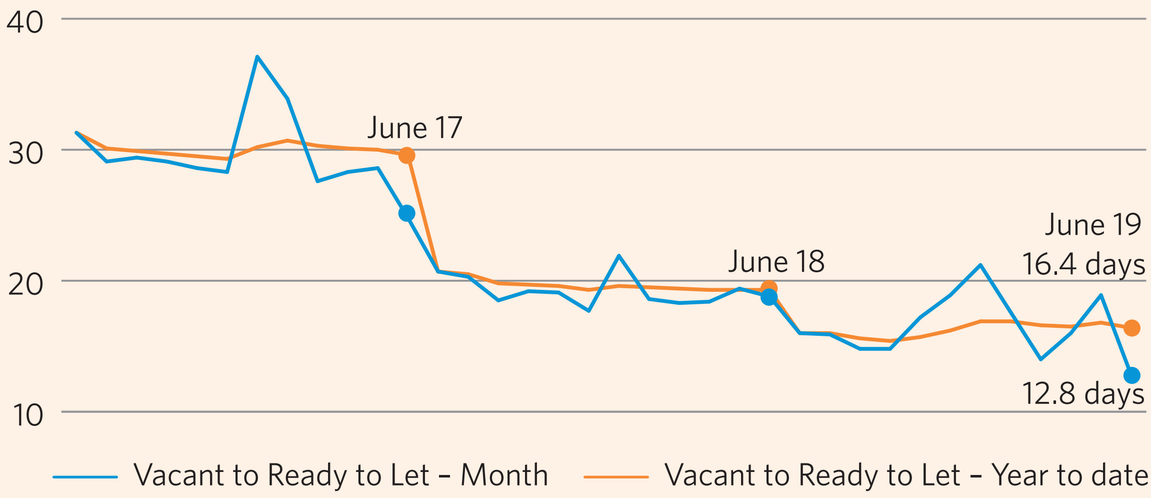
130 fewer families left within a year while still needing our services



THE NUMBER OF CUSTOMER EXITS HAS REDUCED

WE TURNED OUR PROPERTIES AROUND FASTER THAN EVER BEFORE

It’s like having 241 more homes

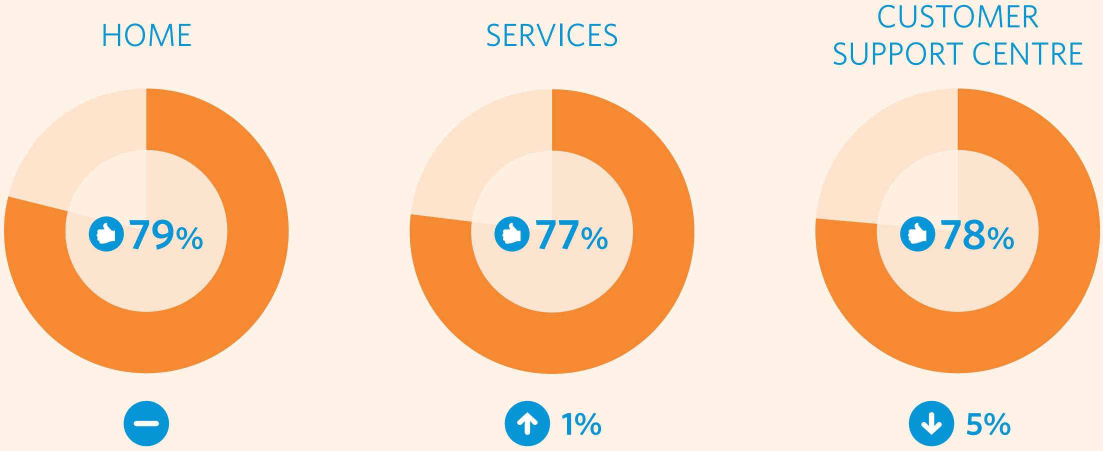


Managing and maintaining

Sixty percent of all maintenance is planned, which means we are actively improving our homes rather than simply repairing wear and tear. While this is below our target of 70 percent, we continue to plan and take action to make our homes warm, dry and safe for our customers.

Most of our customers are satisfied with their homes, and with the services we provide for them. All of these results have increased from last year, but are still below our 85 percent target. We will continue to work hard to improve the service we provide.

Customer satisfaction



Supporting home ownership

We have supported more New Zealanders into home ownership than in previous years, and increased our efficiency.

Supported into home ownership
12,517
2.8% on previous year

KiwiSaver HomeStart applications
37,045
1.3% on previous year

KiwiSaver HomeStart paid
16,569
9.1% on previous year

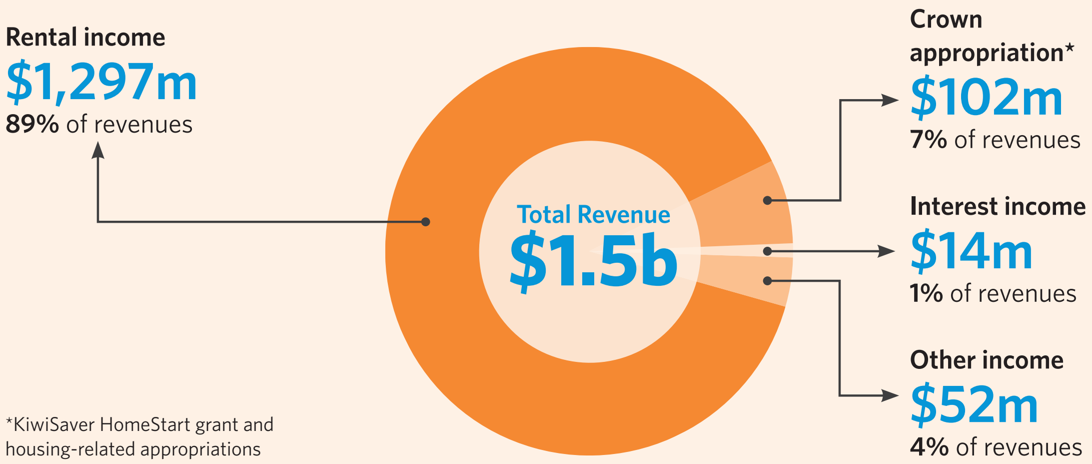
Days to process KiwiSaver HomeStart
2.84
Better than the target of five days and better than last years

Our finances

Full year Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was $416.4 million ($7.4 million above forecast). Strong rental growth from higher average rents was offset by higher responsive repairs; growth in people costs to respond to the increased build programme and more comprehensive tenancy management; higher write-off costs; and costs associated with the meth assistance programme. Despite this, the EBITDA percentage was maintained at the budgeted level of 34 percent.

Our income

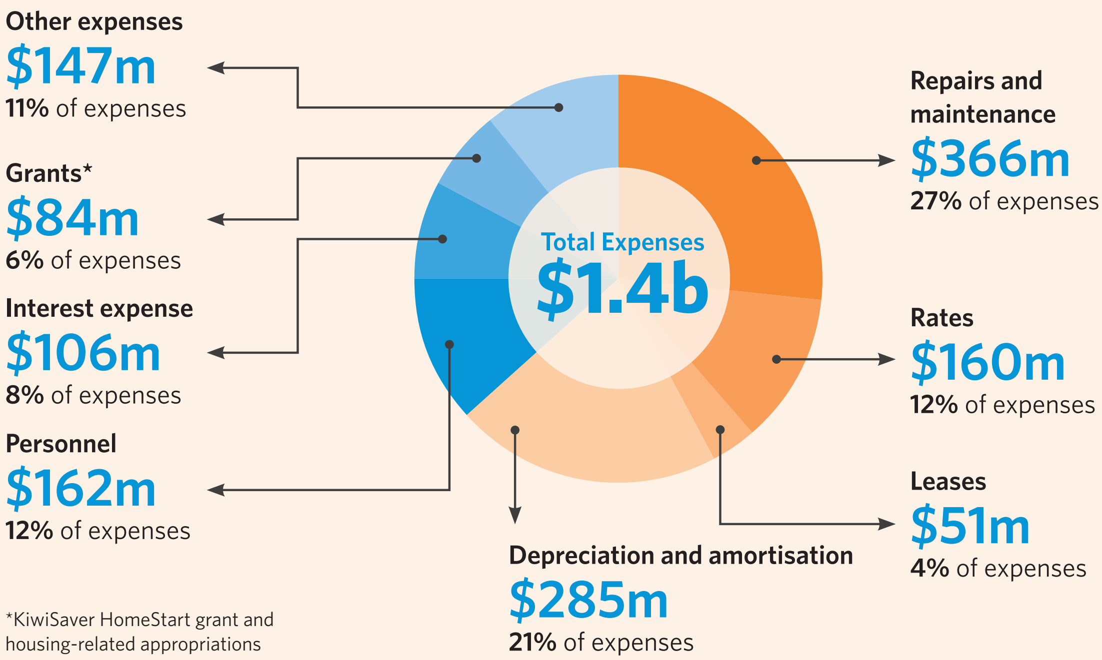
The majority of our income is from rental income and a Crown appropriation for KiwiSaver HomeStart grants and other housing-related appropriations. A high occupancy rate and higher average rent led to rental revenue being $41.1 million above budget for the year.



*KiwiSaver HomeStart grant and housing-related appropriations

Our expenses

The largest components of our funding are spent on our homes, in maintaining and depreciating them as well as paying rates and lease costs. Personnel costs make up 12 percent of expenditure.



*KiwiSaver HomeStart grant and housing-related appropriations

Foreword

Strengthening the support Housing New Zealand provides to our tenants and delivering more homes for New Zealanders in need are two of the key achievements for the agency in the past year.

There have been significant shifts in how Housing New Zealand is better helping people to live well in their homes, alongside a construction programme which has seen the most state houses built in almost two decades. This work illustrates how much Housing New Zealand has progressed, and delivered in these pivotal areas, and it's work which will continue to be enhanced as we provide the homes and help needed.

The 187,000 people living in our homes are diverse. Some have specific needs and requirements to help them live with dignity in stable households.

To ensure Housing New Zealand better understands our customers and what help they may need, we've been gaining better insights into them. Through our Customer Strategy we're learning more about the composition of our homes. We know around 42 percent of our customers are aged under 20, and of those approximately 36,000 are under the age of 10. We know around a third of our homes comprise a single parent with children.

Learning more about our customers is shaping our decisions on how we deliver our services and the agencies we partner with who can provide specialist support where needed.

Our decision making and processes are being changed, so that our customers are empowered, and experience a relationship based on trust and dignity. This will see customers given the ability to choose how and when we do work with them and on the homes they live in. These changes put the customer at the centre of our decision making.

Papakura pilot project

To improve the health and wellbeing of our customers living in the area.

Homes assessed in need of frequent contact and support.

64 — February 2018

↓50

14 — February 2019

Supporting our customers

Our Customer Strategy sets the direction for how we need to serve our customers now and into the future. It identifies what's needed for them to live with dignity and stability in their homes and have access to the social services they require to thrive.

This work has informed our Customer Programme which was established in February 2019 to support the delivery of our Customer Strategy.

It rethinks the way we provide services to those who live in state homes, and explores appropriate ways to support our current and future customers with differing needs, and at various stages of their lives, rather than using a one-size-fits-all approach. This includes reviewing our current Service Delivery model and the developing of a new service and target operating model.

This approach is seeing us put more time and support into the people and families who need it. This includes some of our customers in Redhill, Papakura. This South Auckland community has heart but also some real challenges in terms of high unemployment, low incomes and poor health outcomes.

In early 2018 Housing New Zealand identified 480 households as part of a pilot project with the Papakura Marae to improve the health and wellbeing of our customers living in the area.

Through the pilot a dedicated tenancy team developed tailored household action plans with customers to establish the level of support they needed. That included a self-assessed rating system, which enabled better identification of the homes in need of frequent contact and support.

Through these plans referrals were made to the Papakura Marae to link people to health, budgeting and employment services.

In February 2018, 64 households were rated as needing high levels of contact and support. After a year of ongoing engagement and support that number reduced to 14 households. The Redhill pilot exemplifies the focus Housing New Zealand is developing to partner with local services, to better understand our customers' needs and to support households to live healthy, well lives.

It's a tangible example of changes in the way we deliver services, and are strengthening our partnerships with a range of social service providers and other agencies. It shows Housing New Zealand and its partners making a positive difference for many whānau and tamariki.

Te Waka Urungi

Another example is our Te Waka Urungi service where, 24 employees in four regions support customers with high and complex needs. Through Te Waka Urungi, we work with government and non-government agencies and support providers to build trust with our customers, identify the support they need, and facilitate and support ongoing relationships.

At the heart of Te Waka Urungi is helping customers sustain their tenancies as we know this is important in ensuring every New Zealander has a safe, warm, dry home every night.

These are just two examples of our work in the past year which we're proud of, but we also acknowledge there's much more to do for many of our customers and their children to help improve their wellbeing.

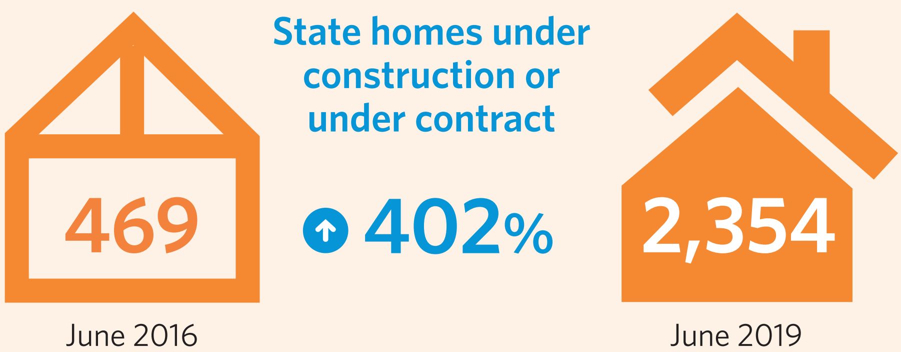
Building more quality homes faster

This emphasis and approach to supporting our customers has been complemented by our build programme which in 2018/19 saw us exceed all our targets for growing housing supply.

A highlight was building 1,461 warm, dry, secure homes – the most new state homes built in almost 20 years. This effort contributed to 2,017 additions to the public housing stock, which includes emergency and Community Group houses.

With the shortage of public housing affecting nearly every part of New Zealand, these achievements in increasing housing supply are encouraging. As houses are being completed, more are being built.

Our ability to increase the pace and scale in building new homes is shown by the 2,354 state homes under construction or under contract at the end of June 2019, compared with 469 state homes in June 2016.



Over the past two years the groundwork for delivering these homes has been laid, with money and decision-making mechanisms and frameworks put in place to deliver a sustainable pipeline of land and housing. We've strengthened our relationship with our contractors through capacity contracts, more homes are being built more quickly through innovative approaches like offsite manufacturing, and we're financing it by raising capital through our bond issues.

These and other elements have seen us establish a strong foundation which will see a pipeline of new housing continue to grow from Invercargill to Kaitaia for years to come.

Our work to deliver more homes across the country is having a real and positive impact on our ability to support our customers, allowing us to house more Kiwis in need in warm, dry and safe homes.

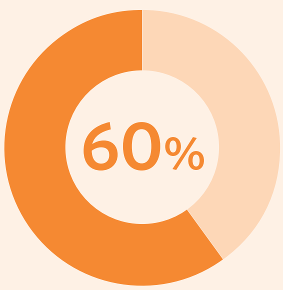
We're also getting more people into our homes faster and have reduced the time taken between a tenancy ending and the home being ready to let again – to an average of 16.4 days this year, compared with 19.3 last year and 29.6 days in 2016/17.

To ensure we can maintain the momentum in delivering more homes, in 2018/19 we progressed various pieces of work which all help contribute and drive our build programme.

This included confirming the settings, decision frameworks and delivery requirements for each of our regions through the completion of our Regional Investment Plan, and streamlining the building consent process and enabling faster approvals for our standardised products.

Our subsidiary HLC is contributing significantly to increasing housing supply and delivered the master planning and land development for our Auckland Housing Programme as well as other large-scale developments on behalf of the Crown.

Specific milestones achieved by HLC include delivering the first development blocks to the market in Northcote for the construction of 105 state houses and 297 market and KiwiBuild homes, and delivering 565 houses in Hobsonville Point, including 142 affordable homes. HLC also commenced work on the regeneration of Eastern Porirua.



40,000
older homes will need upgrading in the next 20 years

By mid-2020
250+
Hutt Valley homes will have received a thermal upgrade

Improving our older homes

Alongside our new builds, we're improving our older homes as around 60 percent of them (approximately 40,000) will need upgrading over the next 20 years to ensure they are of a high quality, the right size, and in the right location to meet our customers' needs.

A pilot to renew our older homes is underway and through the retrofit programme older Hutt Valley homes are being made warmer and drier.

By mid-2020 over 250 Hutt Valley homes will have received a thermal upgrade through new ceiling, floor and wall insulation, double glazing, improved air-tightness, ventilation and new heating to ensure a healthy indoor living environment. The findings from the pilot will inform our plans to expand the programme to retrofit more homes across the country.

We're also financing much of our build programme ourselves by being an active borrower in debt capital markets, raising around $1 billion of term debt per year. A key feature of this was the issue of a sustainability bond – the first for the New Zealand market.

This is part of our move towards being more sustainable, which is why we developed our Sustainability Financing Framework in March 2019 to further embed environmental and social considerations in processes and practices across our core business activities.

The Framework enables debt raised to be earmarked to expenditures that deliver positive environmental and social outcomes. Complementing this is our Environment Strategy which introduces measures to help reduce our emissions from our operations and across our housing portfolio.

The Environment Strategy highlights that we are thinking of our customers today and communities tomorrow by reducing our environmental impact.

These various achievements and programmes are all aimed directly, or indirectly, to better support our customers. We're also seeing some impact this progress is having on Housing New Zealand's reputation.

The findings of the 2019 Colmar Brunton Public Sector Reputation Index and the State Services Commission's 'Kiwis Count' saw Housing New Zealand ranked as the most improved agency in how the public perceives our performance across a range of measures, and these results are testament to the great work our people do every day.

Making it right

Another feature of the past year has been our response to Housing New Zealand's old policy regarding methamphetamine contamination of our properties. Following the release in May 2018 of the Prime Minister's Chief Science Advisor, we adopted the new threshold that triggers meth decontamination.

Like other landlords, Housing New Zealand was faced with the issue of methamphetamine contamination in our homes.

Our own report found that ending tenancies because of methamphetamine contamination caused disruption in the lives of the people we house. To help put it right we introduced a Meth Assistance Programme for customers affected by our former meth contamination policies and approach. In the year since September 2018 we have considered 998 cases and approved and paid 556 cases totalling $4.3 million, averaging $7,800 per case.

Our approach to this issue demonstrates that we're an organisation that is committed to continuous improvement and change to better meet the needs of the people we house.

On the finance side, our operational and financial performance for the year has been sound with 16 of our 22 Statement of Performance Expectations targets met, and an operating surplus before tax of $36 million. That surplus is reinvested into our homes.

These highlights showing how we're supporting our customers better and increasing housing supply are just a selection of our achievements for 2018/19. There is more to do in both areas, but the advances we've made position us well as Housing New Zealand transitions on 1 October 2019 to Kāinga Ora – Homes and Communities.

In October 2018 the Government announced that the functions of the key housing delivery agencies – Housing New Zealand, our subsidiary HLC, and KiwiBuild — will join together to become Kāinga Ora – Homes and Communities. The new entity will lift the capacity of the housing sector and improve outcomes for all New Zealanders. Its emphasis will be on leading urban development projects of all sizes, and being a world-class public housing provider, with associated tenancy services and asset management responsibilities.

As part of Kāinga Ora our people will make a significant contribution to transforming the way New Zealand urban areas are planned, designed and built and it's an opportunity that we are looking forward to.

The work we've undertaken over the last year reflects the new approach towards partnership, engagement and collaboration which will continue under the new agency.

This is the last annual report for Housing New Zealand Corporation.

We would like to acknowledge and sincerely thank all the employees, contractors and our community and government partners who have been part of, and helped us house New Zealanders.

Since 1938 when the first state home housed its first family, generations of Kiwis have lived in, been born and raised in one of our homes. We've provided shelter, care and stability to many people when they have needed it most and Kāinga Ora will continue that proud legacy and provide a base for further opportunities to build homes and communities. It's been a privilege for the organisation and its people to serve New Zealand.

Vui Mark Gosche
Board Chair

Andrew McKenzie
Chief Executive

What we do – our people

Our people are our greatest asset. This year we have focused on ensuring our workforce planning is fit for purpose now and in the future and we will continue to embed good workforce planning across the organisation.

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.

- As at 30 June 2019 Housing New Zealand's employee demographics were as follows:

Number of people

	Fixed term	Permanent	Total
FTE (full-time equivalents)	73.3	1,538.57	**1,611.87**
Total number of our people	79	1,562	**1,641**

Over the year, we have continued to work on planning, implementing and monitoring our Gender Pay Gap Action Plan initiatives and have made a significant impact on our gender profile at the senior levels of the organisation. The Plan was developed in 2018 following employee workshops and engagement with our union partners. Our objectives include:

- reduced ethnic/gender pay gaps
- active flex-by-default work policies
- removal of barriers for men and women wanting to take leave for care of dependants
- gender-neutral recruitment and talent management
- better opportunities for career progression for part-time workers.

We also established our Gender, Diversity and Inclusion Steering Group, which has both employee and Public Service Association (PSA) representation. The Steering Group has confirmed three key work streams focused on:

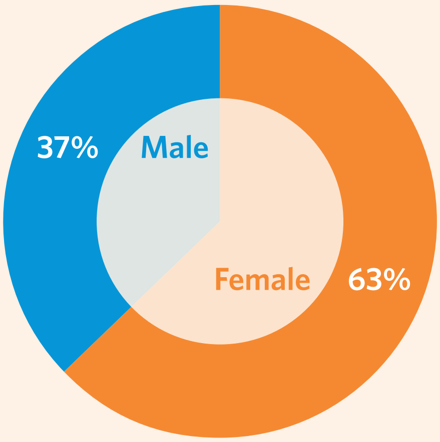
- ethnic and cultural diversity including religion – with a particular focus on Māori and Pacific peoples
- accessibility and impairment
- diversity of gender expression and sexuality.

We have already made advances in promoting equal employment opportunities including minimising any differences to employee entitlements while on parental leave; increasing meaningful reporting on diversity data; and separating remuneration from performance. All of these are key enablers of a more diverse and inclusive working environment.

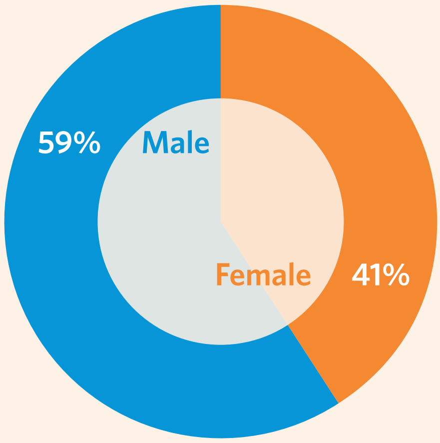
Gender of our people

Our gender profile has improved across tiers 1-3 management levels, from 39 percent female and 61 percent male in 2017/18 to 41 percent female and 59 percent male in 2018/19. We will continue to drive organisational initiatives that positively impact our gender balance.

GENDER PROFILE OF ALL HOUSING NEW ZEALAND PEOPLE
30 JUNE 2019



GENDER PROFILE OF HOUSING NEW ZEALAND PEOPLE (TIERS 1-3, BANDS S1+)
30 JUNE 2019



Ethnicity

Ethnic group	Staff percentage
Asian	9
European	8
Māori	13
Middle Eastern/Latin American/African	3
New Zealand European/Pākehā	38
Pacific peoples	19
Unknown (Undisclosed)	10
Total	**100**

Age profile

Age group	Headcount percentage
Less than 35	27.0
35 - 50	39.9
50 - 65	29.1
65+	3.5
Unknown (Undisclosed)	0.5
Total	**100.0**

Disability

Wherever possible we ensure that our workplace environment is suitable for our people who experience a disability.

We currently do not record information on staff disability. In 2019/20 we will review how we record and analyse our information on disability in the workplace, and will strengthen our focus on diversity and inclusion.

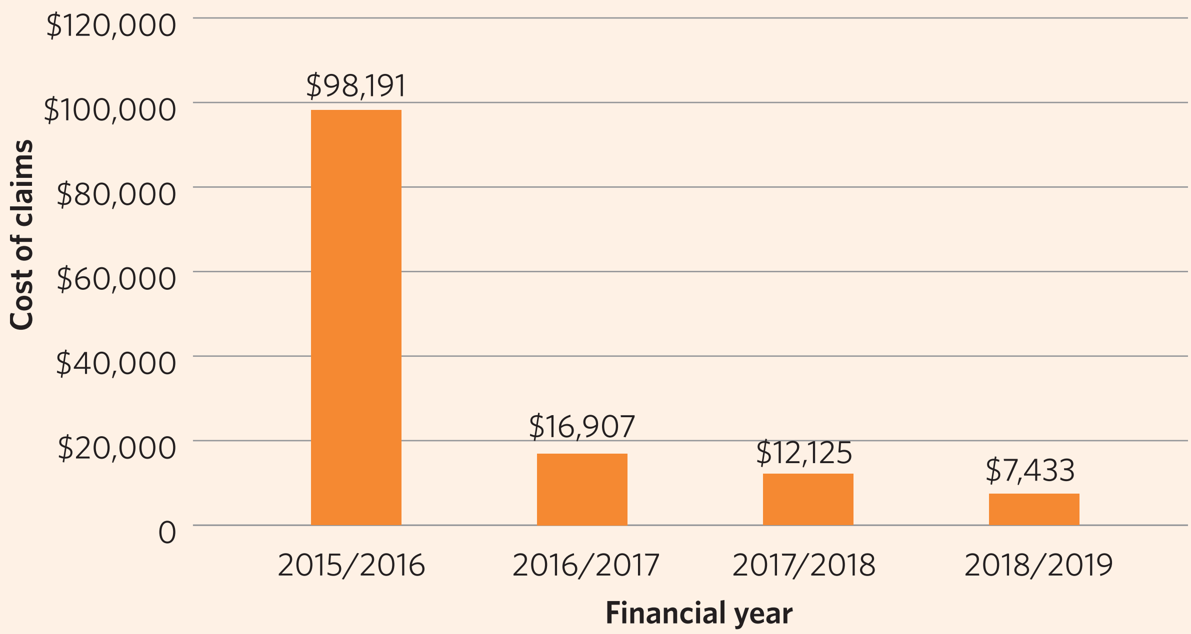
Health and Safety

Housing New Zealand was the recipient of the Innovation Award at the November 2018 Safest Place to Work Awards run by Safe365. The award recognised a shift of focus from simply screening contractors prior to engaging, to a more collaborative approach including leadership, support and partnering, which led to better outcomes with our maintenance contractors.

The maturity of our health and safety management system was assessed at 86 percent using the Safe365 tool and this was validated by an external audit.

We continually seek to prevent illness and injury, however when these occur we ensure that our response is appropriate and methodical. The chart below shows the cost of ACC claims for work-related injuries decreasing significantly since 2016. This graph indicates that our current practices are working to meet our goal of reducing harm to our people.

ACC CLAIMS SUMMARY



What we do – our role

We provide homes and compassionate, deliberate care and support to nearly 187,000 New Zealanders who call one of our properties home

We own approximately 62,800 properties and lease an additional 2,500; in all, our managed stock is approximately 65,300 properties and accounts for around 12 percent of the total residential rental sector.

We know the importance of a home in a person's life, so our aim is to ensure that:

- every New Zealander has a safe, warm and dry home every night
- the homes we are providing are in the right places, of the right size and of a high quality
- our customers live with dignity and stability in their homes and have access to the social services they require to thrive.

Our customers are often some of New Zealand's most vulnerable people. As a public housing provider we go above and beyond what other landlords are required to do when it comes to supporting our customers and linking them with the social support services they need.

We are strengthening our focus on the needs of customers by changing both our role and the way we work, and ensuring people in our homes 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 and tailoring them to different customer groups. We're also better matching the homes we build with specific customer needs and making it easier for customers to interact with us as we maintain and manage our homes.

For our customers with the highest needs, we have our specialist Te Waka Urungi service which works closely with those customers and with other social support agencies.

With the emphasis on a customer-focused approach, Housing New Zealand continues its efforts to provide better care and to improve outcomes, while supporting our customers to stay in their homes for as long as they need them.

We work with others in the housing and social sectors

To help ensure positive social outcomes for our customers, we work extensively with other government and non-government agencies, and we partner with various providers to provide tailored support and services for specific customer groups, including those with complex needs.

We work across the housing sector

As the largest public housing provider in New Zealand, we have a key role to play, working closely with the Ministry of Housing and Urban Development (HUD) in helping the housing sector succeed. With our scale, expertise and a clear government mandate, we are well positioned to show leadership and champion best practice, by:

- supporting and helping shape the Government's policy and direction for the housing sector.
- playing an active role in supporting the wider community housing sector. This includes working collaboratively with both Community Housing Aotearoa (CHA) and the community housing provider (CHP) sector.
- working with supported housing and other specialist providers to supply suitable housing for people with specific needs.

We partner with Māori

We have a culturally and ethnically diverse customer base and a big proportion of our customers identify as Māori.

- We support the Crown's commitment to the Treaty of Waitangi by engaging with Te Arawhiti throughout the Treaty settlement processes to identify land that could be included under Right of First Refusal. Post-settlement we partner with iwi to explore opportunities where we can work together to support Māori housing aspirations.
- We also work with agencies and community groups to address key barriers to housing for Māori and identify opportunities to improve overall wellbeing of whānau in our homes.
- We have developed new, innovative models to assist with housing on whenua for whānau and are reviewing our current engagement with Māori and the products and services available to them to support their housing aspirations. This information will feed into the development of a Māori Housing Unit within Kāinga Ora.

We work with the construction sector

Because of our scale and expertise we are well placed to enhance the performance of the construction sector. We aim to help our partners grow their operations, promote innovation and leadership, support the overall reduction of costs across the building and construction sector and contribute to housing affordability.

- Our Innovate, Partner, Build programme is key to achieving these goals through our new ways of partnering and stimulating growth, capacity and capability in the sector. This is discussed further in our 'Strategic priorities'.
- As signatories to the Construction Sector Accord we are committed to enhancing the capacity of the construction industry.
- We support the delivery of affordable housing by working with KiwiBuild.
- We work to support a safe and healthy environment for our people, including our contractors, and promote best practice in the construction sector.

We work across the public sector and with community groups

- We're strengthening our relationship with agencies that play a key role in many of our communities. This is enhancing our tenancy management practices and the various support and services we deliver to our customers.
- We work closely with the HUD, and other government and non-government agencies and the wider community in various ways so our homes contribute positively to support those agencies' objectives while allowing Housing New Zealand to access support effectively and quickly for customers.

- We are actively working with other agencies to help address a range of issues impacting our customers and the wider housing sector, including addressing homelessness and housing affordability.
- We also collaborate with other agencies, organisations and academia in areas of wellbeing and sustainability. This includes applying wellbeing principles into our strategic planning and performance, operational policy design, and evaluation and research. We also explore and enable partnership opportunities with stakeholders to improve customers wellbeing and environmental sustainability outcomes.

We are now the largest residential developer in New Zealand

In response to changing Government priorities, customer needs and asset condition, Housing New Zealand and its subsidiary Homes Land Community 2017 (HLC) are supporting the growth of the public and affordable housing supply by building, redeveloping and acquiring more homes.

In each of the past three years Housing New Zealand has built more state homes – from 409 in 2016/17, to 838 in 2017/18 and a dramatic increase to 1,461 in 2018/19.

This increase in volume has required a massive change in approach and greater innovation and capacity of our organisation and the sector. We have developed new ways of working with our customers, builders, developers, local government and communities. HLC, which does master planning and land civils, has gone from working on a single greenfield project with no state housing to leading the planning, civils and land sales programme for large-scale developments.

Between 2016 and 2019 both Housing New Zealand and HLC have comprehensively changed their businesses to align them with the new tasks and scale we have been asked to deliver. Both organisations have changed structures, added capacity and capability and initiated programmes of work to deliver more effective and efficient customer and building processes.

We continue to make changes to deliver the Government's housing aspirations. This will influence performance across the construction sector through modelling new technology, increasing density, reducing costs, and promoting regulatory change which creates wider benefits for all New Zealanders.

Our build programme is also increasing the supply of affordable housing and, through our cross-agency work, the supply of transitional housing places across the country to move people living on the streets into homes.

We support housing affordability for many New Zealanders

We also deliver a range of financial products to help more New Zealanders into their own homes and improve housing affordability.

Welcome Home Loans

We support Welcome Home Loans by providing participating lenders with lenders' mortgage insurance. During 2018/19 we processed 1,268 loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme, compared with 1,674 during 2017/18.

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 42 Kāinga Whenua loans, a further nine are in the process of being drawn down and another five have received pre-approval.

KiwiSaver HomeStart

The KiwiSaver HomeStart grant was introduced by the Government in April 2015 and replaced the KiwiSaver Deposit Subsidy. Details on the grant are available on the KiwiSaver website. During 2018/19 we received 37,045 KiwiSaver applications and approved 17,892, compared with 36,414 KiwiSaver applications received and 17,699 approved during 2017/18. We paid out $86.2 million in KiwiSaver HomeStart grant payments, compared with $81.2 million in 2017/18. Grant applications and payments have increased consistently since the KiwiSaver HomeStart grant scheme was launched in April 2015.

Tenant Home Ownership and FirstHome grant

We offer our customers the option of buying the house they are living in and this year we sold 28 homes under this scheme. Eligible customers 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.

The history of state housing in New Zealand

For more than a century state housing has been provided to New Zealanders unable to afford their own home

This has provided shelter and stability for hundreds of thousands of people and the provision of state housing has made a significant and huge contribution to the country.

With Housing New Zealand Corporation transitioning on 1 October 2019 to Kāinga Ora – Homes and Communities, here's a recap of the agency, in its various forms, over the years and some key moments in the life of the country's largest public housing landlord.

Early state housing

In **1905** Prime Minister Richard Seddon passed the Workers' Dwellings Act and the first state houses were built for inner-city workers to rent. Seddon thought New Zealanders could enjoy a higher standard of living if the state took over from 'greedy' city landlords. Several hundred homes were built but the rents were too high for many, and the programme folded in **1919**.

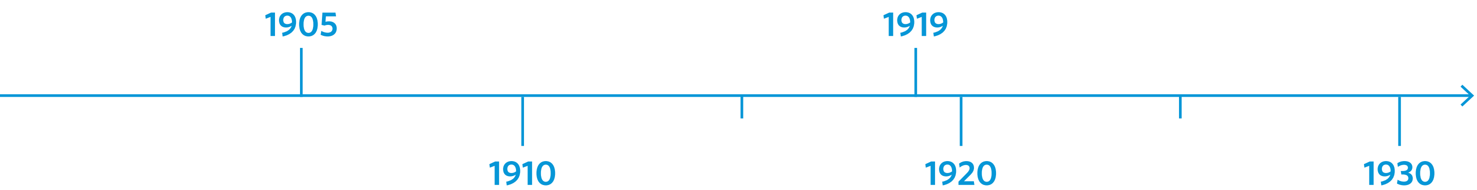
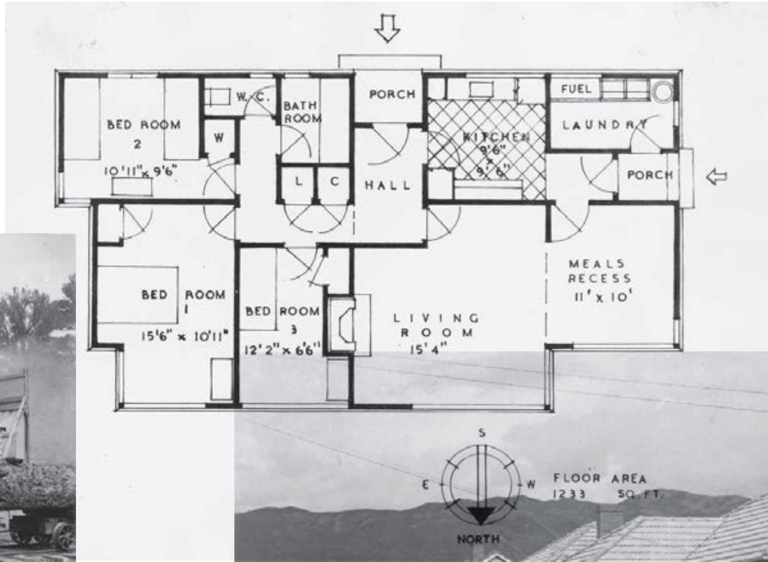
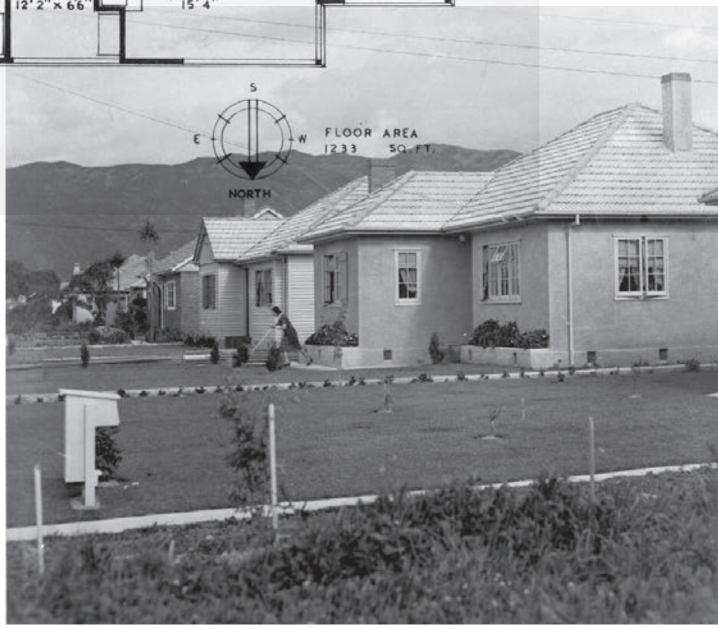


Image references:

House and people at 6 Patrick Street, Petone. Ref: APG-0448-1/2-G. Alexander Turnbull Library, Wellington, New Zealand. /records/23062274

Richard John Seddon. Morice, Charles George Frederick, 1868-1966 :Photographs. Ref: 1/2-029365-F. Alexander Turnbull Library, Wellington, New Zealand. /records/23087295





New suburbs 1910-1920s

Growing demand for housing after **World War I** led the Railways Department to set up a factory at Frankton, Hamilton, building pre-cut houses from local timber. Whole suburbs of railway cottages were built at Frankton and at Moera, Lower Hutt. The scheme stopped when the Government decided private companies could build the houses at lower cost.

Lenient state lending in the **1920s** – workers could borrow 95 percent of the cost of a house – caused a suburban building boom. This receded with the Great Depression of the **1930s**.

1935

The Government wanted to provide homes and stability for people left jobless after the Depression. They loaned money for private house purchases and built houses for the public to rent. The 5,000th state house was built in **1939**. Architects provided 400 different designs, and no two homes were exactly alike.

1910 1919 1920 1930 1935

Image references:

Logs on railway bogies. Ref: 1/2-000374-G. Alexander Turnbull Library, Wellington, New Zealand. /records/23181146

Floor plan of a state house. Making New Zealand :Negatives and prints from the Making New Zealand Centennial collection. Ref: MNZ-2150-1/4-F. Alexander Turnbull Library, Wellington, New Zealand. /records/22457059

State houses, Mahoe Street, Waterloo, Lower Hutt. Ref: MNZ-2154-1/2-F. Alexander Turnbull Library, Wellington, New Zealand. /records/22445203

Post-war 1940s

After **World War II**, thousands of state houses a year were being built by the Government. Whole suburbs were laid out, shops and amenities erected and open space landscaped. Over 25,000 state homes were built over the course of a decade.

They also launched a 'group building' scheme, underwriting new houses built to Government designs. The result was multi-unit buildings made of cheaper materials like fibrolite, which lacked privacy.

In the early **1950s**, the Government let state customers buy their homes, offered state loans, and subsidised the building industry to bring house prices down. In the **1960s**, new housing was built in higher densities, with mass state housing areas emerging in south Auckland and Porirua, north of Wellington.

1970s-1990s

The Housing Corporation was formed in **1974** with Corporation building in inner-city areas and developing different housing types, such as cluster housing.

The Government sold state houses in the **1990s** but kept a reduced state house building programme. Only people on welfare could rent a state home, at full market rent, with accommodation subsidies through the welfare system. Income-related rents were reinstated in **1999**, whereby eligible customers paid no more than 25 percent of their income in rent.

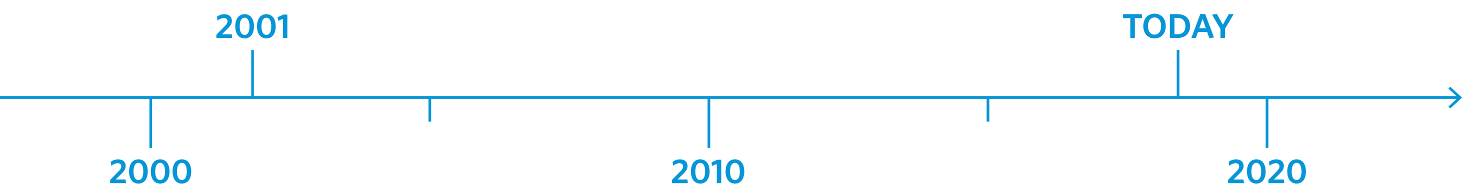
1940 1950 1960 1970 1980 1990

2001 to today

In July **2001** Housing New Zealand Corporation was formed with the amalgamation of Housing New Zealand Limited, Community Housing Limited, and the Ministry of Social Policy.

The next decade saw significant change with 10,000 homes added to the portfolio and initiatives introduced to help promote ownership. Under the social housing reforms in **2014**, assessment for state housing and the management of the wait list was transferred to the Ministry of Social Development and the growth of the community housing sector was encouraged.

In **2018** the Government committed to delivering 6,400 public housing places over the next four years. Housing New Zealand's build programme picked up in scale and pace and this time also saw a strengthened focus on supporting customers to live well in their homes.



Our operating environment is changing

Transition to become a part of Kāinga Ora – Homes and Communities on 1 October 2019

In October 2018 the Government announced that the functions of the key housing delivery agencies – Housing New Zealand, our subsidiary HLC, and KiwiBuild — will join together to become the Housing and Urban Development Authority, Kāinga Ora – Homes and Communities.

This is an important step to lift the capacity of the housing sector and improve outcomes for all New Zealanders. The transition will result in a significant change for Housing New Zealand over the next 12 months. Once established the entity will:

- lead urban development projects of all sizes
- be a world-class public housing provider, with associated tenancy services and asset management responsibilities.

As part of Kāinga Ora our people will make a significant contribution to transforming the way New Zealand urban areas are planned, designed and built.

Throughout the transition period we are continuing to build our momentum to deliver our current services and build programme and enhance our customer focus. We will continue to work closely with all relevant agencies, the Establishment Board and HUD ahead of the formal establishment of Kāinga Ora. Our 2019/20 Statement of Performance Expectations outlines the work we plan to do to support a smooth transition to establishing Kāinga Ora.

Government's focus on wellbeing and sustainability

The Government's current focus on wellbeing and its desire to embed a wellbeing approach across the public sector have broadened the expectations on public agencies to achieve better outcomes for people, communities and natural resources. The public sector is strongly focused on current and future wellbeing, supporting people to have the capabilities they need to live lives of purpose, balance and meaning. Public sector agencies are to consider the wellbeing approach when looking at their strategic directions, services and activities, and holistic contribution to society.

This has enriched our mandate to achieve good public outcomes for our customers, neighbourhoods and communities. We have been working with the Treasury on how to apply the wellbeing approach to our organisational settings, and our responses are discussed in more detail under 'Priority One'.

Linking back to the focus on intergenerational wellbeing is the Government's desire to build a clean, green and low-emissions New Zealand. It is important for us to lead by example given the scale of our activity in the construction space and the significant number of New Zealanders we serve. Our efforts towards environmental sustainability are discussed in more detail under 'Being a high-performing organisation'.

Changing customer needs

Our changing customer base and the changing dynamics of the public housing sector are challenging how we deliver our core role as a public housing provider. For our customers to live well with dignity and stability in their homes, it is essential for us to focus on understanding their needs and take a tailored, customer-focused approach to tenancy management. This is shaping our decisions about the types of homes and communities we build, and the way we deliver services.

While many of our customers are relatively independent and have low requirements, we have a growing proportion of customers with high and complex needs. As at 31 March 2019 the majority (8,937, 80 percent) of those on the social housing register were classified as Priority 'A' (at risk).

We also have a large number of sole parents, and children who live in our homes. Approximately 82,000 of Housing New Zealand's household occupants are under the age of 20, and 36,000 are under the age of 10 – nearly half of the people living in our homes. More than 30 percent of tenancies belong to sole parents.

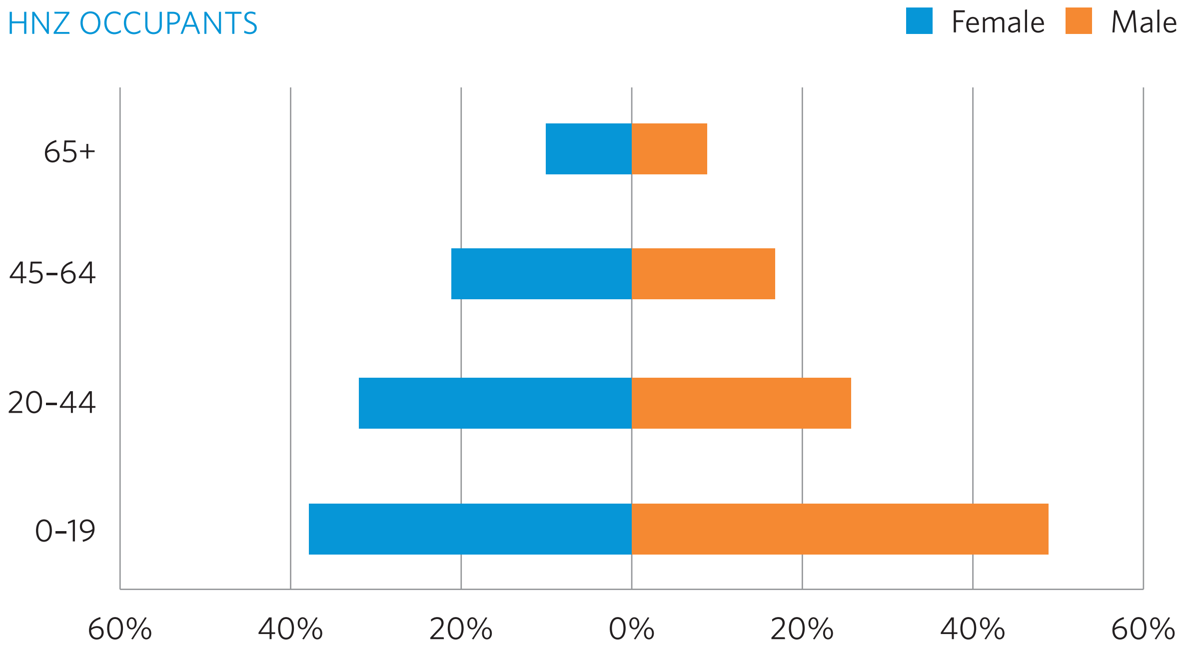
Some of our customers have specific needs, behaviours or circumstances that require a tailored service or home to enable them to live well. These include customers who:

- have mental health challenges
- have addiction and substance misuse issues
- are victims of violence and whānau harm
- are a risk to others
- have mobility and access needs
- have large whānau (including multi-generational whānau)
- are lonely and isolated
- are formerly homeless or are at risk of homelessness.

Our customer base is ethnically diverse. Currently 35 percent of Housing New Zealand's customers identify as Māori, and 25 percent as Pacific peoples. We have also seen growing numbers of customers from Middle Eastern countries including Syria, Iraq and Afghanistan.[1]

1. Note that customers can identify as more than one ethnicity.

HNZ OCCUPANTS



Ageing asset base

To achieve better social outcomes for our customers it is essential they have warm, dry and safe homes to live in. We are creating better-performing properties not only through our new build programmes, but also through the renewal and maintenance of our existing properties.

Our Asset Management Strategy has improved our understanding of the natural lifecycle of our homes and what is required to ensure they remain fit for purpose across their lives. About a quarter of our homes were built during the 1940s and 50s and, while durable, are now reaching the end of their lifecycle.

Those built in the 1960s and 70s were built to meet immediate need and are less durable and of lower quality. The challenge we face is that the average age of our homes is 45 years, with 42 percent of the portfolio built before 1968. This means around 60 percent of our homes (approximately 40,000) will need a significant spend over the next 20 years to ensure they are of a high quality, the right size, and in the right location to meet our customers' needs.

A pilot to renew our older homes is underway and through the retrofit programme older Hutt Valley homes are being made warmer and drier.

By mid-2020 over 250 Hutt Valley homes will have received a thermal upgrade through new ceiling, floor and wall insulation, double glazing, improved air-tightness, ventilation and new heating to ensure a healthy indoor living environment. The findings from the pilot will inform our plans to expand the programme to retrofit more homes across the country.

Depending on the age and condition of the property, and its suitability for our customers, our options include: continuing with maintenance and repair; retrofitting the property; redeveloping it to make the best use of the land; or disposing of it. Disposals, that is either a sale or demolition, are an important function of good asset management and, in some instances, may be the most appropriate option within an overarching portfolio management strategy.

Increasing demand for our services

Demand for public housing has increased dramatically over recent years. At 31 March 2019 there were 11,067 individuals and families waiting for a house on the Ministry of Social Development's Housing Register.

The government wants to significantly increase the scale of homes available to people in need, and the pace at which these are delivered.

Our priorities for 2018/19 have been informed by our vision and our changing operating environment

Our priorities, as outlined in the 2018/19 Statement of Performance Expectations (SPE), have been informed by our operating environment, our policy settings and our ongoing intention to embed our vision of 'building lives and communities by housing New Zealanders' into our everyday way of working. Our priorities challenge us daily to think about how we can better serve our customers and keep us focused on the significant benefits that stable housing brings to the lives of our customers and their communities.

For 2018/19 we identified five priorities that drive our short- to medium-term activities. Our 2018/19 priorities were to:

1. increase our understanding of our customers and put their needs at the centre of our decisions
2. increase the pace and scale of housing supply
3. reduce our cost of building and, in turn, influence cost in the sector
4. optimise the management of our homes
5. use our experience to influence the performance of the housing sector

During 2018/19 we reviewed and fine-tuned our priorities to ensure they continue to reflect the current and future focus. We have strengthened our customer priority to include a focus on communities and the outcomes we seek to achieve for communities we serve. We have also added a sixth priority – 'be a high-performing organisation' – to ensure we are well set up to deliver against our other priorities. This is not a new focus for Housing New Zealand, but positioning it as a priority will give our organisational capability the same level of focus as our other priorities.

Our 2019/20 SPE outlines our intentions against our updated priorities, which are to:

- increase our understanding of our customers and communities and put their diverse needs at the centre of our decisions and actions
- increase the pace and scale of land and housing supply
- reduce our cost of building and, in turn, ensure our financial sustainability
- optimise the management, maintenance and renewal of our homes
- strengthen the performance of the housing sector
- be a high-performing organisation

The following section looks in detail at our progress against our 2018/19 priorities. Because our customers are at the heart of all that we do, our performance story is built around and focused on understanding and responding to their needs. While we have a specific priority related to our customers, the outcomes we are seeking for them are embedded throughout our other priorities.

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

Why is this a priority?

For our customers to live well with dignity and stability in their homes, we must focus on understanding their needs and take a tailored, customer-focused approach to tenancy management. We know that the needs of our customers go beyond housing and that living in a warm, safe and dry home does not, on its own, guarantee good outcomes. For the growing proportion of our customers who have high and complex needs, additional support is often required to ensure they can live well in their homes.

Almost half (approximately 42 percent) of the occupants living in state houses are under the age of 20, and approximately 36,000 of those are children under the age of 10 – a critical time in a child's development. The long term consequences of poor housing outcomes for children and young people are significant. We have a unique ability to help, alongside other government agencies such as Oranga Tamariki, to achieve positive and intergenerational benefits for young people and their families through the way we deliver our services and homes.

We acknowledge the role the community and other social services play in supporting our customers to live well in, and connect with, their communities. What we learn about our customers and the communities within which they live is shaping the decisions we make about the types of homes and communities we build, and the way we deliver our services. All of this work contributes to our achievement of Housing New Zealand's overall vision of building lives and communities.

We will know we are successful when:

- We have a Customer Strategy in place to reflect our focus on sustaining tenancies and inform our service response and delivery model
- We work with specialist providers and other sector agencies to ensure our customers are connected with the services they need
- Our homes and services meet the needs of our customers
- We place customer needs at the centre of our decision making for development projects
- Our strategic direction is translated into our operational policies for our customers

What have we done in 2018/19?

We are working to better understand our customers' individual needs to support them to live well with dignity and stability in their homes. This includes the way we deliver services, and means strengthening our partnerships with a range of social service providers and other agencies.

Completed our **Customer Strategy**, which sets the direction for how we need to serve our customers now and into the future

Began strengthening our focus on the **wellbeing** needs of our customers

Established our **Customer Programme** to support the delivery of our Customer Strategy

Reviewed our current **Service Delivery model** and began developing a new service and target operating model

Strategically reviewed our contribution to non-standard housing, including emergency, transitional and Community Group Housing and as a result increased the amount of **supported housing** we contribute across the country

Operationalised our **Intensive Tenancy Management** service, Te Waka Urungi

Reviewed our **operational policies** to ensure they align with our Customer Strategy

Began developing a **Community Strategy**

Continued our focus on **community development**

Improved our **customers' satisfaction** with the services we provide

Developed our online **myHNZ** tool to enhance our customers' experiences when interacting with Housing New Zealand

Continued to work with iwi and the sector to improve **housing outcomes for Māori**

We provide more detail below on our work in these areas. The following Statement of Intent metrics support this priority:

STATEMENT OF INTENT METRICS

Purpose	Measure	Target
Our services meet the needs of our customers	The percentage of our customers who are satisfied with the services we provide	85% by June 2021
Our homes meet the needs of our customers	The percentage of our customers who are satisfied with their Housing New Zealand home	85% by June 2021
Our homes are matched to our customers' needs	Homes meet customer bedroom requirements	> 76% by June 2021

Sustaining tenancies for customers in need	In 2018/19 we completed our Customer Strategy, which has a key focus on sustaining tenancies for the duration of our customers' need. The strategy identified gaps or limitations, including the lack of clear measurement methods and systems to monitor and improve our impact on our customers. We are working to develop more meaningful outcome measures to track the impact of our interventions.

	Actual 2017/18	Actual 2018/19	Comment
	76%	77%	We remain below our long-term target. We expect to see improvements from our new Customer Strategy and the review of our Service Delivery model.
	79%	79%	We are below our long-term target. We expect to see improvement in the medium term as we continue to invest in maintaining and upgrading our homes along with the provision of new homes that are warm, dry and safe. This will also be supported by our new maintenance contract that will take effect 1 July 2020.
	76%	75%	Our Asset Management Strategy helps match the home bedroom mix for new homes to our customers' needs and our new placements consistently are matched above our target percentage. Nonetheless, it is very hard to move the percentage significantly across our portfolio as evidenced by our reduction from last year's 75.6% to this year's 75.1%.

We are embedding a new shift of focus on wellbeing

- The Government has signalled a clear shift of focus on ensuring the wellbeing of all New Zealanders. Providing people, especially the vulnerable, with access to a stable home is fundamental for good public outcomes both now and in the future.
- We have been recognised as a lead agency in proactively incorporating wellbeing into the development of our outcomes, and have been working with the Treasury and other agencies to consider how we apply the wellbeing approach to our strategic planning, performance monitoring, and evaluation and research.
- HLC is also developing a Wellbeing Evaluation Framework that recognises the positive, long term outcomes its redevelopment activity has on communities. The work of both agencies will help inform the development of an outcomes framework for Kāinga Ora.

We have developed our Customer Strategy, which sets the direction for the services and housing we provide for our customers

- In December 2018 the Housing New Zealand Board approved our Customer Strategy, which sets the direction for the services and housing we provide for our customers. Developed through workshops and interviews with our frontline people, the strategy has the vision of 'our customers live well, with dignity and stability in connected communities'.

We have implemented a Customer Programme to support the delivery of our Customer Strategy

- Our Customer Programme, formally established in February 2019, supports the delivery of our Customer Strategy. It rethinks the way we provide services to those who live in state homes, and explores appropriate ways to support our current and future customers with differing needs, and at various stages of their lives, rather than using a one-size-fits-all approach.
- Over the year we have been developing a new service and target operating model in consultation with our customers and partner agencies, and presented the findings to the Minister of Housing and Urban Development in December 2018. A Customer Programme business case, which will set the future direction of the programme, will be finalised at the start of the 2019/20 year.

We provide Intensive Tenancy Management for customers with high and complex needs

- Our Intensive Tenancy Management service, Te Waka Urungi, works alongside customers with high and complex needs to help them access support services. Through Te Waka Urungi, we work with government and non-government agencies and support providers to build trust with our customers, identify the support they need, and facilitate and support ongoing relationships that will improve their outcomes and help them live well in their homes and communities.
- The service became fully operational in September 2018 and now has 24 people across four regions. An external evaluation of Te Waka Urungi will provide information for improving our approach to helping our customers sustain their tenancies.

We are working out how best to deliver supported housing for customers in our homes

- Supported Housing refers to the 'provision of publicly funded housing where the coordination of housing and other services is essential to the wellbeing of the customer'.
- We reviewed the Supported Housing model and presented the results to the Minister of Housing and Urban Development in December 2018. Since then we have been engaging with partner agencies, such as the HUD, and other providers.
- In 2018/19 we have made progress across various supported housing types:

  ### Community Group Housing (CGH)

  - CGH provides housing solutions to eligible groups in New Zealand such as organisations that provide residential community housing to people with specialised housing needs.
  - We engaged extensively with our customer groups and their funders to provide 19 new housing solutions across the country – for youth at risk, ex-prisoners reintegrating back into the community, people with physical, intellectual and psychiatric disabilities, and families in need of refuge.

Transitional housing

- We have continued to contribute to the Government's cross-agency transitional housing programme, led by the HUD, which aims to ensure a sufficient supply of transitional housing across the country.
- These houses provide a place for families to stay while their needs can be understood and addressed and longer-term sustainable accommodation found. Since October 2016 we have contributed 709 transitional housing places (within 655 individual units) as part of the cross-agency response. In 2018/19 we contributed 52 transitional housing places within 39 individual units.

Housing First

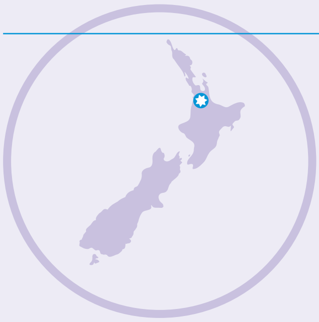
- Housing First is a proven, internationally recognised approach to housing and supporting homeless people with multiple, high and complex needs. The approach provides housing quickly and then offers tailored support for as long as it is needed to help people stay housed and address the issues that led to their homelessness.
- The programme was launched in Auckland with Government and Auckland Council funding in March 2017, and is expanding to other regions across the country, including Christchurch, Tauranga, Hamilton and Rotorua.
- Along with community housing providers (CHPs), private landlords and iwi, we provide housing places as part of the programme. We currently provide 56 properties and intend to grow the supply of Housing First homes to support the housing needs of the chronic and episodic homeless.

We are working to ensure our Customer Strategy is translated into our operational-level policies

- We have been working to translate our Customer Strategy and other organisational objectives to our operational-level policies, so we can provide greater support for our customers to sustain their tenancies. Work has been underway in several operational policy areas:

Addiction and drug-related harm

- We view drug use as primarily a health and addiction issue, and have been developing a policy that supports our customers' wellbeing, rather than penalising them.



A warm dry place to call home

▸ A warm and dry home – Anita (far left) with her whānau in her new home

A large Hamilton family avoided the chill of a Waikato winter after moving from a basement into a modern Housing New Zealand home.

Housing New Zealand Tenancy Manager Claudine says, "Seven people were living in a relative's small one-room basement, which was basically a damp concrete bunker with no shower".

She says the father, elderly uncle and children had serious health issues. "They needed our help to look for a home for them."

Claudine quickly got in contact with the Ministry of Social Development (MSD) and worked closely with them and the family to get them reassessed.

Anita and her family were so grateful that they asked Claudine, the team from Strengthening Families and Raukura Hauora O Tainui to a special lunch at their new home.

Now settled into her new home, Anita says, "I am so happy that we are living in a warm and dry home, and this year I am not stressing about winter approaching."

- In 2018/19 our work focused on implementing the new decontamination threshold for methamphetamine (meth). In May 2018 Housing New Zealand adopted the level proposed by the Chief Science Advisor of 15 $\mu g/100\ cm^2$ as a trigger for decontamination of a property. The previous level was 1.5 $\mu g/100\ cm^2$. This has resulted in the level of meth testing and decontamination dropping significantly, ensuring that customers are not displaced for decontamination unnecessarily. We also stopped terminating tenancies for meth use, so customers affected by addiction can remain in the property while addiction issues are addressed.
- In 2019/20 we will extend the work we have already done in dealing with methamphetamine to other drug and alcohol addiction issues, to develop a clear operational policy and guidelines for our people.

Pets

- We have adopted a more empathetic approach to pet ownership, and in 2018/19 started allowing customers to have a pet in their homes subject to certain conditions.
- We also sought information from all customers with pets so that there was a record of the pet at that property. This is important information to be aware of when we visit a home.
- In 2019/20 we will monitor the impact of this policy and provide further training as needed for our people.

Accessibility

- We have been working with our customers, a wide range of disability organisations, and other agencies, including those from the Ministry of Health and ACC, to co-design our new Accessibility Policy. We have also developed a series of operating principles or commitments to inform how we make decisions and interact with our customers around accessibility. The policy includes:
  - a review of our standards for new build properties, in order for us to best meet the current and future needs of our customers
  - a proposal for an initial target for Housing New Zealand's new builds meeting universal design standards
  - consideration on how best to improve accessibility within our homes and develop a future target as part of our retrofit programme
  - innovative 'co-living' design solutions for those customers and their families with specialised needs

    > streamlining and revising the existing housing modifications process
    > actively improving information collected and maintained on our assets and our customers to support our aspiration of having an accessibility target for all our new and existing homes over time.
  - In 2019/20 we will continue engaging with our customers and key stakeholders on developing and implementing this new policy, and will monitor and report on progress against the new target.

Complaints

  - We have been reviewing our approach to managing complaints and feedback and are working to create a standard framework across all types of complaints and all areas of the business.
  - Last year our Office of the Complaints Commissioner was set up and introduced to the wider business to review and respond to unresolved complaints. In 2018 the Senior Review Officer was appointed and has been reviewing complaints that are high level and complex in nature.

We are working with iwi and the sector to improve housing outcomes for Māori

- We have a culturally and ethnically diverse customer base and a significant proportion of our customers identify themselves as Māori. We engage with iwi, hapū, and urban Māori to support the Crown's commitment to the Treaty of Waitangi, and are continuing to explore partnership opportunities to deliver on Māori housing aspirations. This year, to improve outcomes for Māori customers and their whānau, as well as iwi across New Zealand, we have:
  - participated in Right of First Refusal and Treaty transactions as required, including upholding Iwi Right of First Refusal where it has been granted over Housing New Zealand land
  - continued to have early and repeated engagement with iwi and consultation with relevant agencies where our activity intersects with iwi and Māori interests
  - worked with the HUD and Te Puni Kōkiri to coordinate delivery of the Government's objectives for Māori housing, including housing supply in areas of the most need, and affordable housing, and explored solutions for home ownership on Māori-owned land
  - continued to work with the Papaioea Housing Alliance and Te Puni Kōkiri to provide home ownership opportunities to whānau in the Te Tihi pilot through Te Ara Mauwhare: Pathways to Home Ownership

- continued to work with agencies and community groups to address key barriers to housing for Māori and identify opportunities to improve overall wellbeing of whānau in our homes
- considered ways to ensure our property designs take cultural sensitivities into account
- used our family link specialists to find potential apprentices to connect to providers in an Apprenticeship Pilot for Māori youth living in our homes
- explored development of a Māori Opportunities Model, which will allow us to work with our mana whenua partners to articulate and work together towards collective goals for Māori housing, and urban and community development.

We are reviewing our current engagement with Māori and the products and services available to Māori to support their housing aspirations. This information will feed into the development of a Māori Housing Unit within Kāinga Ora.

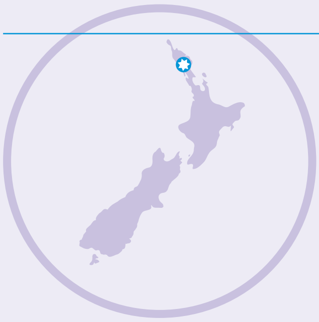
We understand the importance of connected customers and communities

We are developing a Community Strategy

- We understand the significant role of communities in helping us to support our customers to live stable and connected lives. We also understand the impact our work can have on the functioning of communities. During 2018/19 we began developing a Community Strategy focused on promoting thriving and resilient communities, where people live safe, empowered and connected lives. In 2019/20 we will complete our Community Strategy and begin to implement it within our work.

We are developing a consistent approach to delivering shared spaces within our multi-unit complexes

- We have been developing, owning and operating multi-unit sites since the 1930s, and a significant proportion of our future developments will be multi-unit.
- We recognise the importance of shared spaces in multi-unit sites in enabling positive social outcomes and interactions for our customers and their communities.



What a difference a dog makes

Housing New Zealand customer Lyn always thought that owning a dog would be too expensive – until she was gifted a Sydney Silky-Lowchen cross by her daughter during a trip to Dargaville.

The impact Laila has had on Lyn's life has been huge. She's stopped smoking and thanks to Laila's love and companionship, Lyn is making friends and is less lonely. "I used to feel very lonely and was addicted to tobacco, but since having Laila I haven't smoked in eight months. She keeps me busy!" Lyn thinks the new Housing New Zealand Pets Policy is awesome as it gives customers like her, who are older and living alone, the chance to experience the joy of having a dog.

"Having her means so much to me. She brings so much joy to my life and I just love her to bits. When I didn't have a dog I didn't know what I was missing. Now I take her on walks and people chat to me and they want to pat her. It's wonderful."

▸ Lyn and Laila

▸ A wonderful gift – Lyn's dog Laila

- Over 2018/19 we developed our Spaces for Building Communities (SBC) framework, in consultation with our customers, communities and other key stakeholders, to consistently deliver and operate communal and operational spaces at our multi-unit sites. The framework has now been embedded as a standard part of our development, retrofit and operation of multi-unit complexes, and training has been rolled out to our people across the country. In 2019/20 we will undertake an evaluation of the approach and update our framework to reflect the key lessons learnt.

Our community development activities are helping our customers to live more independently and connect with their communities

- We have been working closely with our customers and local people, organisations and groups to support both new and existing communities to thrive. Through our community development activities, we seek to help our customers improve their skills and capability to live independently, and connect with and transform their communities. Our work during 2018/19 included:
  - working with our communities as part of our Apprenticeship Programme to help young people interested in trades to launch their career
  - formalising a two-year strategic partnership with Neighbours Day Aotearoa, a nationwide initiative that encourages people to connect with their neighbours by holding events and activities in their communities
  - participating in the 2019 Australasian Housing Institute Professional Excellence in Housing, winning the Tenant Led Initiative Award for supporting an active, highly engaged and tenant-led elderly community, and receiving a finalist nomination for best engagement practice in our customer surveys
  - continuing to survey our customers once they are settled in their new home for three to six months, to understand what we are doing well and what we could do better to ensure our redevelopments meet our customers' needs.
- HLC has also undertaken several community development and place-making activities over the year. In 2018/19 HLC:
  - worked on comprehensive place-making and community development strategies
  - focused on creating improved infrastructure and amenities that will strengthen and connect neighbourhoods and communities

– worked with communities on several projects and collaborated with Auckland Council on a social cohesion project.

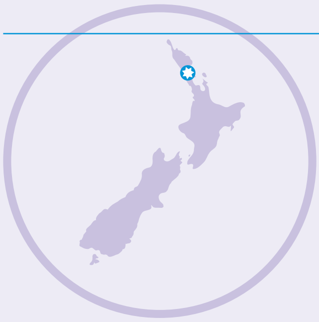
Additional work by HLC to enhance community outcomes is mentioned under our priority 'Use our experience to influence the performance of the housing sector'.

We gain insights from our customers about the services we provide them

- Through the year we surveyed approximately 2,000 of our customers to ask about their experience as a Housing New Zealand customer. The results show that 77 percent were satisfied with the services we provide, an increase on the previous year's result of 76 percent, and 79 percent were satisfied with their Housing New Zealand home, which remains the same as last year. Our target is for 85 percent of our customers to be satisfied with the services and homes we provide by 2021, as outlined in our 2017-21 Statement of Intent.
- There is still room to improve our customers' satisfaction and we have made a significant effort over the year to better understand our customers and their needs, and their pain points when interacting with us. Our Customer Programme is one of the key ways we are improving our service to our customers. In the year ahead we will continue our work towards improving social outcomes and embedding a focus on wellbeing in everything we do.

We are improving the services we provide through our Customer Support Centre (CSC)

- Our 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, account queries and advice on a broad range of Housing New Zealand programmes.
- After the significant improvement in customer service in 2017/18, this year we raised our targets for responsiveness by halving the targeted answer time from 80 percent of calls within four minutes to 80 percent of calls within two minutes. We also raised our customer satisfaction target from 80 percent to 85 percent to drive even better customer service results.
- During 2018/19 our CSC received 710,385 calls, 83 percent of which were answered within our target time of two minutes. With fewer calls received since the previous year, as well as shortened customer wait times, our toll costs fell from $626,141 in 2017/18 (and $823,680 in 2016/17) to $565,306 in 2018/19. Reductions in wait times reflect our improved service as we better match peak volume calls and staff.



A pātaka for the people

Housing New Zealand customer Diana and her daughter thought a pātaka (the Māori word for pantry or larder) would be a great idea for their Otangarei community in Whangarei.

It started out as a shop, but Diana moved the pātaka to outside her home and stocked it with a range of donated food items.

Diana only asks that people give what they can and take as much or as little food as they need.

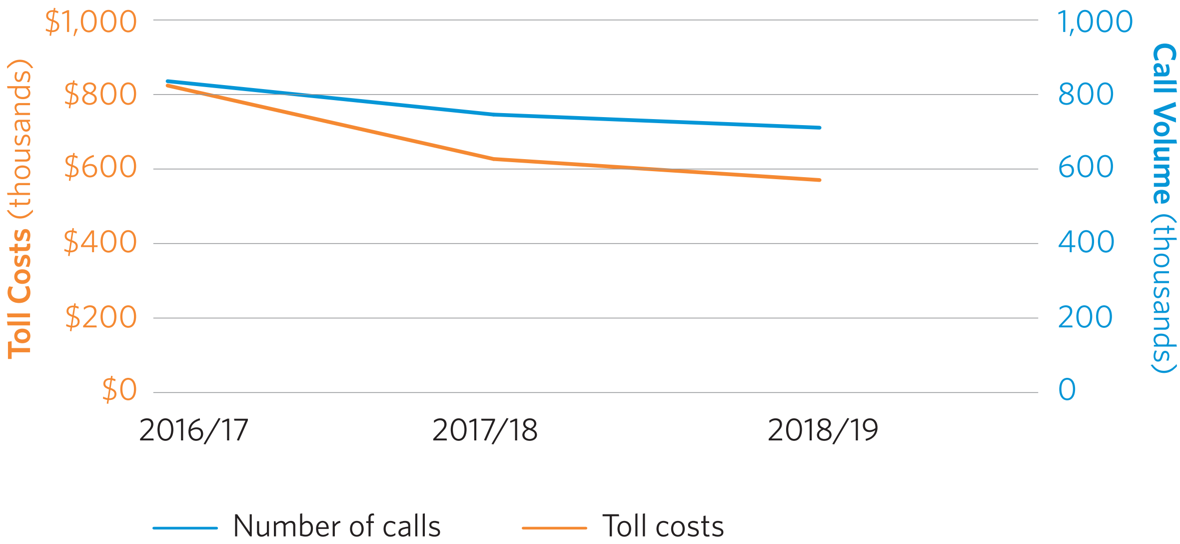
“We have people dropping off all sorts of food – cartons of eggs, boxes of avocados, fruit and vegetables, staples like bread, flour and sugar along with household items like washing powder and toilet paper.

“Some people take just the essentials, some take more and some may only take a potato to bulk out their dinner that night; it really varies.” Diana often reaches into her own cupboard to stock the pātaka and makes up to 25 school lunches every Monday to give out to kids.

And it’s not just for Otangarei residents. “It is to help people wherever they may come from. I just encourage people to only take what they need as there are people who are far worse off than they are.”

- Each year we survey a random number of our customers. In 2018/19 we moved to an automated survey process, but found our customers were less likely to participate, with 624 responses this year. This decrease in sample size affected the accuracy of our results – which showed that 78 percent of customers surveyed were satisfied, against our target of 85 percent. We continued to survey our customers but are now using SMS which we expect will increase our sample size. In order to standardise our results for our Statement of Performance Expectations (SPE) targets with other customer satisfaction measures survey measures and improve the accuracy of our results, we will start measuring CSC customer satisfaction in our quarterly satisfaction survey.

CUSTOMER SUPPORT CENTRE: DECLINE IN NUMBER AND COST OF TOLL CALLS



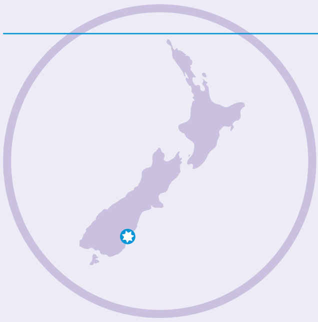
▸ Housing New Zealand made a $45,000 donation to the new Otangarei playground

We have developed an online tool for our customers

- We want to support our customers' sense of independence by giving them access to their personal information anytime, and to increase their contact choices by providing another channel to interact with us.
- Over 2018/19 we developed a tool called MyHNZ, which will allow customers to complete basic queries and functions online. Currently, 1,821 customers are using MyHNZ as part of our pilot group, ahead of a larger public launch in early 2019/20.
- MyHNZ is already starting to free up our CSC to make more proactive care calls and offer increased tenancy services. Over the longer term, MyHNZ will mean we can participate in the digital transformation across government agencies to deliver better services to New Zealanders.

We have increased the channels for sharing our customer story

- In late October 2018 we launched our Housing New Zealand Facebook page. With around three million views so far, we have been able to share our story about the effects we are having on our customers, their whānau and communities to a much wider audience than ever before.
- Other channels, such as our website and platforms like Linkedin, also allow us to tell our customers' stories.



Every community needs Natalie

Natalie was a driving force behind Mosgiel's Murray Street Block Party last year ... and she's the driver leading this year's bigger, better, brighter Murray Street Block Party.

She's helped to build up volunteer helpers, got the local kindy on board and delivered hundreds of pamphlets to make sure that the Block Party this year lives up to and exceeds the high standard she set with last year's event.

Natalie successfully applied for a $500 grant for the event from the Dunedin City Council, and Housing New Zealand and Natalie have enlisted the support of a long list of sponsors.

Motivation? "We wanted the community and Murray Street to have a better name and we wanted everybody just to get to know each other and work together as a street". Simple and direct – like most successful ideas.

With Housing New Zealand's help, Natalie is determined to make this a really stress free, family festive occasion for everyone who comes along, so it's all free, thanks to the huge level of support given by the long list of sponsors.

Priority Two:
Increase the pace and scale of housing supply

Why is this a priority?

Our vision is 'building lives and communities by housing New Zealanders' – because having a stable home provides a foundation for people to live well in their communities. As the country's largest landlord, we provide homes for almost 187,000 people across New Zealand. Many of our houses are more than 50 years old, are nearing the end of their lives and are no longer meeting the needs of our customers and their whānau. The make-up of the households requiring state housing is changing: the three-bedroom state house does not suit customers who are either living alone or have larger families. Alongside this, housing pressures are continuing throughout New Zealand, particularly in the main centres, where we are seeing sustained growth in the demand for housing support, driven by a shortage in the supply of housing. The Government has been clear that there is an urgent need to build more homes, including making more public housing available for those in need.

This priority is primarily focused on our role in increasing the supply of public housing, but also encompasses the work we do to support the growth in the supply of housing more generally, including enabling the development of affordable housing and supporting the delivery of supported and transitional housing.

We will know we are successful when:

- We deliver the right volume supply of quality public housing in the right place and matched to customer needs
- The growth in our housing portfolio aligns with the strategic direction set in our Asset Management Strategy (AMS) and build programmes
- We use innovation to reduce construction time and promote consistency where appropriate
- We have secured funding needed to support our build programmes
- We have helped streamline the building consent process
- We contribute to transitional housing supply
- We contribute to the affordability and accessibility of the wider housing market

What have we done in 2018/19?

Built
1,461
new state homes
across New Zealand

Contributed
52
transitional housing
places within 39 units

Progressed our plans for **our new building at 139 Greys Ave** in partnership with Ngāti Whātua Ōrākei

Confirmed the settings, decision frameworks and delivery requirements for each of our regions through the completion of our **Regional Investment Plan**

Issued
$800m
of term debt
to raise additional finance to expand and continue our build programmes

Worked to **streamline the building consent process** and enable faster approvals for our standardised products

We provide more detail below on our work in these areas. The following Statement of Intent metrics support this priority:

STATEMENT OF INTENT METRICS

Purpose	Measure	Target
Increase the number of public homes available to New Zealanders	Grow Housing New Zealand's managed stock to over 68,000 by June 2022	> 1,100 state homes per annum[2]

2. This measure was included in our 2018/19 Statement of Performance Expectations. Since this measure contributes to our longer-term goal to increase our managed stock to over 68,000 houses by June 2022, we have included this alongside our relevant Statement of Intent measures.

Progressed the development of our Auckland and Wellington **Investment Plans**

Delivered the first **KiwiBuild homes** at our McLennan development and supported the delivery of affordable housing across the country

Continued to explore **offsite manufacturing** as a method of construction

HLC commenced work on the regeneration of Eastern Porirua, and delivered the master planning and land development for our Auckland Housing Programme as well as other large-scale developments on behalf of the Crown

Actual 2017/18	Actual 2018/19	Comment
435	1,223	As at 30 June 2019 our managed stock was 65,256. We are on track to meet this measure by 2022 based on the number of homes under construction or contract within our build pipeline

TOTAL NUMBER OF STATE HOMES DELIVERED, OR UNDER CONSTRUCTION ACROSS NEW ZEALAND

	Delivered	Construction or under contract			Three-year total
	2018/19	**2019/20**	**2020/21**	**2021/22**	
State	1,461	1,494	770	90	**2,354**

We are ramping up our build programmes across New Zealand to deliver more safe, warm and dry homes for our customers

- We are leading the biggest state housing build programme in decades to help address the housing shortage throughout New Zealand. We are building a mix of housing types from single standalone homes to duplexes, terraced houses and apartments. We are also contributing to the supply of housing more generally, including enabling the development of affordable housing and supporting the delivery of supported and transitional housing. These new homes will make better use of land, meet modern standards and provide warm, dry and safe spaces for our customers and their whānau to live.
- Over the past year we have scaled up our build activities in the main centres and the regions and we now have a number of significant housing developments underway across New Zealand. We are also working smarter and adopting more innovative, efficient and sustainable methods for delivering and financing our build activities.
- As the tables below show, we delivered 2,017 state homes, Community Group Housing and transitional homes in 2018/19. Of these homes, 1,461 were newly built state houses,[3] which exceeded our target of 1,380 newly built state homes and is a significant increase from the last two years' results. We also have a large number of home developments underway, with 2,354 state homes under construction or under contract at the end of June 2019, compared with 469 state homes in June 2016. Our work to deliver more homes across the country is having a real and positive impact on our ability to support our customers, allowing us to house more New Zealanders in need in warm, dry and safe homes.

3. We have three categories of managed stock: state housing, CGH, and emergency or transitional housing. One of our most important measures in our Statement of Performance Expectations is the number of newly built state houses.

SPE 2.1

1,461 newly built state houses

1,380 target exceeded by **81**

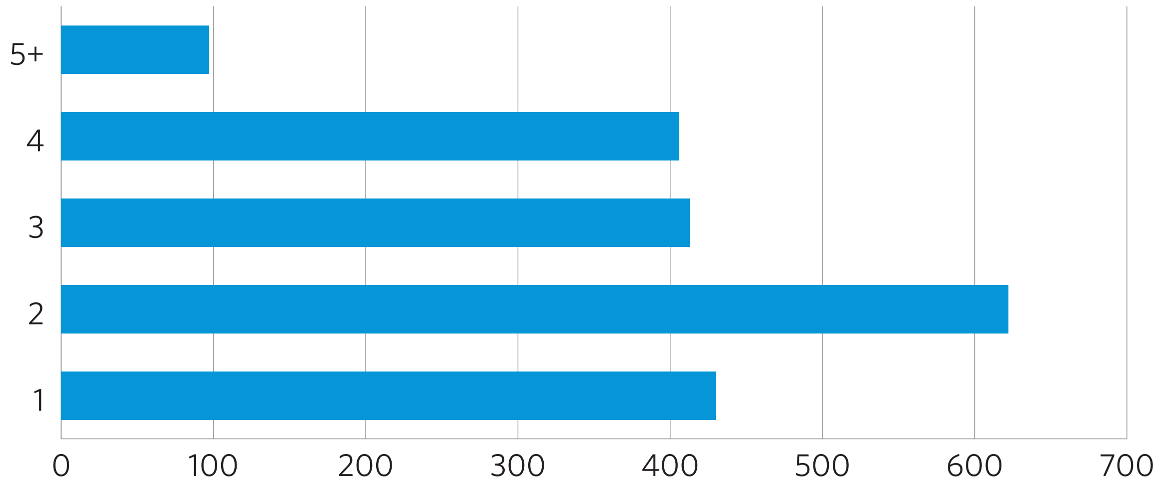
ADDITIONS BY TYPE 2018/19

Newly built, Buy In (existing properties), New Leases	Category	Auckland	Wellington	Christchurch	Rest of NZ	Total YTD Actuals
State Housing (**SPE 2.1**)	Newly Built	968	55	142	296	**1,461**
	Purchases / Buy In	275	5	7	115	402
	New Lease		104		1	105
Total State Housing		**1,243**	**164**	**149**	**412**	**1,968**
Community Group Housing	Newly Built				2	
	Purchases / Buy In	1		2	10	13
	New Lease					
Total Community Group Housing		**1**		**2**	**12**	**15**
Emergency / Transitional Housing	Newly Built				9	
	Purchases / Buy In	4			17	21
	New Lease	4				4
Total Emergency or Transitional Housing		**8**			**26**	**34**
Year-To-Date Total Additions		**1,252**	**164**	**151**	**450**	**2,017**

Looking at our state new build additions by region and by bedroom type

Area	Homes
Auckland	968
Wellington	55
Christchurch	142
Rest of New Zealand	296
Total	**1,461**

STATE ADDITIONS BY BEDROOM

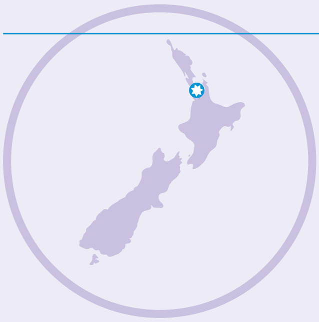


We are delivering large-scale housing developments in Auckland

- Housing New Zealand launched the Auckland Housing Programme (AHP) on 1 July 2016 to address demand pressures through the delivery of 11,000 state houses and 12,600 market or affordable houses over a 10-year period.
- The first four years of the AHP are focused on 'building the runway' to ramp up housing supply in Auckland and establish large-scale activity, and 2018/19 represented year three of the programme. We are reviewing the AHP and will seek approval of an interim Auckland Investment Plan in early 2019/20 to stand in its place following agreement of a revised Long Term Investment Plan (LTIP). We will apply the lessons learnt from our AHP to our current and future programmes.
- Over the year a number of large-scale housing developments have commenced across Auckland to deliver a combination of state, affordable and market homes. Our largest redevelopment projects include Northcote, Mt Roskill, Mangere, Greys Avenue in central Auckland, and McLennan in Papakura.
- The table below shows our delivery for this year in Auckland, and the number of homes under construction or contracted for delivery as at 30 June 2019.

TOTAL NUMBER OF STATE HOMES DELIVERED, UNDER CONSTRUCTION OR UNDER CONTRACT IN AUCKLAND

	Delivered	Construction or under contract			Three-year total
	2018/19	2019/20	2020/21	2021/22	
Auckland	968	1,092	652	90	**1,834**



Blessed in Birkdale

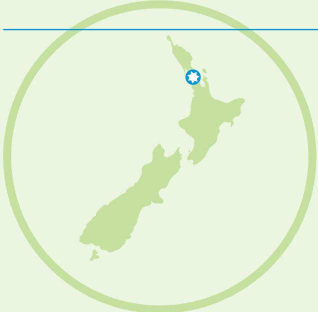
Iona, her partner and her five children have a new home – one of 23 new state homes on Chippendale Crescent in Birkdale, Auckland, which were completed in April 2019.

Iona feels blessed. Her daughters are making the most of the big bathrooms and her sons are enjoying having their own bedrooms.

"Our old house was cold, and my kids were always getting sick. Our new home is so warm we can sleep with the windows open," she says.

The 18 two-bedroom and five four-bedroom homes, located in this desirable area for families, have schools, shops, transport and other facilities within easy reach.

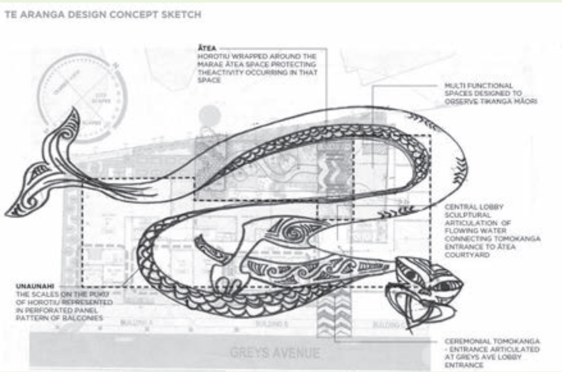
The homes are designed to keep families of different sizes warm, dry and comfortable, and are part of Housing New Zealand's Auckland Housing Programme.



What's happening at Greys Avenue?

We are redeveloping 139 Greys Avenue in central Auckland between 2018 and 2022 to create a supportive and connected inner-city housing environment. The former building is now at the end of its life and no longer meets the needs of our customers, but is ideally located for its connection to support services in Auckland's city centre. 139 Greys Ave will consist of 276 apartments, with at least 200 retained as state homes, and will include 24/7 onsite wrap-around support services for our customers.

This year, preliminary designs were completed, resource consent was lodged and all customers were relocated. Demolition has begun and we plan to commence construction of the building later in 2019/20. We have continued to work closely with key government agencies, mana whenua, non-profit organisations and international experts, as well as our customers and neighbours, as our plans for Greys Avenue progress.



▶ We have been working in partnership with Ngāti Whātua Ōrākei as mana whenua of 139 Greys Ave, to develop a design based on the Te Aranga design principles. The design of the building reflects Horotiu, the taniwha for the area. Horotiu snakes around the base of the three buildings, restoring the mauri of the place and protecting the mauri of the residents. This narrative continues to develop through the design process.

▶ Architectural render of Greys Avenue.

What's happening at McLennan?

In 2018/19 we delivered the first KiwiBuild homes in New Zealand at our McLennan development in Papakura, Auckland. The 24-hectare site on former Defence Force land is being transformed into a new community with a mix of around 600 state, affordable and market homes. During the year, 241 one- to five-bedroom homes were delivered at the McLennan site, bringing the total number of homes delivered since the development commenced to 402 homes. An additional 95 homes are under construction and are expected to be delivered during 2019/20.

HLC continues to lead large-scale developments

- Housing New Zealand's subsidiary, HLC, is continuing to lead large-scale developments on behalf of the Crown and deliver the master-planning and land development aspects of our AHP. Outside of Auckland, HLC, in partnership with Housing New Zealand will be leading the regeneration of Eastern Porirua to replace approximately 2,000 outdated state houses with around 3,500 new and refurbished homes, including a mix of state, affordable, market and KiwiBuild homes.
- HLC now has sites that are expected to yield over 40,000 homes under masterplan and master development,[4] including 23,000 under AHP; 4,000 under Hobsonville Point; more than 3,000 under Porirua; and more than 10,000 public, affordable and market homes under Tāmaki Regeneration Company (TRC). These projects will both increase housing delivery and improve local infrastructure and amenities to strengthen and connect communities.
- During 2018/19 HLC delivered or supported comprehensive large-scale programmes in the Auckland suburbs of Northcote, Mt Roskill, Mangere, Hobsonville Point, Roskill South, Owairaka, Oranga and Tamaki. Specific milestones achieved across these programmes during the year include:
  - delivering the first development blocks to the market in Northcote, including four superlots for the construction of 105 state houses; three superlots were also enabled for the construction of 126 market and KiwiBuild homes
  - In addition, we have enabled an additional 15 superlots across Mangare and Mt Roskill yielding a total of 268 state homes
  - delivering 565 houses in Hobsonville Point, including 142 affordable homes
  - partnering with TRC to deliver more homes in Point England, Panmure and Glen Innes in Auckland's east
  - signing terms sheets with developers in the Mt Roskill and Mangere projects, enabling the construction of 214 market and KiwiBuild houses
  - assisting and consulting on other large-scale redevelopment projects, including the development on land formerly owned by Unitec
  - establishing Piritahi, a programme alliance to accelerate the provision of civil works and infrastructure upgrades across Auckland. In 2018/19 Piritahi delivered the first superlots of build-ready land back to HLC for Housing New Zealand's Northcote development. Piritahi is made up of HLC and five design, engineering and construction firms: Dempsey Wood, Hick Bros Group, Harrison Grierson, Woods, and Tonkin + Taylor.

4. This includes 30,000 homes on land owned by Housing New Zealand, made up of approximately 9,000 state homes to be delivered by Housing New Zealand, 11,000 affordable homes and 10,000 market homes.

We are also delivering more state housing to the regions

- We manage nearly 21,000 state houses in the regions (outside of Auckland, Wellington and Christchurch), representing 32 percent of our state housing portfolio. Demand for housing support is continuing to grow across these areas.
- Our Regional Investment Plan was approved by the Housing New Zealand Board and presented to the Minister of Housing and Urban development in August 2018; it provides the settings, decision frameworks and delivery requirements in the regions.
- During 2018/19 we delivered additional homes across our regions, including areas where we have not recently built. Delivery of these was affected by the time taken to establish new partnerships with local tradespeople and the community before development work could begin.

TOTAL NUMBER OF STATE HOMES DELIVERED, UNDER CONSTRUCTION OR UNDER CONTRACT OUTSIDE OF AUCKLAND, WELLINGTON AND CHRISTCHURCH

	Delivered	Construction or under contract			Three-year total
	2018/19	2019/20	2020/21	2021/22	
Rest of NZ	296	245	4		**249**

What's happening at Jebson Place?

Housing New Zealand and Waikato-Tainui have entered into a development agreement for a two-hectare East Hamilton site at Jebson Place to provide more housing in the area. In 1995 Waikato-Tainui acquired the site from Housing New Zealand as part of a Right of First Refusal settlement with the Crown.

During 2018/19 Housing New Zealand and Waikato-Tainui began work on rejuvenating the site into a mix of public and private housing which will deliver 30 new state homes, with Waikato-Tainui developing the adjacent site for 50 standalone homes for private owners. The first state homes are scheduled to be completed in 2019/20.

The site has been named Te Kaarearea after the small native falcon which was drawn to the area because of food sources.

New Whangarei homes are ka pai

A new housing development in Whangarei which was completed in early 2019 is ticking the boxes for customer with health needs.

The spacious one-bedroom homes, designed for people with limited mobility and other health needs, are just 500 metres from Whangarei Hospital.

Wayne is stoked. "The new house is ka pai. The biggest advantage is that it's all on one level. I have a heart condition so getting up stairs is hard. I'm not having to worry about that anymore."

Five of the houses are fully accessible with ramps, wide hallways and wet-room showers.

The other six homes can be easily modified if needed.

We are delivering more homes in Wellington

- We manage nearly 9,000 homes in the Wellington region, which represents approximately 12 percent of our state housing portfolio and provides a home for almost 22,000 customers. Three-quarters of our Wellington region customers live in Porirua or Lower Hutt. Demand for housing support has seen exceptional growth over recent years.
- An interim Wellington Investment Plan is under development and is due to be finalised in early 2019/20 following the refresh of our LTIP.

TOTAL NUMBER OF STATE HOMES DELIVERED, UNDER CONSTRUCTION OR UNDER CONTRACT IN WELLINGTON

	Delivered	Construction or under contract			Three-year total
	2018/19	2019/20	2020/21	2021/22	
Wellington	55	72	114		**186**

What's happening in the Wellington region?

Eastern Porirua

In November 2018 the Government announced a long-term plan to revitalise housing in Porirua. Under the proposed plan about 2,000 Housing New Zealand properties will be renewed, making them warmer and drier, and about 2,000 affordable and market homes, including KiwiBuild homes, will be delivered. The project will see an additional 150 state houses added in Porirua.

HLC, in partnership with Housing New Zealand, will work alongside the community, Porirua City Council and the local iwi, Ngāti Toa Rangatira, to achieve positive shared outcomes for the community.

Western Porirua

Housing New Zealand and Ngāti Toa are intending to enter into a 25-year lease arrangement for Western Porirua properties to enable Ngāti Toa to establish itself as a community housing provider, to deliver the tenancy and property management services for that area.

This will include upgrading and renewing these properties over time to provide better quality homes.

Lower Hutt

Our redevelopment of several large sites in the Hutt Valley suburb of Epuni area is progressing as three distinct staged projects. The first stage of 28 units, scheduled for delivery in the 2021 financial year, has approval to proceed, resource consent has been granted and the procurement process is underway. Resource consent has been lodged for the remaining two stages, which will deliver more than 100 units.

Wellington CBD

In June 2019 Housing New Zealand entered into a 125-year lease with the Wellington City Council for their Arlington site. This will allow us to build a mix of inner city state, affordable and supported living housing units on the site, which currently has around 200 ageing former council housing units that have been vacant for over two years. Planning for the development is underway and we expect to build 230 to 300 homes there with a proposed mix of KiwiBuild and state housing.

Housing New Zealand development wins NZIA Wellington Architecture Award

A 34 unit development in Wellington's Berhampore was recognised for its good design winning a New Zealand Institute of Architecture award in 2019. Te Maru o Tawatawa was included in the multi-unit housing category. The design maximises the site's potential for good quality public housing and encourages community engagement and integration.

All of the warm, dry homes are fully insulated with double glazing. Construction of Te Maru o Tawatawa took 13 months and was completed within both schedule and budget. Judges said the housing provides "bright and cheerful solutions that feature crisp design detailing and provide a positive street-front solution to Berhampore's housing needs".

We are continuing to renew and grow our Christchurch portfolio

- Over the course of the year, the Christchurch programme was rescaled to deliver more new homes, including those provided as part of the Rolleston Prison Programme.
- Legacy issues from the 2010 and 2011 earthquakes continue to impact land and infrastructure conditions in Christchurch, causing financial and scheduling implications for our Christchurch projects. However, our strong relationship with the Christchurch City Council continues to be productive, with consenting and compliance certificate processing often being completed far sooner than the statutory timeframes. We also continue to have a longstanding relationship with the Christchurch build panel.[5]

TOTAL NUMBER OF STATE HOMES DELIVERED, UNDER CONSTRUCTION OR UNDER CONTRACT IN CHRISTCHURCH

	Delivered	Construction or under contract			Three-year total
	2018/19	2019/20	2020/21	2021/22	
Christchurch	142	85			**85**

- During 2018/19 our Christchurch programme included:
  - Twenty-four units were delivered and an additional four units delivered in 2017/18 became ready for tenanting at High and White Street, Rangiora. This is our largest redevelopment in North Canterbury.
  - Twenty-nine one-bedroom units and a common room were delivered on Worcester St, Christchurch Central.
  - Fourteen new units were officially opened to complete the second and final stage of our development in Eveleyn Couzins Avenue, Christchurch. The complex is now fully tenanted and consists of 37 apartment style units and a large common room.

We are delivering more affordable housing options to the market

- Housing New Zealand and HLC are continuing to develop ways to deliver greater affordable housing options to the market. Over the year we have worked with HUD to explore how these options could work, and progressed plans to include affordable and KiwiBuild housing within our major land release programmes.
- In 2018/19 the Government authorised Housing New Zealand to directly construct and sell affordable homes through the KiwiBuild scheme. Eighty-eight KiwiBuild homes were delivered this year, the first of these in September 2018. Through HLC, five superlots have been enabled for the construction of 297 market and KiwiBuild houses.

5. Panels are a list of suppliers who have been validated and pre-approved as appropriate to provide goods and services/works and have agreed to the terms and conditions of the contract type.

We are supplying transitional homes as part of the Government's cross-agency programme

- We have continued to acquire and build new homes as part of the Government's cross-agency transitional housing programme led by HUD. Since October 2016 we have contributed 709 transitional housing places[6] (within 655 individual units) as part of the cross-agency response, including 52 new places within 39 individual units in 2018/19.
- We have started a transportable housing pilot to evaluate if transportable units are a viable solution for increasing transitional housing supply. In 2019/20 we will install 20 self-contained one-bedroom transportable units at eight suitable sites across Auckland, Rotorua and Hamilton.
- We have also been working with the Department of Corrections to enable up to 150 transitional housing places for prisoners re-entering the community. The first of these sites, near Otane in Hawke's Bay, opened in May 2019 and will house up to 12 women for periods of up to one year.

Our activities are enhancing our housing portfolio

- Our intention is that building new homes, rather than buy-ins or leasing, will deliver the vast majority of the additions to our portfolio, and will contribute to the growing number of homes in New Zealand and better financial outcomes. Our net increase to our managed stock (additions less disposals) was 1,260 homes, up from 63,996 in 2017/18 to 65,256 in 2018/19, with the net number of additional state homes being 1,223. This exceeded our SPE target to grow our managed stock by an average of 1,100 net additional state homes per annum and contributes towards our longer-term goal of 68,000 houses by June 2022.

6. MSD's definition 'place' is the number of households that can be accommodated in each lettable unit.

DISPOSALS BY TYPE 2018/19

Sales, Lease Expires, Demolitions		Total YTD Added
State Housing	General sales	54
	Demolitions, redevelopment	510
	Demolitions, other	42
	Lease expired	119
Total state housing		**725**
Community Group Housing	General sales	3
	Demolitions, other	1
	Lease expired	2
Total Community Group Housing		**6**
Emergency/Transitional Housing	General sales	
	Demolitions	
	Lease expired	12
Total Emergency/Transitional housing		**12**
Total sales, lease expires, demolitions		**743**

In order to build more homes, we may dispose of existing outdated properties that have reached the end of their lifespan and no longer meet our customers' needs, so we can replace them with new homes that are safe, warm, dry and fit for purpose. We also demolish a small number of homes due to fire, contamination, natural disasters and other reasons. We currently only sell properties where it is necessary for a redevelopment, under our customer home ownership schemes, 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. The table above shows our total disposals of 743 for 2018/19.

SPE 2.2

1,223 managed stock

1,100 target exceeded by **123**

Managed stock

Managed stock	Housing New Zealand	State	Community Group Housing	Emergency/ Transitional housing
Opening balance 1 July 2018	**63,996**	**61,861**	1,492	643
Additions 2018/19	2,017	1,968	15	34
Disposals 2018/19	(743)	(725)	(6)	(12)
Adjustments net*	(14)	(20)	(1)	7
Closing balance 30 June 2019	**65,256**	**63,084**	1,500	672
Net increase state housing	**SPE 2.2**	**1,223**		

* Adjustments consists of various property movements in and out of our stock categories.

Our portfolio is aligned with the needs of our customers

- We continue to exceed our target of aligning 90 percent or more of our total net additions with the intentions outlined in MSD's Public Housing Plan. This year our result was 97.2 percent, a slight reduction from last year's 98.1 percent. We are confident we will continue to meet our Statement of Intent measure and remain on track to continue to meet our long-term target by June 2021.[7] This reflects our efforts to deliver the right supply of quality public housing in the right place, matched to customer needs.

We continue to renew and refresh our homes

- We continue to renew and refresh our ageing assets to contribute to the immediate and long-term supply of public housing. This is discussed under our third strategic priority, 'Optimise the management of our homes'.

7. This SOI measure is defined by the total number of net additions by Territorial Land Authority and typology where MSD has indicated an increase in existing or additional IRRS places.

We are focused on financing our build programmes in a sustainable way

- To raise the finance required to expand and continue the development of new homes across the country, we issue bonds to wholesale investors. This year, $800 million of term debt was issued, including a new sustainability bond, lifting total market debt to $1.55 billion as at 30 June 2019. We are well positioned to raise additional finance in future years and remain a financially sustainable organisation.

Our Innovate, Partner, Build programme is enabling us to increase the scale and pace of our building activity

We are streamlining the building consent process

- We have been working to streamline the building consent process, including for offsite manufactured buildings and building components, to enable faster approvals for our standardised products.
- This year, we achieved Qualified Partner status with Auckland Council and will lodge all future consents through a dedicated Building Consenting team for Qualified Partners.
- We are in the process of workshopping a new Offsite Manufacturing Quality Assurance Process with territorial authorities, which will speed up offsite manufacturing consenting, subject to territorial authority approval. We have also held quality assurance training over the year for our build partners and architects to improve the quality of the building consent applications.

We are using offsite manufacturing to enable faster, safer and more cost-effective delivery of homes

- offsite manufacturing' refers to the manufacture of building components or buildings away from the final building site. Over the last year we have constructed houses using several offsite manufacturing building systems: cross-laminated timber, volumetric, manufactured wall panels and precast concrete building systems. We source our supply from our 'Offsite Manufactured Solutions Panel', which currently consists of 18 partners.
- We also developed robust processes for identifying, developing and demonstrating offsite manufacturing construction methods which we will continue to use into 2019/20 and beyond. This will allow faster, safer and more predictable procurement, and save time and cost of delivery.

Merit Awards for Housing New Zealand apartment complexes

Two new Auckland developments received merit awards in the Property Council Awards, Multi-Unit Residential Property category. The Hutchinson Avenue development in New Lynn – five three-storey terraces containing 15 new homes – was designed by Young + Richards and built by Precision Construction. It is a prototype build of onsite assembled, pre-cast concrete for three-level walk-up apartments. Pre-cast concrete benefits include high-quality build for cost and time and maintenance savings.

Papatoetoe's 12 new one-bedroom homes in a three storey development are the third multi-unit development, built as part of a pilot for cross-laminated timber (CLT) – a panelised system with the structural strength of concrete and steel, factorycut into pre-fabricated panels and assembled easily onsite.

CLT complexes typically take around half the erection time of traditional timber frame homes.

▸ The Shirley Road development in Papatoetoe

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

Why is this a priority?

- While pressure on housing affordability continues across many parts of the country, we need to focus on working more efficiently to ensure the scale of change required to our housing stock is financially sustainable over the long term. Driving down the costs of construction is critical for investment in new homes and our ability to sustain our build activities and to ensure we can meet the growing need for our services.

We will know we are successful when:

- We use longer-term contracts based on volume
- We use innovation and technology to build good quality, modern homes and reduce the costs associated with construction
- We have sound project evaluation methods and benchmarking functionalities in place to identify improvement and cost saving opportunities

What have we done in 2018/19?

We are using our size to build smarter. Through our Innovate, Partner, Build programme we are:

- providing greater certainty on our current and future build programmes
- introducing innovation and partnerships across the construction process
- using our size and continuity of building to deliver significant value in the procurement of construction partners and materials.

The innovations and efficiencies we are making in our Innovate, Partner, Build programme will contribute to the sustainability of Housing New Zealand's construction programme and the resilience of the construction industry.

Many of the build activities that contribute to cost savings will also increase the pace and scale of our build delivery. These have been captured under our priority 'Increase the pace and scale of housing supply'. This section identifies the additional work we are doing to further reduce the cost of our build activities and construction-related costs across the sector more generally.

We provide more detail below on our work in these areas. The following Statement of Intent metrics support this priority:

Purpose	Measure	Target
Reduce construction programme build cost		15% reduction in build cost by June 2021

Changed our procurement approach to introduce **longer-term contracts** with our build partners

Completed **standardised designs** for houses of all bedroom types and duplex units and began using these in our new build developments

Explored **opportunities to optimise** the amenity, design, delivery and lifecycle outcomes of our **cross-laminated timber buildings**

Investigated areas for potential cost savings, including the use of **manufactured bathrooms and laundries** across different housing typologies

Deepened our **understanding of the costs** associated with our build activities

Actual 2017/18	Actual 2018/19	Comment
		We are working to develop more meaningful tools to improve our cost monitoring and allow insights to account for different locations, typologies, build methods and cost drivers. Once this work is completed we will be able to set benchmarks relative to our aspirations to reduce costs by 15 percent. We will make this a priority to progress this measure and expect significant improvements over the 2019/20 year.

We have introduced long-term build contracts

- Establishing long-term relationships with our build partners will enable us to undertake good quality, timely and cost-effective construction activities. We have adopted multi-year construction partnering agreements, a new form of procurement to deliver on our intended build programmes.
- During the year, two agreements were signed with construction partners in Auckland. Three more have been agreed and are likely to be signed early in the financial year. In 2019/20 we will work to secure more partnering agreements for initiatives across the country.

We are using standardised designs in new home developments

- Standardised designs are designs which are repeated for different build typologies. Benefits include shorter build durations, reduced per-household material costs, reduced construction-related waste and more consistent build quality across our different build programmes.
- In 2018/19 we completed standardised designs for houses of all bedroom types and duplex units; we are now multi-proofing our standardised designs to gain further efficiencies,[8] and are using them in new home development, particularly as part of the construction partnering agreements.

8. Multi-proofing refers to National Multi-Use Approvals (NMUAs), which are issued by the Ministry of Business, Innovation and Employment for building designs that will be replicated multiple times. Standard building designs can be 'pre-approved' by the Building Consent Authority for compliance with the building code.

We are using technology and innovation to build better homes

- This year we commenced our Rehmix R&D programme to optimise the amenity, design, delivery and lifecycle outcomes of our cross-laminated timber buildings through the use of Design for Manufacture and Assembly (DfMA) methodologies, digital collaboration processes and built environment modelling tools.
- We are working to identify potential time and cost savings when scoping, designing and delivering projects where innovative new foundation systems are required, such as sites where there are poor ground conditions. In 2019/20 we will work to match optimal foundation solutions to each of our build typologies.
- We have been investigating the feasibility of using manufactured bathrooms and laundries for various housing typologies and will be piloting these over 2019/20.

We are working to understand the costs associated with our build activities

- Understanding our build costs and their drivers will help us identify and prioritise potential areas for cost savings. The complexity of information required makes it difficult to set up a means of benchmarking our build costs; however, we are working on this and expect significant improvements over 2019/20.

Priority Four: Optimise the management of our homes

Why is this a priority?

Warm, safe and dry homes are essential to the wellbeing of New Zealanders, as they provide a solid foundation for individuals and families to live, learn and grow. Managing our homes effectively through maintenance and renewal is a key priority – to ensure our homes meet the changing needs of our customers and we remain financially sustainable as an organisation.

We will know we are successful when:

- We maintain and renew our homes to meet our customers' needs and our maintenance and renewal activities comply with current Government standards
- Our retrofit pilot has been successfully implemented
- The information we have about our homes is robust and guides our decision making
- We have an enhanced complaints management process
- We have investigated new technologies to improve our maintenance practices

What have we done in 2018/19?

We have been maintaining and renewing our homes so they are warm, safe and dry for our customers and aligned with the Government's housing standards. We have been improving the efficiency of our operations by making our homes financially sustainable and keeping up with the changing needs of our customers.

Completed **18,829** **planned maintenance jobs** and 453,494 responsive repairs and vacant property upgrades

Completed interventions through our **Warm and Dry** programme on **7,000** **of our properties**

Completed retrofit interventions on **37** of our homes as part of our retrofit pilot to ensure they remain warm, safe and dry

Improved our **vacancy performance** nationwide, with vacant homes becoming ready to let within **16.4 days** on average, compared with our target of **18 days**

Re-tenanted **90%** of our vacant properties in Auckland within **15 days**

Piloted the use of **sensors** in our properties to measure their humidity, temperature and CO_2 levels (proxy for ventilation)

Signed a **Memorandum of Understanding** with Fire and Emergency New Zealand to improve fire safety in our homes

Responded to all **urgent health and safety requests** within

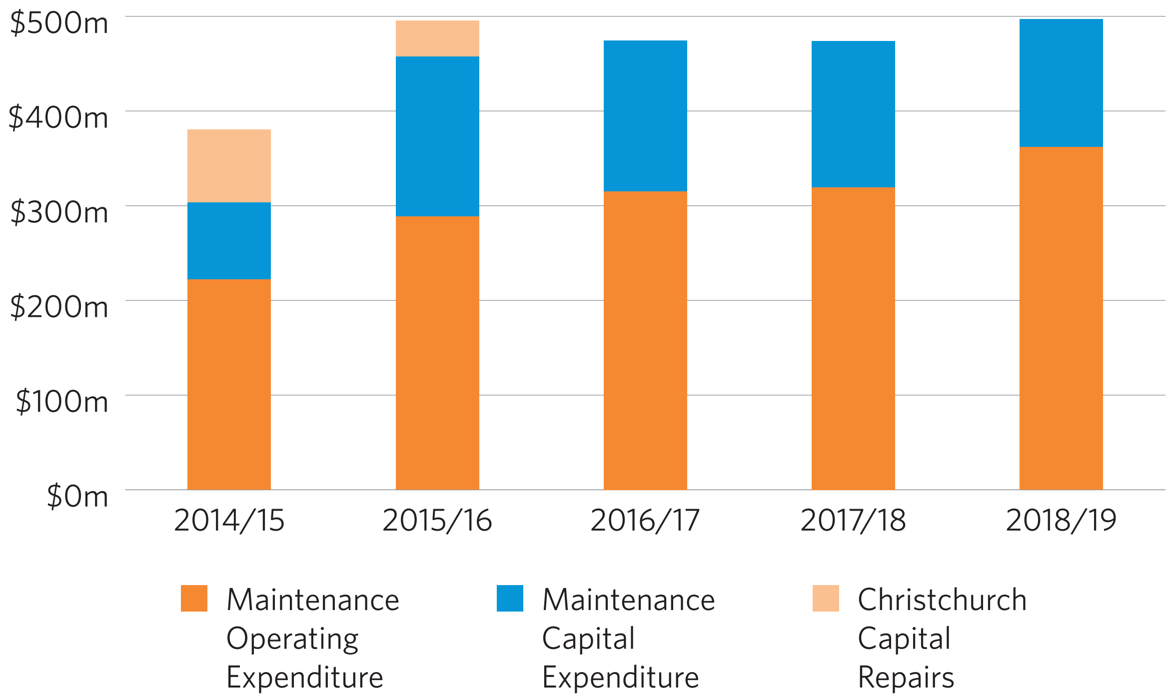
2.12 hours

against a target of **4 hours**

$497.0m

spent on maintenance, upgrades and improvements to our properties. This expenditure consists of both Capital and Operating expenditure. The last five years of annual expenditure is shown in the graph below.

MAINTENANCE ANNUAL EXPENDITURE



We provide more detail below on our work in these areas.
The following Statement of Intent metrics support this priority:

Purpose	Measure	Target
Our homes meet the needs of our customers	The percentage of surveyed lettable properties that meet or exceed the baseline standard[9]	95% by June 2021
We renew our portfolio	Average age of our homes	44 years by June 2021

9. The baseline for this measure has been set at less than 3.5. This means that 93 percent of our properties are rated at less than 3.5.

10. The 2017/18 desktop results have been restated using the improved model, which more accurately reflects the actual property condition.

Actual 2017/18	Actual 2018/19	Comment
93%[10] (90%)	93%	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 to ensure the properties below the baseline standard are included in current planned programmes. Property Condition Assessment is discussed on pages 96 and 97.
45.3	44.9	This year we have reduced the average age of our homes to 44.9 years. We are contributing to this through our build programmes and mix of retrofit and renewal activities.

We are bringing our portfolio up to the Government's new healthy homes standards

- In February 2019 the Government announced the new healthy homes standards to ensure rental properties in New Zealand are warm and dry for customers. The standards provide for improved heating, insulation and ventilation, and address issues with moisture ingress, drainage and draught stopping.
- The new standards exceed the building code in some areas, such as heating. All our new homes meet building code standards and we have completed significant work over the last three years through our Warm and Dry programme to ensure our older homes are warm and dry. As New Zealand's biggest public housing provider it is critical that we lead the sector by example, so from 2019/20 we will introduce a new programme to bring our portfolio up to the new standards, and will look at how we can meet World Health Organization guidelines for heating by July 2025.

We are continuing to invest in our existing homes through our retrofit programme to ensure they meet the needs of our customers

- Over the next 30 years around 52,000 homes, or 83 percent of our current owned homes, will require significant capital reinvestment to ensure they continue to meet the needs of our customers. For each of these properties we need to make a decision about how to renew them to provide the functionality and performance necessary for modern public housing.
- Over the last year we have been piloting a retrofit programme to renew our properties. This year, 37 homes were retrofitted, with 66 homes completed in the Hutt Valley since the programme began in 2017/18.
- The Housing New Zealand Board approved the first stage of the retrofit programme in April 2019 and it is now subject to the Minister's decisions on our LTIP. Stage one focuses on upgrading the thermal and functional performance of the properties and resetting the lifecycle of key building components such as roofing and cladding, and internal finishes.
- Our Asset Management Strategy 2018-2028 sets the strategic direction for our asset portfolio, including the renewal requirements of our ageing portfolio. Over the next 10 years 12,600 state houses will require retrofitting to provide the required quality level for warm, dry and safe homes, with the remaining houses to be completed over a 20-year period.

We are focused on managing our vacant properties efficiently

- This year we have improved the way we record information about vacant property and land and have reduced turnaround times between tenancies. Nationwide, the average time between when our properties became vacant and when they were ready to let again was 16.4 days, compared with our target of 18 days. We now have record high occupancy of our homes, and are already achieving our target of 98 percent of our homes let by 2021.

- Our vacancy turnaround time for Auckland is now 15 days for 90 percent of our vacant properties. Timeframes for Wellington have also improved with the introduction of the 15-day target in April 2018, and 78 percent of properties are re-tenanted within the 15 days, despite extensive works, especially asbestos removal, across our Wellington portfolio hampering this. The 15-day target was also introduced to Christchurch City in May 2019 and will be monitored over the 2019/20 year.

We are exploring new technologies to improve the way we undertake maintenance on our homes

- We have been piloting the use of sensors in our properties to measure humidity (dryness), temperature (warmth) and CO_2 levels (ventilation). These are key measures to determine whether a home is healthy and demonstrate the effectiveness of our work to keep our properties warm and dry for our customers and their families.
- The pilot has involved 100 of our homes in Palmerston North and 66 in Lower Hutt, and has looked at whether they can be heated to the World Health Organization standard of 18°C, the cost to our customers of doing so and the extent to which fuel poverty is resulting in cold homes. We now know that many of the pilot properties can be heated to a healthy temperature, but not how much it is costing our customers to achieve that temperature, or why some homes are colder than others.
- The pilot has also explored air quality and humidity levels and the results show the need for our customers to regularly ventilate their homes. We have been successful in making our customers and tenancy managers more aware of the dangers of poor ventilation and humidity, which are caused by overcrowding, poor heating choices, and security concerns. Better ventilation can mitigate these issues but will not solve them. Security concerns are more problematic as they can prevent ventilation.
- We hope to extend the pilot beyond December 2019 and increase the number of properties with sensors installed, to provide for more detailed analysis of the performance of our homes.

We are working to improve the maintenance services we provide

- We want to ensure our maintenance programmes are efficient and allow greater flexibility to meet the needs of our customers. In 2018/19 we began developing our new Maintenance 2020 programme to provide better maintenance and repair services, and warm, dry and safe homes, for our customers. We will investigate solutions with the market for Maintenance 2020 requirements in 2019/20.

We undertake extensive planned maintenance across our portfolio

- We aim to maintain the condition and quality of our homes to a good standard and regularly check to see what maintenance is needed, deliver repairs between tenancies and complete urgent repairs as soon as possible.
- Over 2018/19 we completed 18,829 planned maintenance jobs and 453,494 responsive repairs and vacant property upgrades, and have invested significant resource into refreshing and maintaining our homes for our customers.

Planned maintenance makes up 60 percent of our maintenance activity

- Every year we carry out specific, targeted planned maintenance programmes. Of our total maintenance costs, 60 percent was spent on planned activity for the 2018/19 financial year against a target of 70 percent. The difference is a result of spending less on planned work as fewer interventions were required and spending more on responsive repairs because of increased volumes of work. We were also more proactive in addressing additional maintenance issues while we were in our customers' homes completing responsive repairs.
- Further information on individual programmes is provided in the following table.

Planned programmes of work	2018/19 Actual spend ($m)		
	Operating	Capital	Total
Warm and Dry	2.5	12.8	15.3
Complexes Remediation Programme	8.3	5.2	13.5
Hutt Valley Retrofit	4.6	8.3	12.9
Exterior Painting	49.5	0.0	49.5
Roofing Replacements	1.6	23.6	25.2
Boundary Fencing	4.0	3.8	7.8
Driveway Safety	0.2	1.5	1.7

- *Our Warm and Dry programme*
  - At the end of 2018/19 we concluded this programme as we transition into the Healthy Homes programme. This year, nearly 7,000 properties went through the Warm and Dry programme, with 37,000 interventions and a total spend of $121 million since the programme started in late 2015.
- *Complexes Remediation Programme*
  - Our Complexes Remediation Programme seeks to address critical maintenance elements that are greater in scope than routine maintenance.[11]

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

Makeover magic for central Auckland pensioner flats

Sue, a trained nurse, has been a customer of the flats for around a decade. She lives in a fully accessible Auckland home because she had a stroke at 39 – nearly 30 years ago.

She moved from a front to a back unit during the renovations. It's an even better place to live now that the one-bedroom units are warmer and drier, she says. "It's beautiful here. I've got a lovely outlook and it's so private. Everyone's remarked on the new colours and how nice they are." The exteriors of the 29 flats were transformed from brown to cream and light pastels.

The extensive makeover included replacing parts of the exterior cladding and roofs, creating better drainage, more effective insulation, interior repairs, repaints and replacements, a new toilet system, new lino and windows in the bathroom and a repainted kitchen. "You can feel the difference it's made. It was pretty cold before," Sue says.

Nowadays Sue loves to spend time in her garden. A multitude of colourful flowers borders the path and the front of her property.

She loves her home and has no plans to move. "I'm happy where I am. I'm lucky to be alive and I really appreciate that." Sue says gardening restores her soul.

- *Driveway Safety*
  - Our Driveway Safety programme continues to ensure our properties are safe for families with young children. We have delivered driveway safety interventions to over 19,700 properties since the programme began in 2013/14, with just under 1,000 of those being delivered in 2018/19.
- *Exterior Painting and Roofing Replacements*
  - The Exterior Painting and Roofing Replacements programmes are critical to protecting the integrity of our properties.

We repair our homes when components fail or where damage has been caused

- In addition to our planned maintenance programmes, we provide responsive repairs to our homes where there is component failure or damage from natural causes and fair wear and tear. 2018/19 saw us spend $170.1 million on responsive repairs.
- Our target is to respond to all urgent health and safety requests within four hours on average. The average response time for 2018/19 was 2.12 hours, a significant improvement on 2.79 hours in the previous year. This reflects the efforts of our contractors to ensure response times are well managed.
- The increased demand for housing during 2018/19 once again meant we undertook less work on our vacant properties than anticipated, as there were extremely low levels of customer turnover and record high occupancy levels.

We regularly assess the quality of our homes using our Asset Management Strategy and our Property Condition Assessments

- As part of our Asset Management Strategy, we monitor and maintain the essential components of our properties such as roofs and exterior walls, to maximise the lifespan of our homes.
- Condition assessments are carried out through desktop assessments or physical surveys of our homes using the New Zealand Asset Management Support (NAMS) Asset Condition 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 we gather guides asset lifecycle decisions and informs planning of renewal programmes to ensure that critical house components are maintained or replaced before they fail.
- In 2018/19 our desktop assessments covered 59,269 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 2.36 and the physical surveys recorded an average condition grade of 2.13, compared with 2.37 and 2.33 recorded the previous year.
- The results reflect our continued achievements in reconfiguring stock and upgrading the existing portfolio through our planned maintenance programmes. Refinements to our desktop modelling have made our investment and degradation rates for interior decoration and electrical services more accurate.
- Overall the assessments show we have essentially maintained our property condition, with 93 percent of our homes meeting or exceeding the baseline condition standard of less than 3.5.[12] We are on track to meet our target of 95 percent by June 2021.

We are continuing to improve our asset information

Our Asset Information Management project, with its focus on land and building information, has improved the quality of our asset data for both new and existing assets. This will ensure we make more informed investment decisions when maintaining, managing and renewing our homes. The project takes a best practice approach to:

- defining what data and information are needed to make good asset investment decisions
- developing a Quality Assurance and Governance Framework to provide ongoing data integrity and a confidence rating for our data that supports our Asset Management Framework.

12. The 2017/18 desktop results have been restated using the improved model, which more accurately reflects the actual property condition. The revised 2017/18 results were 92.9 percent and the 2018/19 results 92.7 percent.

Priority Five:
Use our expertise to influence the performance of the housing sector

Why is this a priority?

As New Zealand's leading public housing provider, we have a key role in boosting the overall capacity of the housing and construction sector. The Government has given us a clear mandate to use our scale and expertise to show leadership in the sector and support our partners to grow their operations to match our ambitious build programmes. To do this well we need to support and help shape government policy and direction for the sector, champion best practice, and work with the sector to boost overall capacity so that collectively we can achieve the best outcomes for New Zealanders.

We will know we are successful when:

- We have enhanced the capacity of the sector by leveraging volume contracts
- We have supported compliance with health and safety in the construction sector through positive engagement with contractors
- Our innovative build techniques and procurement approach are shared with other housing providers
- The skills training and apprenticeships we provide are contributing to the growth of the housing sector
- We promote best practice in the sector, provide quality advice and support government policy

What have we done in 2018/19?

We have been helping the sector to grow and succeed, including supporting and helping shape the Government's policy and direction for the sector. We have championed best practice and worked with the sector to help boost overall sector capacity and achieve the best outcomes for New Zealanders.

26 apprentices were placed with build partners or their subcontractors as part of our Apprenticeship Programme

HLC established its **Construction Plus programme**, to connect locals with employment and training opportunities in infrastructure, civils and construction

Worked alongside groups and agencies to support our customers to **live well** in their homes and communities

Worked **collaboratively** with the wider community housing sector

Supported the development of **Crown policy** by providing input and contributing our experience across various areas

Became a signatory to a **Construction Sector Accord** to drive increased industry leadership and enhance capacity in the construction industry

Supported KiwiBuild's pitch to increase its use of **offsite manufacturing**

We provide more detail below on our work in these areas. The following Statement of Intent metrics support this priority:

Purpose
Quality advice and innovation

Comment
We provide advice, reports and information to the Minister of Housing and other Ministers throughout the year and work closely, and in consultation, with other government agencies. Our quarterly report to the Minister of Housing 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. The work we do towards promoting best practice, providing quality advice and supporting government policy is detailed on page 106. We are actively progressing innovative ways to more efficiently and effectively deliver quality outcomes for our customers, and detail our efforts to promote innovation across all of our priorities. We achieved this through: • our support for the smooth transition to Kāinga Ora • the development of our Innovate, Partner, Build programme and standardised designs, as well as ongoing investigation of offsite manufacturing to deliver our build programme • our approach to customer service through our Customer Programme and developing new ways of working with supported housing including our development at 139 Greys Avenue • our approach to community engagement and the way we work with iwi to enable better outcomes for Māori.

We are supporting skills training and apprenticeships

- We are working to boost the capacity of the construction sector through our new Apprenticeship Programme, which will create more opportunities for enthusiastic young people who are keen to get into a trades career but may lack the experience and connections.
- In 2018/19 we initiated an apprenticeship pilot scheme as part of our Innovate, Partner, Build programme, and have 26 apprentices with build partners or their subcontractors. During 2019/20 we will expand the programme to other build partners and subcontractors in Auckland and other regions.
- We have been looking at how our customers can connect with these opportunities and at expanding the type of work included in the programme to cadetships and work experience. In pilots in Hamilton and Porirua we have worked with the Ministry of Business, Innovation and Employment, as part of the Sector Workforce Engagement Programme. We have worked with iwi organisations to connect rangatahi to these opportunities, and with the Department of Corrections to explore opportunities for ex-prisoners who have undertaken construction training to participate.
- HLC has developed and approved its Construction Plus programme, which connects locals with employment and training opportunities in infrastructure, civils and construction to produce better long-term outcomes in the communities that are experiencing redevelopment. Work has also been underway across local schools to teach students about the construction industry.

WelTec and Whitireia Polytechnic trade students are building new state housing for families

Forty-seven new two-bedroom homes will be built from 2019 to 2024 thanks to a Housing New Zealand partnership with WelTec/Whitireia.

The new warm and dry houses will be built by trade students on the WelTec and Whitireia campuses. Prisoners engaged in WelTec trade training at Rimutaka Prison will also produce one new house per year as part of the programme.

Two of the new three-bedroom homes have already been delivered to a vacant Housing New Zealand site in Porirua in July 2019.

Housing New Zealand's Programme Director, Jonathan Scholes, says the partnership will help Housing New Zealand deliver more modern, warm and dry homes for those in need.

WelTec Chief Executive Chris Gosling says, "Building homes that are market-ready and can be delivered into communities most in need of housing is a really motivating thought for someone learning a trade."

And Rimutaka Assistant Prison Director Kym Grierson concurs – "The houses they're building represent a positive future for them through the skills and qualifications they're gaining, as well as for the families who will live in them."

We are working with Fire and Emergency New Zealand to improve fire safety in our homes

This year a Memorandum of Understanding was signed with Fire and Emergency New Zealand which will allow us to collaborate more closely and underpins our mutual interest and commitment to wellbeing and safety in relation to fires. We are working together to identify the next generation of fire safety interventions and to assess potential options for Housing New Zealand properties, and will continue this work in 2019/20. We have been working to ensure that we have comprehensive data on fire incidents at our homes and will use this information to improve our training and awareness programmes.

Be fire safe – watch what you heat

Thanks to our Housing New Zealand people Renee and Christiaan, a block of properties in Naenae due for demolition found a short reprieve as Housing New Zealand offered them to Fire and Emergency New Zealand firefighters for a training exercise. Some of the more heroic local media were volunteered to be kitted out, complete with breathing apparatus.

The teams were briefed, equipment set up and checked and the intrepid temporary trainees entered the smoke-filled building to rescue a 90kg dummy. For the 'real' Fire and Emergency crew it was their chance to put their training into practice.

Fire and Emergency Station Officer Thomas Kiel said, "Getting to experience these simulated scenarios is incredibly valuable to our team's preparation for responding to a real event. The training day was a great success and the teams were very grateful to have the opportunity to use these facilities as a training location."

Housing New Zealand National Relationship Manager, Mariota reaffirms the positive lengthy relationship that Housing New Zealand has with Fire and Emergency NZ, saying that they will be looking for further opportunities to repeat the exercise together in different parts of the country.

We are strengthening our relationships with agencies that play a key role in our customers' communities

- The best way to support our customers to live well in their homes and communities is to work alongside other government and non-government agencies and the wider community. Over the year we have been strengthening our relationships with key agencies and groups, for example:
  - engaging with agencies such as Oranga Tamariki, the Ministry for Pacific Peoples and the Ministry of Health to ensure our activities and outcomes are aligned for the benefit of all individuals and families living in our homes
  - working with the New Zealand Police to promote safer communities for our customers and their neighbours
  - working with the Electricity Retailers' Association of New Zealand to explore options to minimise the extent to which fuel poverty is being experienced by our customers
  - continuing to strengthen our relationship with Local Government New Zealand
  - engaging with the Royal New Zealand College of General Practitioners with the aim of lifting health outcomes for our customers.

We are promoting health and safety in the sector

We have continued to support a safe and healthy environment for our people and promote best practice to the sector.

- This year we were a finalist in the Safest Place to Work Awards and received an award for being Innovators in Health and Safety for our work with our contractors to become industry leaders in this field. The award was related to our participation in assessment of our Safety Management programme of work with Safe365.
- We were also runners up in the Healthiest Workplace Awards run by Healthy Food Guide, for our initiatives in managing mental health in the workplace.
- We have promoted best practice through sharing our products, policies and guidelines on health and safety with the sector. We now require all physical works contractors to undertake an external health and safety pre-qualification, IMPAC PREQUAL, before they tender for work.

We are building our relationships with the community housing sector

- To support the wider community housing sector, we have been focusing on building a collaborative relationship with Community Housing Aotearoa (CHA) and the community housing provider (CHP) sector.
- During 2018/19 we worked with CHA to explore ways to provide joined-up training for all frontline people in the housing sector and cross-sector secondment opportunities. We have engaged with a number of CHPs to share our experiences and investigate areas where we can assist them; for example, we have provided opportunities for them to shadow Housing New Zealand people and have given ad hoc advice and information. This year we also supported Christchurch City Council's Shared Equity Pilot Programme by helping the council to negotiate a service delivery contract with a local CHP.

We are promoting best practice and supporting government policy

Over the year we have promoted best practice and supported the development of Crown policy, sharing our experience and advice as New Zealand's biggest public housing provider.

- Kāinga Ora
  - We are contributing to the policy and legislative work stream of Kāinga Ora, working alongside HUD to determine the appropriate legal and policy frameworks for the new organisation to achieve the Government's aspirations for housing.
- Public housing policy
  - We have contributed our experience and data to support policy development to achieve the Government's vision for the public housing sector. For example, we have provided information that demonstrates the effects of funding and regulatory settings on our delivery.
  - We also support decision making by a range of agencies on policies and funding related to housing and services for its customers, for example, refugees, people with disabilities, the homeless, and ex-prisoners reintegrating into society.
- Construction Sector Accord
  - In April 2019 we became a signatory to a Construction Sector Accord, which will drive increased industry leadership and respond to the challenges facing the construction industry.
  - We have worked with officials from WorkSafe, the Treasury, the Ministry of Housing and Urban Development and New Zealand Transport Authority to develop the Accord and the enabling Cabinet paper.

- We are actively demonstrating our commitment to the aims of the Accord by continuing to implement our Innovate, Partner, Build programme and reporting progress against it.

- Regulatory changes
  - We have provided feedback on Healthy Homes Guarantee Act Regulations throughout the regulatory process, including contributing technical knowledge, identifying implications particular to Housing New Zealand given its scale, and estimating cost implications.
  - We have also contributed to policy development on both the Residential Tenancies Amendment Bill (No 2) and broader Residential Tenancies Act reform.
  - We have provided input on a range of regulatory changes, such as the Building System Legislative Reform, as requested by agencies.
- Inquiries and reviews
  - We have contributed our knowledge and data to a number of inquiries and reviews, including the Mental Health and Addiction Inquiry, the Welfare Expert Advisory Group, and the Electricity Price Review.

We are supporting the use of offsite manufacturing for KiwiBuild houses

- KiwiBuild released an Invitation to Pitch to the market, to identify ways to increase the supply of offsite manufacturing providers. We have supported this process by assisting with evaluating submissions, attending presentations and reporting to the Minister.

Being a high-performing organisation

Working to become a high-performing organisation continues to be fundamental in ensuring we deliver on our strategic priorities. The steps we have been taking have been framed around four key characteristics common to high-performing organisations – being strategy driven, attracting and retaining brilliant and engaged people, striving for operational excellence and driving efficiency. These characteristics are an essential part of our organisational strategy and across all of these areas we have continued to focus on retaining and growing our organisational momentum as we transition to become part of Kāinga Ora.

Underpinning these characteristics is a deliberate and constant focus on health and safety, security, and our behaviours and attitudes. Some of the key work we are doing to become a high-performing organisation is described in more detail in the following section and is embedded throughout this report.

Maintained our **'A' rating for Investor Confidence**, which remains the highest to date of all public agencies

Developed our **Environment Strategy** to reduce the impact of our operations, build programmes and assets on the natural environment

Began revising our **Long Term Investment Plan**

Developed our **Regional Investment Plan**

Developed our **Area Planning Framework** and created 21 Area Plans

Independently reviewed and fine-tuned our **Financial Investment Manual**

Worked to develop a project portfolio management **tool for construction projects** and build programmes across our delivery pipeline

HLC deployed a project portfolio **management tool, Primavera (P6), for land development** and civils

Continued developing our **Technology Strategy**

Embarked on a Continuous Improvement programme – **over 307** of our people received **Lean 6 Sigma Continuous Improvement training**

Continued to undertake **research on key priority areas** as well as evaluations of our services, pilots and trials

16 post-project evaluations completed on a sample of projects

Continued to work on our **Gender Pay Gap Action Plan** initiatives

Established our **Gender, Diversity and Inclusion Steering Group**

Continued to provide **equal employment opportunities** and ensure our policies, practices and processes are fair and equitable for all job applicants and employees

Saw improvement in our gender profile across tiers 1-3 management levels from **39%** female, **61%** male in 2017/18 to

41% female
59% male
in 2018/19

We recognise the importance of having robust investment management practices

Housing New Zealand manages one of the largest portfolios of government-owned infrastructure. We must have robust investment management practices that ensure we manage our resources sustainably, while delivering the right outcomes for our customers and communities.

We have an opportunity to work smarter to reduce our environmental impact

We are a large consumer of raw materials and have a significant environmental footprint, particularly through the construction of our new homes and the maintenance of our existing housing portfolio. There are ways we can work smarter and be more environmentally conscious and the scale of our operations means we have an opportunity to make a real and lasting impact on our environmental footprint.

Our commitment to improving sustainability aligns with the Government's priorities to transition to a low-carbon economy and improve the wellbeing of New Zealanders and will be driven largely through the implementation of our Environment Strategy, which was approved by the Housing New Zealand Board in December 2018.

The Environment Strategy outlines the ways in which we plan to address our environmental impacts and areas of influence and is focused on our efforts to reduce our contribution to climate change and waste as these are particularly relevant to our operations. The objectives we are seeking to achieve through our Environment Strategy include:

- improving our build and asset management practices
- working with our partners and suppliers to improve environmental practices in the housing sector
- partnering to ensure our customers can access environmentally friendly technology and services
- operating at scale to lead or support New Zealand's transition towards a net zero emissions economy.

We are considering initiatives to lower our environmental impact and achieve our goals. These are largely focused around our houses and will look at the types of homes we build (energy-efficient homes), the waste we produce while building them, the emissions we generate through manufacturing build materials and the density and proximity of our build activity to amenities such as public transport networks. We are also considering how we can generate and store energy in our housing portfolio. Beyond our housing portfolio we are looking at ways we can reduce our corporate emissions such as decarbonising our fleet and monitoring and reporting against our other emissions sources.

We have issued New Zealand's first sustainability bond

- Housing New Zealand is an active borrower in debt capital markets, raising around $1 billion of term debt per year to help finance our build programme. We developed our Sustainability Financing Framework in March 2019 to further embed environmental and social considerations in processes and practices across our core business activities. Our Customer Strategy and Environment Strategy reflect our commitment to sustainability, and serve as the foundation to the Framework. The Framework enables debt raised to be earmarked to expenditures that deliver positive environmental and social outcomes.
- On 28 March 2019 we issued a $500 million, 7.5-year Sustainability Bond at an interest rate of 2.25 percent per annum. This was the first such issue in the New Zealand market and the first to align with the United Nations Sustainable Development Goals. Our Sustainability Impact Report, released in conjunction with this 2018/19 Annual Report, provides further detail on the Framework, issuance, and use of proceeds.

Our Long Term Investment Plan (LTIP) sets out our long-term investment intentions and ensures they are financially sustainable

- Our LTIP articulates how we are going to fund our long-term build programme and ensure that we remain financially sustainable. A 30-year horizon is modelled since the majority of our assets will reach major lifecycle decision points within this timeframe. This period also encompasses our significant reconfiguration and growth challenge, and enables us to deliver an investment programme that will be sustainable beyond the 30-year mark. Our current LTIP was approved by the Housing New Zealand Board in June 2018 and is being revised to reflect approved 2019 budgets and agreed settings. The revised LTIP will be a key input into the integrated LTIP for Kāinga Ora.

Our Asset Management Strategy (AMS) sets out how we will respond to our various asset challenges

- Our AMS recognises the significant asset renewal requirement we are facing as an organisation and sets out a framework for determining the appropriate renewal response (retrofit, replace or redevelop) for our ageing assets and puts in place delivery expectations for the next 20 years. There is more detail on our AMS under our priority 'Optimise the management of our homes'.

Our investment plans confirm the direction from the AMS and provide the settings and delivery requirements across our different portfolios

- In 2018/19 we have been developing investment plans that translate the strategic direction set out in our AMS and LTIP. The plans articulate the demand, levels of service, approach and associated operational budgets for these portfolios and broadly set out the planned activity across the country.

Our Area Plans then set out our specific investment requirements at a local level

- Area Planning is the organisational planning process by which our core strategies and investment plans are translated into tailored investment strategies for each of our areas. Area Plans provide direction to the business on our asset, customer and community objectives for each area, and the mix of investment activity required to achieve these objectives.
- Over the year, we have developed our Area Planning Framework and created 21 Area Plans. In 2019/20 we will fully embed Area Planning into our Strategic Planning processes.

Our Investor Confidence Rating measures our investment management capability

- In 2018 Housing New Zealand maintained an 'A' rating for Investor Confidence, which remains the highest to date of all public agencies.
- The rating provides a good basis of confidence for our Minister(s) to increase the ministerial consultation threshold. We have been using the 2018 assessment results as a roadmap to continuous improvement across the organisation and will focus on improving our approach to investment management, portfolio and project management maturity, organisational change management, asset management and systems performance over 2019/20.

Our Housing Investment Framework provides direction for how we deliver and manage investments in our housing portfolio

- Our Housing Investment Framework (HIF) sets expectations for how we deliver investments in our housing portfolio and articulates how our investments should be managed, including ensuring we balance financial sustainability with maximising social outcomes.
- During 2018/19 we reviewed our Financial Investment Manual, which supports our HIF by setting out the financial metrics, targets and assumptions Housing New Zealand and HLC use to assess its redevelopment activity. Our Financial Investment Manual has been fine-tuned to incorporate the review's recommendations and changes are being made to our supporting systems to ensure continuous improvement of our investment management process.

We are growing our project portfolio management capability

- We have been developing a project portfolio management tool that will improve our ability to systematically manage, monitor, evaluate and report on construction projects and build programmes across our delivery pipeline. This will improve our ability to analyse our performance and make more efficient decisions.
- In 2018/19 we procured a vendor and have been working with them to develop the software platform; we will continue to refine the tool into 2019/20. This year HLC has also deployed the project portfolio management tool Primavera (P6), for land development and civils.

We have confirmed our direction for technology to 2021

- Technology plays a key role in the everyday lives of our people, partners, customers and homes, now and into the future. We are developing a strategy that describes the overarching direction for technology until 2021.

The strategy has the following themes:

Digital Core Architecture
Kotahi, Oracle EBS and EAM remain our core systems of record while new digital services are integrated to deliver future services and capabilities

Digital Service Channels
Smart online services make it easier for our customers to engage with us and live well in our homes

Empowered Workforce
Leverage modern technology to optimise the tools and capabilities of our people

Connected Government
Customers experience seamless, integrated and trusted public digital services

Invest in Intelligence
Information-driven, fact based insights enable strategic and operational decisions delivering improved social outcomes

Operational Excellence
Support our business with robust, secure and relevant technology services

Governance and Maturity
Understand and implement measures to assure the contribution of technology into the future

This strategy is due for Board approval in 2019/20 and will be updated as we adapt to the changing technological and strategic landscape.

We encourage continuous improvement

We have developed a programme to keep us focused on continuous improvement

- In mid-2018 we embarked on a Continuous Improvement programme, to focus on making regular small improvements to our business and customer experience. The approach puts our people at the centre of the initiatives, and provides a range of training, tools and collegial support. This year over 307 people across the organisation received Lean 6 Sigma Continuous Improvement training, which will improve our understanding and culture around continuous improvement.

We are undertaking post-project evaluations to identify areas for improvement

Other continuous improvement activities undertaken include improving our project evaluation capacity. We have undertaken 16 post-project evaluations on a sample of projects completed each month and these have helped identify what the organisation needs to do to ensure greater efficiency in our projects and programmes.

We undertake regular housing research across our key priority areas

- Our approach in placing our customers at the centre of our decision making requires understanding the people who live in our homes and knowing that our services contribute to positive social outcomes and improved lives.
- To achieve this, we undertake research on key priority areas and evaluations of our services, pilots and trials. Over 2018/19 our research has focused on the government's Integrated Data Infrastructure to find out more about our customers' needs. Over time, this research programme will build a richer picture of the people who live in our homes and their risk and resilience factors so that we can tailor and target our services accordingly.

Being a good employer

The Crown Entities Act 2014 requires us to be a 'good employer', and we have continued to meet these obligations over the 2018/19 year. Being a good employer is fundamental to Housing New Zealand supporting our brilliant and engaged people.

Over this financial year we have undertaken several initiatives that reflect the seven key elements of being a 'good employer'.

Leadership, accountability and culture	• We recognise the importance of quality leadership to being a world-class housing provider. Our leadership programmes aim to support and drive a positive workplace culture as outlined in Kotahitanga, our values charter. • Over 2018/19 we have continued to offer key leadership programmes such as our Leadership Essentials programme, which focuses on personal leadership, leading self, leading others and leading organisational impact.
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. We are committed to recruiting new talent fairly based on merit, and enhancing the hiring experience for our candidates and managers. • Over 2018/19 we have focused on ensuring that our people leaders are equipped to make good selection decisions free from bias. We will continue to focus on diversity and inclusion in our attraction and recruitment processes.
Employee development, promotion and exit	• Developing our people is fundamental to the success of our organisation. We will continue to 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. • Over 2018/19 we have continued to embed Forward Conversations, our approach to performance and development in support of our Values charter, Kotahitanga.
Flexibility and work design	• Over 2018/19 we have continued to address work-life balance with flexible work practices where people's requirements fit within business needs. • Our current Flexible Working and Working from Home policies reflect our intention to be an employer of choice and to create an environment of brilliant and engaged people.

Remuneration, recognition and conditions	• We 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. • As of January 2018 no person working for Housing New Zealand is paid less than the living wage. • We strive to pay our people fairly and in line with market relativities. We have eliminated the gender pay gap for new hires and continue to reduce the gap in other areas. • We have continued to review ways to support and enhance wellbeing with the introduction of sick leave entitlements when employment commences.
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. • Over 2018/19 we initiated a range of ways our people can have safe conversations or report on situations where they are not feeling safe in the workplace. These include the 0508 OurPeople phone line and Forward Conversations. We are also reviewing our internal processes to continually promote a workplace that is safe and respectful. • We will continue to foster a positive workplace environment for our people.
People safety, health and wellbeing	• As an employer it is our obligation to prevent work-related harm to the physical and mental health and safety of the people who work for us, both employees and contractors. • During the year we developed and launched our Health and Wellbeing Plan 2018-2023 which aims to support and enhance employees' health and wellbeing. • We have continued to support a safe and healthy environment for our people. This year our work was recognised through the finalist award we received at the Safest Place to Work Awards. We were also recognised for being Innovators in Health and Safety for the support we give our contractors to become industry leaders. • We are continuing to review our significant health and safety risks, their risk levels and mitigation strategies.

We aim to make Housing New Zealand a great place to work

- In late 2018 Housing New Zealand completed the AskYourTeam survey, which asked our people to think about the drivers of success in our organisation and, most importantly, how to improve them. AskYourTeam is being used across the public sector to help transform organisation and leadership performance.
- The average score across all survey questions for Housing New Zealand was 64 percent, against the public sector benchmark of 61 percent. The first survey provided us with a valuable baseline and we will continue to run at least one AskYourTeam survey each year.
- We also track and measure our Total Recordable Injury Frequency Rate (TRIFR), which calculates the number of injuries per 200,000 hours worked. We benchmark our results against the Business Leaders' Health and Safety Forum, a movement of CEOs and business leaders committed to building their own health and safety leadership capability and driving better safety performance through their own business and beyond. Our 2018/19 results are set out in the following table.

Measure	Actual 2017/18	Standard 2018/19	Actual 2018/19	Comment
Total Recordable Injury Frequency Rate (TRIFR)	1.13	< 1.15	1.93	As a lag measure, the TRIFR does not reflect how well critical risks or health hazards are being managed. However the measure does capture acute harm from work incidents. Our Health, Safety & Security team regularly reviews all employee Lost Time Injuries and Medical Treatment Injuries to identify trends, prevent reoccurrence and communicate findings. The overall increase in reported incidents is a positive result and is due to the implementation of our new safety recording system (NOGGIN). Although we did not achieve our target, the 1.15 TRIFR level is significantly lower than the Business Leaders' Health and Safety Forum benchmark, which reported a rise in the TRIFR for employees in 2018 to 3.68 from 3.18 across all industries that contribute to the benchmark (76 Forum members participated in the 2018 report including Housing New Zealand).
Annual employee engagement	Not measured in 2017/18	Not set	64%	Housing New Zealand

Legislation and governance

Policy settings

In addition to our governing legislation, Housing New Zealand's roles and responsibilities are derived from the Crown Social Objectives and the Minister's Letter of Expectations.

The Crown Social Objectives outline the Government's priorities for housing and services related to housing provided by Housing New Zealand. In September 2018 the Minister of Housing and Urban Development set updated social objectives for Housing New Zealand. These objectives guide our work and enrich our mandate to achieve good public outcomes for housing, customers, neighbourhoods and communities. The Government announced that these objectives will be enshrined in law in late 2019.

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 our customers to sustain their tenancy for the time they require public housing, supporting them 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 Public Housing Plan 2018-2022
- 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 Letter of Expectations is delivered by the responsible Minister to Housing New Zealand's Board Chair and sets out their expectations for Housing New Zealand for the year ahead. 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 KiwiBuild to support the delivery of housing through the use of longer-term contracts
- reduce build cost and promote innovation
- support skills training and stimulate apprenticeships
- take an urban development approach to our work programme, in a way that supports the creation of thriving, connected and productive communities
- build positive partnerships with local government, iwi, communities, and other stakeholders
- take into account the Crown's Treaty of Waitangi obligations and commitments
- take a deliberate, customer-focused approach to delivering tenancy services, including by developing appropriate service models and partnering with community housing providers or other specialised providers
- 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.

We have received new expectations for the 2019/20 year from the Minister in light of the transition to become part of Kāinga Ora. These expectations include:

- working towards the Crown's social objectives
- supporting the establishment of Kāinga Ora
- placing customers at the centre of everything we do
- delivering state, affordable and market housing at pace
- providing greater transparency in delivery planning and reporting
- assuring financial performance.

Governance

Our governance framework is based on two key pieces of legislation. The first is the Housing Corporation Act 1974 (as amended), 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. Both acts govern the wider Housing New Zealand Corporation Group, which includes our subsidiaries. Our ultimate parent is the New Zealand Crown.

Governance structure

The governance framework for Housing New Zealand involves three key parties: the Housing New Zealand Board, Ministers and Parliament. Our Executive Team is responsible for delivering to expectations set by these parties.

The Housing New Zealand Board

The Housing New Zealand Board is responsible and accountable for managing the organisation and setting our strategic direction. All Board members receive, on appointment, training and guidance on their duties, responsibilities and key Housing New Zealand policies and procedures.

At 30 June 2019 the Board was made up of seven non-executive members:

- Vui Mark Gosche (Chair)
- Adrienne Young-Cooper (Deputy Chair)
- John Duncan
- Michael Schur
- Mark Ratcliffe
- Huhana Hickey
- Philippa Howden-Chapman
- Leigh Auton

Chair

Vui Mark Gosche was appointed Board Chair in June 2019. Mr Gosche joined the Housing New Zealand Board in June 2018 when he was appointed Deputy Chair.

Mr Gosche is a former Cabinet minister who also held the Housing portfolio in the early 2000s. Since retiring from politics in 2008 he's served on numerous not-for-profit, community and trust boards and was confirmed in 2018 as the new chair for the Counties Manukau District Health Board.

Executive Team

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

Chief Executive

Andrew McKenzie joined Housing New Zealand as Chief Executive in September 2016.

In that time the agency has seen major shifts in strengthening the support it provides to customers, and a large increase in its building programme. Over this time, many parts of Housing New Zealand have undergone change as it works to become a high-performing organisation which delivers on its strategic priorities.

Before joining Housing New Zealand, Mr McKenzie held senior finance roles in the public and private sectors, leading the financial function for the establishment of Auckland Council. In 2013 Mr McKenzie was recognised as Chief Financial Officer of the Year for New Zealand.

Housing New Zealand structure

Housing New Zealand has two main delivery arms: our People and Property Group, which brings together our tenancy, maintenance and property ownership functions; and our Construction 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 customers to live well in them. The focus of our Construction 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 customers.

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

The primary relationship between the government and Housing New Zealand is between the responsible Ministers and Housing New Zealand's Board.

Between 26 October 2017 and 27 June 2019, Housing New Zealand had three 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
- Hon Nanaia Mahuta: Associate Minister of Housing (Māori Housing)

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 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.

Hon Nanaia Mahuta is the Associate Minister of Housing (Māori Housing), whose functions and responsibilities include the development of a Māori Housing Work Programme with the support of HUD and Te Puni Kōkiri.

On 27 June 2019 the Prime Minister announced changes to the ministerial portfolios. Housing New Zealand gained two new Ministers:

- Hon Dr Megan Woods: Minister of Housing
- Hon Kris Faafoi: Associate Minister of Housing (Public Housing)

The Prime Minister announced that Hon Dr Woods would be responsible for delivering the Government's house building programme, and that Hon Faafoi would be responsible for public housing, including state housing and tackling homelessness. Hon Mahuta retained responsibility for Māori housing. Hon Twyford became the Minister for Urban Development.

Managing risks

We actively manage our risks and keep our business running

Our risk landscape is continually changing as we navigate the change required to become a world-class housing provider as part of Kāinga Ora – Homes and Communities. The next few years will see us facing a number of challenges and opportunities as we position ourselves as part of the new entity to achieve the Government's ambitious housing agenda.

As the Crown's largest provider of public housing, managing risk is an essential part of the way we run our business, deliver the change required to respond to New Zealanders' growing housing needs and constantly improve. Housing New Zealand manages $28.6 billion of assets on behalf of the Crown and this year we have been expected to build more homes than ever, support various Government initiatives, deliver exceptional services to our customers and at the same time lead the growth of the housing sector.

Effective risk management is integral to good corporate governance and management, and is a standard part of our day-to-day activities. The better we are at recognising and understanding the risks related to our activities, then the better we are at making sensible decisions and managing the underlying uncertainties inherent in them.

Risks are ultimately owned by the Board, but are the responsibility of all our people. We aim to have a governance and accountability structure that is robust and sound, and foster a risk management culture that improves the certainty for success of our strategic goals and priorities.

We work to ensure our risk management process is consistent and adds value to planning and decision making.

Our approach to risk

Housing New Zealand's risk management process is aligned with the best practice approach of the ISO Standard for Risk Management (ISO 31000:2018 Risk Management Guidelines). We see risk management as the identification, evaluation and prioritisation of uncertainty on objectives, and consider both the threats and opportunities related to our activities.

Sound risk management provides assurance to our Minister, Board and Chief Executive that we manage risks actively and appropriately and is vital in providing confidence and value to our key stakeholders and customers.

We are strengthening our risk management practices

We are working towards mature enterprise risk management practices that are:

- Effective and efficient

Risk management protects and builds value by informing our planning and decisions. We look ahead and focus on the right priorities that enhance benefits or opportunities to Housing New Zealand and minimise or avoid unintended consequences arising from our actions. We balance our risk management effort with its intended outcomes. We communicate our risks and issues to the right stakeholder and at the right time to enable timely response and oversight of mitigation strategies.

- Consistent and robust

We speak a common risk management language at Housing New Zealand, including the people or organisations who work for us. Our risk management practices are consistent across our various business groups, which enables risk prioritisation and informed decision making.

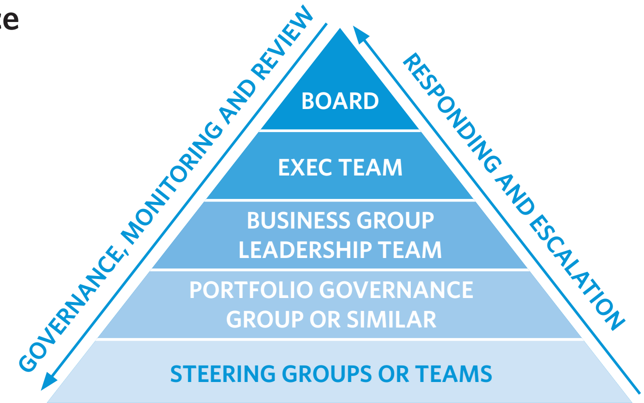
- Structured and systematic

Our risk management practices are organised and embedded in our organisational DNA and way of thinking. We ensure that there is proper accountability and oversight of our risks and sufficient resources and support are provided to those managing risks and issues.

What risk management means to us

Being proactive	Focusing on the things that matter	Contributing to our organisational success	Contributing to our health and safety and other compliance obligations

Risk governance



Risk governance exists at various levels across our organisation and is fully integrated into our governance structure. It provides the 'tone from the top' to ensure that our risk management practices are effective and our leaders have appropriate oversight on how risks, opportunities or issues are being managed. All Housing New Zealand people, and any person or organisation that works on our behalf, have a responsibility to participate actively in our risk management process. This allows us to make sound decisions and will lead to better outcomes for our organisation, our stakeholders and our customers.

We actively manage risk

Strategic risks are the top risks that may affect our ability to achieve our strategic priorities or outcomes. This year we performed a full review of our top strategic risks through workshops with our Executive Team and the Finance and Assurance Committee (FAC), and with input from the Board. Our top strategic risks were agreed and recorded in our Strategic Risk Register, which will be reviewed monthly and quarterly in consultation with our Executive Team, FAC and the Board. Other business, compliance, project and programme risks are managed actively at appropriate team, business and governance group levels.

New Zealand Business Number (NZBN) Project

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 NZBN project was initiated to ensure Housing New Zealand would meet its requirements under NZBN legislation by 31 December 2018. The project was initiated 1 July 2018 and was successfully completed and closed 8 February 2019. Housing New Zealand is compliant with NZBN legislation.

There are remaining requirements mandated for completion by 31 December 2020. The project Closure Report recommended a new project be initiated in late 2019 or early 2020 to ensure compliance with these remaining requirements. The project steering group approved the recommendations.

Asset performance

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	2016/17 Target	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2018/19 Actual
Percentage of homes that are let	Utilisation	96.2%	97.2%	97.2%	98.2%	97.5%	98.1%
Average number of days from a house becoming vacant to being 'ready to let'	Utilisation	N/A	N/A	24 days	19 days	18 days	16 days
Percentage of surveyed lettable properties that meet or exceed the baseline standard*	Condition	N/A	94 % (82%)	89%	93% (90%)	89%	93%
Percentage of our customers who are satisfied with their Housing New Zealand home	Condition	85%	82%	85%	79%	85%	79%
Homes meet customer bedroom requirements	Functionality	N/A	76%	> 76% By June 2021	76%	> 76% By June 2021	75%
Alignment of portfolio additions with the Ministry of Social Development's purchasing strategy	Functionality	N/A	91%	90%	98%	90%	97%

* To report results comparable with 2018/19, the 2017/18 and 2016/17 results have been restated using the revised approach used in the 2018/19 model.

Measure	Indicator	2016/17 Target	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2018/19 Actual	Note
Percentage of incidents resolved on first contact by ICT Service Desk	Condition	> 80.00%	88.18%	> 80.00%	87.36%	> 80.00%	85.41%	
Priority 1 incidents per 100 ICT users	Condition	< 6.5	6.3	< 7.0	3.3	< 7.0	1.5	
Core systems availability – Kotahi	Availability	> 99.90%	99.97%	> 99.90%	99.91%	> 99.90%	99.75%	Kotahi availability impacted by a significant system incident that occurred in September 2018
Core systems availability – Oracle EBS	Availability	> 99.90%	99.95%	> 99.90%	99.87%	> 99.90%	99.36%	Oracle EBS availability impacted by a significant system incident that occurred in September 2018
Core systems availability – Websites	Availability	> 99.90%	99.97%	> 99.90%	99.97%	> 99.90%	99.70%	The externally hosted and managed Careers website had a low availability last FY, thus bringing down overall website availability
Infrastructure as a Service Resource Utilisation	Utilisation	> 90.00%	96.00%	> 90.00%	93.00%	> 90.00%	96.00%	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 2019

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 2019.

- The Board is responsible for the preparation of the financial statements and statement of performance and the judgements used therein.
- 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.
- 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.
- In the opinion of the Board, the financial statements and statement of performance for the year ended 30 June 2019 fairly reflect the financial position and operations of Housing New Zealand Corporation at that date.

For and on behalf of the Board.

Vui Mark Gosche
Chair

Adrienne Young-Cooper
Deputy Chair

24 September 2019

Output Class performance summary

We measure our annual non-financial performance with our Statement of Performance Expectation (SPE) measures. We have five output classes with targets for each measure.

We achieved 16 out of 22 targets compared with 13 out of 20 last year[13]

OUTPUT CLASS 1 – Managing our homes

Management of tenancies and maintenance of our homes

ACHIEVED: 6/10

OUTPUT CLASS 2 – Social housing supply

Building or leasing new homes, and renovating our existing homes

ACHIEVED: 2/2

OUTPUT CLASS 3 – Social Housing Reform Programme support and public accountability

Providing Ministerial services

ACHIEVED: 2/2

OUTPUT CLASS 4 – Enabling housing supply and home ownership

Selling of surplus Housing New Zealand land to allow development of affordable and market housing, and management of financial home ownership products

ACHIEVED: 3/4

OUTPUT CLASS 5 – Development services provided to the Housing Agency Account

Large scale urban development and management services

ACHIEVED: 3/4

13. For the 2017/18 results, two measures (both assessed as achieved) have been excluded. One reported the results from a programme that was cancelled part way through the reporting year and it was deemed more appropriate to report the results for the other measure in our operating appropriations section.

We have some very good result this year, particularly with our Output Class 2 measures; our new state homes and the increase in our state managed stock. We have room to improve with our survey results for satisfaction with Customer Support Centre (CSC) and repairs and maintenance.

We expect improvement in both of these results next year as we have changed our survey approach for the CSC and will have a larger sample size, and have put initiatives in place for the repairs and maintenance satisfaction survey which led to improved results this year.

We narrowly missed our customers not in rental debt measure which was set high as an aspirational target and we missed our target for the percentage of repairs and maintenance planned satisfaction. The results for this latter measure are due to underspend in planned maintenance and a conscious adjustment in unplanned expenditure.

The results for the SPE measures are discussed in more detail in the following sections.

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, and the management of housing provided for the purpose of emergency and 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 customer exits
- managing existing tenancies
- undertaking planned maintenance programmes and improving amenities
- ensuring urgent repairs and maintenance are undertaken in response to customers' 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 customers who have multiple or complex needs with specialist support services to sustain their tenancies.

SUMMARY OF PERFORMANCE

Measure	Actual 2017/18	Standard 2018/19	Actual 2018/19	Comment
Customer satisfaction with Customer Support Centre	83%	85%	78%	Not achieved
Percentage of Customer Support Centre calls answered in two minutes	Not measured	80%	83%	Achieved
Percentage of customers who are not in rental arrears	New measure	93%	92%	Not achieved
Percentage of properties that are let	98.2%	97.5%	98.1%	Achieved
Average number of days from a house becoming vacant to being 'ready to let'	19 days	18 days	16 days	Achieved
Percentage of Auckland homes that are let to MSD applicants within 15 days	88%	90%	90%	Achieved
Percentage of surveyed lettable properties that meet or exceed the baseline standard[1]	93% (90%)[2]	89%	93%	Achieved
Percentage of customers satisfied with repairs and maintenance	67%	75%	71%	Not achieved
Average time to respond to urgent health and safety queries	2.8 hours	4 hours	2.1 hours	Achieved
Percentage of repairs and maintenance spend on planned activity	68%	70%	60.%	Not achieved

1. The baseline target for this measure is set at less than 3.5.
2. The model has been further refined to improve its accuracy. Last year's results are restated as 93% using the same approach.

Performance commentary

PERFORMANCE HIGHLIGHTS

Achieved: 6/10

We have met six of our ten targets in this output class. We have improved our results for our measures of short-term vacancy management with a reduction of three days for vacant to 'ready to let' and an improvement in turnaround time for our Auckland homes being let to MSD applicants within 15 days from 88 percent to 90 percent. Our occupancy measure remained well above our 97.5 percent target at 98.1 percent and relatively static compared with last year's 98.2 percent. A small percentage of vacancies are necessary to carry out long-term maintenance activity such as portfolio improvements required by the new healthy homes standards and our retrofit programme, along with the now short time between vacancies.

This year we reintroduced our Customer Support Centre response time target from 2016/17 and decreased the target time from four to two minutes. In 2016/17 we achieved 79 percent for this measure and this year we achieved 83 percent. We achieved this result with improved service by better matching peak volume call times with our people.

We further improved our response time for urgent health and safety queries, with a reduction from 2.8 hours last year to 2.1 hours against our 4 hour target in 2018/19. We also achieved our annual target for property condition with 93 percent of our properties being assessed at less than 3.5.

Not achieved: Customer satisfaction with Customer Support Centre

This year's result of 78 percent was below our 85 percent target. In 2018/19 we moved to an automated survey process, but found our customers were less likely to participate, with 624 responses this year. We will start measuring customer satisfaction for our CSC in our quarterly satisfaction survey. This will improve the accuracy of our results, ensure consistency with other customer satisfaction measures and help us drive meaningful improvements for our customers. The CSC will continue to use a SMS survey at the close of each call to help drive continuous improvement within the centre.

Not achieved: Percentage of customers not in rental arrears

We narrowly missed our new measure for customers who are not in rental arrears. This new measure was set 1 percent above the data position as an aspirational target. Teams will continue to work with our customers proactively to support customers not getting into debt as well as continuing our more compassionate approach to managing customer debt.

Not achieved: Percentage of customers satisfied with repairs and maintenance

Several initiatives were put in place during the year resulting in a lift in satisfaction from the previous year from 67 percent to 71 percent. We expect even more improvement next year as we continue to focus on this area.

Not achieved: Percentage of repairs and maintenance spend on planned activity

We didn't achieve this target as we spent less on planned work since fewer interventions within the Warm and Dry programme were required than planned for. We spent more on responsive repairs as we undertook more work proactively, addressing additional maintenance issues while we were in our customers' homes completing repairs.

REVENUE AND OUTPUT EXPENSES

	Actuals 2017/18 $m	Budget 2018/19 $m	Actual 2018/19 $m	Comment
Revenue Crown	827.9	861.0	897.3	All rental revenue from standard Housing New Zealand houses 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	409.5	438.8	415.8	
Expenses	1,018.1	1,095.1	1,135.4	
Net surplus/(deficit)	**219.3**	**204.7**	**177.7**	

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 areas of demand, and improving the quality and longevity of housing supply through renewal programmes. This output class also includes providing new supply to Community Group, emergency 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 2017/18	Standard 2018/19	Actual 2018/19	Comment
Deliver at least 20% of the four-year state housing (gross) build target	838	> 1,380	1,461	Achieved
Increase in the overall number of Housing New Zealand's managed stock of state housing	435	> 1,100	1,223	Achieved

Performance commentary

PERFORMANCE HIGHLIGHTS

Achieved: 2/2

We exceeded both of our SPE targets. We built 1,461 state homes against our target of 1,380 homes compared with 838 homes built last year, and this led to our overall increase of 1,223 state homes.

REVENUE AND OUTPUT EXPENSES

Description	Actuals 2017/18 $m	Budget 2018/19 $m	Actual 2018/19 $m	Comment
Revenue Crown	0	0.0	0.0	Rental revenues are recognised under Output Class 1. Expenses include all costs related to new housing supply or divestment.
Revenue Other	1.7	0.0	0.0	
Expenses	86.3	110.9	123.8	
Net surplus/(deficit)	**(84.6)**	**(110.9)**	**(123.8)**	

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 of Housing and Urban Development and the Associate Minister of Housing and Urban Development.

Activities

The activities undertaken in this Output Class include:

- maintaining relationships with Ministers, the Ministry of Social Development, the Treasury, the Ministry of Business, Innovation and Employment, iwi, community housing providers and other stakeholders
- working with key government agency stakeholders on joint initiatives (eg, Corrections, Te Puni Kōkiri, and the Ministry of Health)
- contributing to the development of policy, strategic and legislative initiatives led by other agencies, including funding and regulatory settings for public housing provision, changes to the Residential Tenancies Act 1986, KiwiBuild, and establishment of the Housing Commission or Urban Development Authority
- providing ministerial services, supporting select committee appearances, and providing external reporting
- providing Board and Executive support
- answering Official Information Act requests and drafting ministerial responses.

SUMMARY OF PERFORMANCE

Measure	Actual 2017/18	Standard 2018/19	Actual 2018/19	Comment
Ministerial correspondence, parliamentary questions, and Official Information Act requests delivered meet the agreed deadline	100%	95%	98%	Achieved
Ministerial services delivered meet the quality criteria	100%	95%	100%	Achieved

PERFORMANCE HIGHLIGHTS

Achieved: 3/3

REVENUE AND OUTPUT EXPENSES

Description	Actual 2017/18 $m	Budget 2018/19 $m	Actual 2018/19 $m	Comment
Revenue Crown	0	0.0	0.0	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	0	0.0	0.0	
Expenses	20.6	16.6	19.1	
Net surplus/(deficit)	**(20.60)**	**(16.6)**	**(19.1)**	

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
- proactively managing 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 2017/18	Standard 2018/19	Actual 2018/19	Comment
Deliver at least 10% of the four-year target for the number of new homes enabled or built on land owned or previously owned by Housing New Zealand	166	> 270	294	Achieved
Achieved				
KiwiBuild[1] homes built or enabled as a percentage of total units delivered or enabled on land previously owned by Housing New Zealand	New measure	> 20%	54%	Achieved
Proportion of enabled homes delivered by third parties within agreed timeframes	86%	95%	67%	Not achieved
Average number of days taken to assess a completed KiwiSaver application	3.9	5 working days	2.8 working days	Achieved
Number of new loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme	1,674	< 2,500	1,268	This is an appropriation measure and is not a target

1. For the purpose of this measure, KiwiBuild means homes produced for sale at KiwiBuild price points or other affordable housing products produced at KiwiBuild price points.

Performance commentary

PERFORMANCE HIGHLIGHTS

Achieved: 3/4

We have met three of our four targets for this Output Class. We exceeded our targets for new homes enabled or built, and the percentage of KiwiBuild homes built, and reduced the number of days taken to assess a completed KiwiSaver application.

Not achieved: Proportion of enabled homes delivered by third parties within agreed timeframes

Proportion of enabled homes delivered by third parties within agreed timeframes. This year's result of 67 percent was below our 95 percent target. We were negatively affected by a softening of the market at our McLennan project, which then impacted the developers' ability to get funding to build, particularly as pre-sales fell away as end purchasers became more interested in buying completed houses.

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

During 2018/19 we processed 1,268 loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme, compared with 1,674 during 2017/18. 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 declined throughout the year, with an annual decrease of 21 percent compared with the 2017/18 year.

REVENUE AND OUTPUT EXPENSES

Description	Actual 2017/18 $m	Budget 2018/19 $m	Actual 2018/19 $m	Comment
Revenue Crown	90.8	116.1	93.4	This Output Class delivers products that are managed on the Crown's behalf.
Revenue Other	4.6	83.7	36.2	
Expenses	85.3	196.2	126.2	
Net surplus/(deficit)	**10.1**	**3.6**	**3.4**	

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.[14] 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

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

of homes in the affordable price bracket, as was agreed with Cabinet and the then Minister of Housing.

SUMMARY OF PERFORMANCE

Measure	Actual 2017/18	Standard 2018/19	Actual 2018/19	Comment
Revenue generated from land sale	$53 million	> $29 million	$31.2 million	Achieved
Value of HLC-led capex projects delivered	$21 million	> $29 million	$14.0 million	Not achieved
Units delivered that are long-term rental or affordable housing as a percentage of total units delivered	25%	> 20%	23.4%	Achieved
Percentage of residents satisfied with the overall living experience at Hobsonville Point	89%	> 75%	93%	Achieved

Performance commentary

Achieved: 3/4

To date, 2,388 homes and sections at Hobsonville Point have been sold, including 565 during 2018/19. To date, 692 affordable homes have been sold, including 169 during 2018/19.

Performance has been solid during 2018/19.

Achievements include market land sales contracted revenue of $31.2 million.

Not achieved: Value of HLC-led capex projects delivered

Our target for HLC-led capex projects delivered was not met. A number of projects with capex spend were deferred including Bomb Point remediation and reserve DC contribution until agreement reached with Council on purchase and Pump Station 3 upgrade waiting on Panuku agreement to end solution.

REVENUE AND OUTPUT EXPENSES

Description	Actual 2017/18 $m	Budget 2018/19 $m	Actual 2018/19 $m	Comment
Revenue Crown	0	0.0	0.0	Housing New Zealand provides services to the Crown, for which it earns a management fee.
Revenue Other	2.6	19.8	3.0	
Expenses	2.6	19.8	3.0	
Net surplus/(deficit)	**0**	**0.0**	**0.0**	

Operating appropriations 2018/19

We deliver programmes on behalf of the Crown. The Crown obtains appropriations for Housing New Zealand to fund the delivery of these programmes. These are administered through Vote Housing, which is appropriated to, and administered by, the Ministry of Business, Innovation and Employment. The exception is the Purchase of Housing and Related Services for Tenants Paying Income-Related Rent, which is appropriated to, and administered by, MSD. 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 2018/19 Statement of Performance Expectations and compares this with the actual funding provided.

OPERATING FUNDING PROVIDED TO DELIVER CROWN PROGRAMMES

		Housing New Zealand's Output Classes			
	SOI Expenditure Funding	State House Tenancies- Tenancy Management	State House Tenancies- Asset Management	Crown Products	Property Management Services
HNZC Housing Support Services:					
Mortgage Insurance Scheme (Welcome Home Loan)	8,700,000			5,758,364	
KiwiSaver housing deposit subsidy - Administration	2,998,000			2,998,000	
Total HNZC Housing Support Services	**11,698,000**			**8,756,364**	
Housing Assistance:					
Community Owned Rural Rental Housing Loans (CORRL)	72,000			160,692	
Legacy Loan portfolios	370,000			123,332	
HIF Kiwibank Interest Subsidy	700,000			988,234	
Nat/WPT Portfolio -SPOB (Sold Loans Interest Subsidy)	10,000			648	
SHAZ Bridging Finance	7,000			3,563	
Shared equity - write offs				-	
Total Housing Assistance	**1,159,000**			**1,276,469**	
Purchase of Housing and Related Services for Tenants Paying Income-Related Rent	863,827,000	878,647,846			
KiwiSaver Deposit Subsidy	106,120,000			84,277,000	
Total Operating Funding	**982,804,000**	**878,647,846**	**-**	**94,309,832**	**-**

MULTI-CATEGORY APPROPRIATIONS 2018/19

	SOI Expenditure Funding	Housing New Zealand's Output Classes			
		State House Tenancies-Tenancy Management	State House Tenancies-Asset Management	Crown Products	Property Management Services
MCA					
Community Group Housing Market Rent Top-Up	13,891,000			13,891,000	
Community Housing Rent Relief Programme	4,104,000			3,871,610	
Community Housing Standard Acquisitions	5,800,000			5,800,000	
MCA	**23,795,000**			**23,562,610**	

CAPITAL FUNDING PROVIDED TO DELIVER CROWN PROGRAMMES

	SOI Expenditure Funding	Housing New Zealand's Output Classes			
		State House Tenancies-Tenancy Management	State House Tenancies-Asset Management	Crown Products	Property Management Services
Refinancing of HNZC and HNZL Debt	127,185,479			127,185,479	
Total Capital Funding	**127,185,479**	**-**	**-**	**127,185,479**	**-**

Housing New Zealand Corporation

Financial Statements

Statement of Financial Position

As at 30 June 2019

	Notes	Group Actual 2019 $M	Group Actual 2018 $M	Budget Unaudited 2019 $M
Assets				
Current assets				
Cash and cash equivalents	18	296	523	35
Mortgage advances	5(a)	3	2	4
Receivables from non-exchange transactions	6(a)	13	11	8
Receivables from exchange transactions	6(b)	8	33	64
Prepayments		10	8	
Short-term investments	7	35	148	465
Total current assets		**365**	**725**	**576**
Non-current assets				
Property, plant and equipment	9	28,410	26,645	27,781
Properties under development	10	144	55	11
Properties held for sale	8	27	5	27
Mortgage advances	5(a)	30	33	37
Interest rate derivatives	19	–	1	3
Software	11	20	26	14
Total non-current assets		**28,631**	**26,765**	**27,873**
Total assets		**28,996**	**27,490**	**28,449**
Liabilities				
Current liabilities				
Rent received in advance from non-exchange transactions		33	35	36
Accounts payable and other liabilities from exchange transactions	12	185	133	96
Income tax payable	15(b)	17	5	27
Crown loans	20	252	127	336
Market debt - commercial paper	20	250	200	150
Provisions	13	1	3	1
Employee entitlements	14	11	8	7
Interest rate derivatives	19	29	35	41
Total current liabilities		**778**	**546**	**694**

Statement of Financial Position (continued)

As at 30 June 2019

	Notes	Group Actual 2019 $M	Group Actual 2018 $M	Budget Unaudited 2019 $M
Non-current liabilities				
Crown loans	20	1,734	1,826	1,637
Market debt - bonds	20	1,300	500	1,400
Deferred tax liability	15(c)	2,141	2,206	2,088
Interest rate derivatives	19	85	59	64
Mortgage Insurance Scheme unearned premium reserve	16(a)	32	32	28
Provisions	13	1	1	1
Employee entitlements	14	1	1	1
Total non-current liabilities		**5,294**	**4,625**	**5,219**
Total liabilities		**6,072**	**5,171**	**5,913**
Net assets		**22,924**	**22,319**	**22,536**
Equity				
Equity contributed by the Crown		3,555	3,555	3,545
Retained earnings		712	596	742
Revaluation reserve		18,739	18,234	18,321
Hedging reserve	19	(82)	(66)	(72)
Total equity		**22,924**	**22,319**	**22,536**

For and on behalf of the Board, who authorised the issue of the financial statements on 24 September 2019.

Vui Mark Gosche
Chair

24 September 2019

Adrienne Young-Cooper
Deputy Chair

24 September 2019

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 2019

	Notes	Group Actual 2019 $M	Group Actual 2018 $M	Budget Unaudited 2019 $M
Revenue from non-exchange transactions				
Crown appropriation revenue	21(b)	102	94	123
Rental revenue from income-related rent subsidy		880	814	843
Rental revenue from tenants receiving income-related rent subsidy		368	350	361
Rent relief fund revenue		4	4	4
Revenue from exchange transactions				
Rental revenue from tenants at market rent		49	48	51
Interest revenue	21(a)	14	12	17
Mortgage insurance scheme	21(c)	10	9	9
Sales of developments		15	–	–
Other revenue	21(d)	9	7	99
Total operating revenue		**1,451**	**1,338**	**1,507**
Expenses				
Repairs and maintenance		366	319	343
Rates on properties		124	117	128
Water rates		36	33	32
Third-party rental leases		51	53	51
Depreciation on rental properties	22(a)	265	237	238
Other depreciation and amortisation	22(a)	22	22	22
Personnel	22(b)	152	127	141
Interest expense	21(a)	106	84	117
Grants	22(d)	84	81	107
Other expenses	22(c)	143	112	202
Total expenses		**1,349**	**1,185**	**1,381**

Statement of Comprehensive Revenue and Expense (continued)

For the year ended 30 June 2019

	Notes	Group Actual 2019 $M	Group Actual 2018 $M	Budget Unaudited 2019 $M
Other gains/(losses)				
Gain/(loss) on disposal of assets	22(f)	(6)	5	–
(Loss) on asset write-offs	22(f)	(60)	(33)	(45)
Total other (losses)/gains		**(66)**	**(28)**	**(45)**
Operating surplus before tax		**36**	**125**	**81**
Current tax expense		89	97	95
Deferred tax expense/(benefit)		(113)	(48)	(61)
Income tax expense/(benefit)	15(a)	**(24)**	**49**	**34**
Net surplus after tax		**60**	**76**	**47**
Other comprehensive revenue and expense				
Revaluation of property, plant and equipment				
Revaluation reserve gains		616	847	520
Financial assets at fair value through equity				
Hedging reserve gains/(losses)	19	(22)	8	–
Income tax (expense) on items of other comprehensive revenue and expense	15(a)	(49)	(208)	(76)
Other comprehensive revenue and expense net of tax		**545**	**647**	**444**
Total comprehensive revenue and expense net of tax		**605**	**723**	**491**

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 2019

	Notes	Group Actual 2019 $M	Group Actual 2018 $M	Budget Unaudited 2019 $M
Total equity at 1 July		**22,319**	**21,598**	**22,053**
Revaluation of property, plant and equipment				
Revaluation reserve gains/(losses)		616	847	520
Deferred tax (expense) on property, plant and equipment revaluations		(55)	(206)	(76)
Financial assets at fair value through other comprehensive revenue and expense				
Hedging reserve gains/(losses)	19	(22)	8	–
Deferred tax (expense)/benefit on hedging reserve gains/(losses)	19	6	(2)	–
Net surplus for the year		60	76	47
Total comprehensive revenue and expense for the period		**605**	**723**	**491**
Contributions from and distributions to the Crown				
Net capital contributions (to)/from the Crown		–	(2)	–
Withdrawal of capital relating to the transfer of properties from social housing reform		–	–	(8)
Total net contributions from/(distributions to) the Crown		**–**	**(2)**	**(8)**
Total changes in equity		**605**	**721**	**483**
Total equity at 30 June		**22,924**	**22,319**	**22,536**

Statement of Changes in Equity (continued)

For the year ended 30 June 2019

	Notes	Group Actual 2019 $M	Group Actual 2018 $M	Budget Unaudited 2019 $M
Equity attributable to the Crown				
Equity attributable to the Crown at 1 July		3,555	3,557	3,553
Net capital contributions (to)/from the Crown		–	(2)	(8)
Equity attributable to the Crown at 30 June		**3,555**	**3,555**	**3,545**
Retained earnings				
Retained earnings at 1 July		596	536	627
Net surplus/(deficit) for the year		60	76	47
Net transfers from asset revaluation reserve on disposal of properties		56	(16)	68
Retained earnings at 30 June		**712**	**596**	**742**
Revaluation reserve				
Revaluation reserve at 1 July		18,234	17,577	17,945
Asset revaluations on property, plant and equipment		616	847	520
Deferred tax on property, plant and equipment	15(c)	(55)	(206)	(76)
Net transfers to retained earnings on disposal of properties		(56)	16	(68)
Revaluation reserve at 30 June		**18,739**	**18,234**	**18,321**
Hedging reserve				
Hedging reserve at 1 July		(66)	(72)	(72)
Fair value gains/(losses)	19	(22)	8	–
Deferred tax on derivative fair value movement	15(a)	6	(2)	–
Hedging reserve at 30 June		**(82)**	**(66)**	**(72)**
Total equity at 30 June		**22,924**	**22,319**	**22,536**

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 2019

	Notes	Group Actual 2019 $M	Group Actual 2018 $M	Budget Unaudited 2019 $M
Cash flows from/(used in) operating activities				
Rent receipts - tenants		410	391	408
Rent receipts - income-related rent subsidy		880	813	843
Rent relief fund income		4	4	4
Other receipts from the Crown		101	92	157
Mortgage Insurance Scheme (MIS) income		10	12	11
Interest received from customers and investments		12	11	17
Other receipts		47	38	83
Payments to suppliers and employees		(992)	(797)	(986)
Income tax paid		(77)	(121)	(95)
Interest paid		(101)	(83)	(118)
Net cash flows from/(used in) operating activities	24	**294**	**360**	**324**
Cash flows from/(used in) investing activities				
Sale of rental properties and other property plant and equipment		19	37	41
Mortgage and other lending repayments		7	8	-
Net short-term investments (made)/realised		113	324	130
Purchase of rental property assets		(1,523)	(946)	(1,316)
Purchase of other property, plant and equipment		(12)	(5)	(13)
Purchase of intangible assets		(11)	(6)	(8)
Repayments to/(advances from) Housing Agency Account		3	(2)	-
Net cash flows from/(used in) investing activities		**(1,404)**	**(590)**	**(1,166)**
Cash flows from/(used in) financing activities				
Net capital contributions (to)/from the Crown		(1)	(2)	(8)
Loans drawn down from The Treasury – Capital Markets		33	(1)	850
Loans drawn down from the market		851	700	-
Net cash flows from/(used in) financing activities		**883**	**697**	**842**
Net cash flows		(227)	467	-
Opening cash and cash equivalents		523	56	35
Closing cash and cash equivalents	18	**296**	**523**	**35**

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 2019

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 high-quality public housing and housing-related services to people in the greatest need, for the duration of their need. Alongside this is the provision of support for the Government's priorities in the supply of transitional, affordable and market housing and ensuring 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 65,256 residential properties across New Zealand (2018: 63,996). 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 2019 were authorised for issue in accordance with a resolution of the members on 24 September 2019.

2. Summary of significant accounting policies

(a) Basis of preparation

On 23 September 2019, the Kāinga Ora – Homes and Communities Act 2019 received royal ascent. The Act disestablishes HNZC from 1 October 2019 and transfers the operations and all the assets, liabilities, rights and obligations of the Corporation to a new Crown Entity "Kāinga Ora – Homes and Communities".

As a result of this the accounts have been prepared on a disestablishment basis. This differs from the normal convention of preparing the accounts on a going concern basis. All assets and liabilities will be transferred to the new entity at net book value and therefore there are no changes to the values in the financial statements.

The accounting policies have been applied consistently throughout the year.

The financial statements have been prepared on a historical cost basis except where otherwise stated.

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.

The accounting policies adopted in these financial statements are consistent with those of the previous financial year, except where stated otherwise.

(b) Statement of compliance

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

The financial statements have been prepared in accordance with Public Benefit Entity Standards (PBE Standards).

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(c) New accounting standards and interpretations

(i) Changes in accounting policies and disclosures

HNZC applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 July 2018, as described below.

HNZC has adopted PBE IFRS 9 *Financial Instruments* (PBE IFRS9) for the first time in these financial statements. The nature and effect of changes as a result of the adoption of this standard are described below. HNZC has also adopted the consequential amendments to PBE IPSAS 30 *Financial Instruments Disclosures* as a result of the application of PBE IFRS 9.

PBE IFRS 9 introduces into the PBE Standards the reforms introduced by NZ IFRS 9 in the for-profit sector. This standard replaces most of the requirements of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* and introduces a number of changes to the classification and measurement of financial assets, hedge accounting and impairment. PBE IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. However, all entities who report their financial statements in accordance with Crown accounting policies are required to adopt PBE IFRS 9 at the same time as the for-profit sector. As a result, HNZC has adopted PBE IFRS 9 with effect from 1 July 2018.

The adoption of PBE IFRS 9 has resulted in changes to the accounting policies, classification of financial assets and impairment in the financial statements. The new accounting policies are set out in note 2. HNZC has applied PBE IFRS 9 retrospectively but has elected not to restate comparative information. As a result, comparative figures continue to be reported under PBE IPSAS 29.

(ii) Classification and measurement

Under PBE IFRS 9, financial instruments are classified as at amortised cost, fair value through surplus or deficit (FVSD), or fair value through other comprehensive revenue and expense (FVOCRE). Classification is driven by the HNZC's business model for managing the financial assets and its contractual cash flow characteristics.

The assessment of HNZC's business model for its financial assets was made as of the date of initial application, 1 July 2018.

The assessment of whether contractual cash flows on debt instruments comprise solely of principal and interest (SPPI test) was made based on the facts and circumstances as at the initial recognition of the assets.

The following financial assets were originally accounted for as loans and receivables and under PBE IFRS 9 have moved to the 'at amortised cost' classification. The measurement of these assets has not changed (except for impairment testing as outlined below) and they will continue to be measured using the amortised cost method:

- Cash and cash equivalents and exchange receivables
- Non-exchange receivables (contractual)
- Mortgage advances (short and long term)
- Short-term investments

The short-term investments meet the SPPI test. Further, HNZC has determined that the short-term investments meet the business model test of holding to collect the contractual cash flows and thus have been classified as at amortised cost.

The following financial assets were previously recognised at fair value through surplus or deficit (unless they are designated in a hedging relationship) and under PBE IFRS 9 will continue to be accounted as such:

- Investments – Shared equity loan scheme

  Shared equity loan scheme loans do not meet the SPPI test and will continue to be classified at fair value through net surplus/(deficit) (FVSD)

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

- Derivative financial instruments

  Derivative instruments fail the SPPI test and are required to be measured at FVSD unless they are designated in a hedge relationship. All of HNZC's derivative financial instruments are in hedge relationships

There are no changes in classification and measurement for HNZC's financial liabilities previously measured at amortised cost.

(iii) Impairment

The impairment requirements apply to financial assets that are carried at amortised cost, debt instruments that are carried at FVOCRE and lease receivables. The impairment requirements under PBE IFRS 9 are based on a forward-looking expected credit loss model in relation to HNZ, this applies to receivables.

When applying the PBE IFRS 9 impairment model to its asset, HNZ has identified possible future defaults by the counterparty to make a payment in full and/or on time. Impairment is recognised based on possible defaults expected. The expected credit loss (ECL) arising from the possible defaults is recognised based on the possibility of default over the next 12 months, based on the 'general approach' or the 'simplified approach' to impairment being applied. Exchange receivables and contractual non-exchange receivables apply the simplified approach. Mortgage advances and short-term investments apply the general approach.

(iv) Hedge accounting

HNZC Group has chosen to apply the hedge accounting requirements of PBE IFRS 9. The requirements will be applied prospectively. At the date of initial application, all of HNZC Group's existing hedging relationships were eligible to be treated as continuing hedging relationships.

On transition, the hedge ratio in accordance with PBE IPSAS 29 is used as the starting point for rebalancing the hedge ratio for HNZC's continuing hedging relationships. Any gain or loss from such a rebalancing is recognised in surplus or deficit.

No adjustments were required on transition to the hedge accounting requirements of PBE IFRS 9.

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

The following standards and amendments have been issued but are not yet effective:

- 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 IPSASs 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
- PBE IPSAS 2: The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- Leases: In February 2016, the External Reporting Board issued NZ IFRS 16 Leases. This replaces NZ IAS 17 Leases. NZ IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Currently there is no equivalent PBE Standard; however it is understood that the External Reporting Board will be considering the applicability for PBEs. HNZ has not assessed the effects as there is currently no relevant standard in place.
- PBE IPSAS 41: The XRB issued PBE IPSAS 41 Financial Instruments in March 2019. This standard supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although HNZ has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(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 or properties held for sale.

(g) Properties held for sale

Properties identified as meeting the criteria for recognition as held for sale are reclassified 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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.

(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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Value in use is determined by using either a depreciated replacement cost approach, restoration cost approach, or 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) Financial assets

Financial assets in the scope of PBE IFRS 9 are classified as either subsequently measured at amortised cost, fair value through other comprehensive revenue and expense (FVOCRE) or fair value through surplus or deficit (FVSD). The classification depends on the business model for managing the financial assets and its contractual cash flow characteristics.

Financial assets are reclassified if the business model for managing those financial assets has changed.

(i) Initial recognition and derecognition

At initial recognition, financial assets or financial liabilities are measured at their fair value or, in the case of a financial asset or financial liability not at FVSD, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The fair value of a financial instrument at initial recognition is normally the transaction price (ie, the fair value of the consideration given or received. When the transaction is a non-exchange transaction, the fair value is determined and any gain or loss is recognised as a non-exchange transaction depending on the conditions attached to the transaction.

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.

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

Derivatives – not in hedge relationships

Derivatives are recognised at fair value on initial recognition and subsequently with changes in fair value recognised in surplus or deficit when they are not in a hedging relationship.

(iii) Financial assets at amortised cost

Financial assets subsequently measured at amortised cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest (SPPI) on the principal balance.

Financial assets at amortised cost are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

Specific financial assets at amortised cost include the following:

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.

Mortgages and housing-related lending

Mortgage advances are measured at amortised cost and are stated net of expected credit losses using the general approach. Refer to the accounting policy for impairment of financial assets in note 2.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Trade and other receivables (exchange and contractual non-exchange transactions)

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for expected credit losses using the simplified approach. These are recognised in accordance with the accounting policy for impairment in note 2.

Bad debts are written off when identified.

Long-term receivables (exchange and contractual non-exchange transactions)

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. Expected credit losses using the general approach are recognised in accordance with the accounting policy for impairment of financial assets in note 2.

Short-term investments

Short-term investments consist of money market deposits, commercial paper and treasury bills. These investments meet the SPPI test and are managed on a hold to collect business model. These debt investments are carried at amortised cost using the effective interest method. Expected credit losses, using the general approach, are recognised in accordance with the accounting policy for impairment of financial assets in note 2.

Impairment

The impairment requirements of PBE IFRS 9 apply to HNZC's financial assets that are carried at amortised cost and are based on a forward-looking expected credit loss model. HNZC Group recognises the expected credit loss (ECL) arising from the possible defaults based on the possibility of default either over the lifetime of the asset or over the next 12 months, depending on whether the 'general approach' or the 'simplified approach' to impairment is used.

Under the general approach, expected credit losses are recognised in three stages:

Stage 1 – If credit risk has not deteriorated significantly since the asset was initially recognised, impairment losses are recognised initially based on the ECL that results from default events that are possible within the next 12 months (12 months ECL).

Stage 2 – If the credit risk associated with the asset deteriorates significantly, impairment losses are recognised based on the 'lifetime' ECL (that is, future defaults expected to occur over the lifetime of the asset).

Stage 3 – If the financial asset then becomes credit impaired (that is, a loss has been incurred) the lifetime ECL is recognised as in Stage 2; however, interest revenue is calculated by applying the effective interest rate to the net amount (gross carrying amount less impairment) rather than the gross amount.

Under the simplified approach impairment losses are recognised based on the 'lifetime' ECL (that is, future defaults expected to occur over the lifetime of the asset). HNZC Group uses a provision matrix to calculate expected credit losses. Historical credit loss experience is adjusted for forward-looking information, to estimate the lifetime expected credit losses on the financial assets.

(m) Accounts payable and other liabilities

Due to their short-term nature, accounts payable and other liabilities 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.

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(n) 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.

(o) 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% probability of sufficiency level.

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.

(p) 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 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.

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

The cash flow reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument from inception of the hedge, and the cumulative change in fair value (present value) of the hedged item from inception of the hedge.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or 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.

(q) 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.

(r) 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.

(s) 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(t) 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 (IRRS)

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.

(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 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(u) Borrowing costs

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

(v) 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.

(w) 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.

(x) 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 2019

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 2019 interest rate swaps designated to hedge underlying debt obligations were the primary financial instrument used.

At 30 June 2019, after taking into account the effect of interest rate swaps, approximately 71 percent of borrowings were at a fixed rate of interest (2018: 79 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:

	2019 ($M)	2018 ($M)
Net surplus higher/(lower)		
Interest rates +1%	(4)	(3)
Interest rates -1%	4	3
Equity higher/(lower)		
Interest rates +1%	30	38
Interest rates -1%	(31)	(39)

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(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 (2018: $1.6 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.

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.

An impairment analysis is performed at each reporting date to measure expected credit losses. The impairment analysis is based on days past due for groupings of various customer segments with similar loss patterns. Where necessary, the calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 17.

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 (2018: $350 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 $10 million (2018: $1 million) with an interest rate of 4.88 percent (2018: 6 percent).

The HNZC Group's policy is that not more than 25% of borrowings should mature in any 12-month period. As at 30 June 2019, 14.20 percent of the HNZC Group's debt will mature in less than one year (2018: 12.33 percent).

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

As at 30 June 2019 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 2019						
Crown loans interest rate	278	165	334	524	845	2,146
Market bonds	37	37	37	365	1,075	1,551
Commercial paper	250	-	-	-	-	250
Accounts payable and other liabilities	185	-	-	-	-	185
Financial guarantees – sold loans	-	-	-	-	1	1
Interest rate derivatives – net settled	29	33	25	25	2	114
Total	**779**	**235**	**396**	**914**	**1,923**	**4,247**
At 30 June 2018						
Crown loans 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	35	26	16	15	1	93
Total	**551**	**335**	**215**	**875**	**1,280**	**3,255**

As at 30 June 2019 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)
30 June 2019						
Crown loans floating interest rate	252	143	313	489	733	1,930
Crown loans fixed interest rate	-	-	-	-	56	56
Market bonds	-	-	-	300	1,000	1,300
Commercial Paper	250	-	-	-	-	250
Total	**502**	**143**	**313**	**789**	**1,789**	**3,536**
30 June 2018						
Crown loans floating interest rate	127	253	143	506	924	1,953
Market bonds	-	-	-	250	250	500
Commercial Paper	200	-	-	-	-	200
Total	**327**	**253**	**143**	**756**	**1,174**	**2,653**

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 2019

(f) Concentration of risk

The HNZC Group has substantial deposits in excess of $278 million with six different banks, of which $98 million is maintained with the Bank of New Zealand, $67.7 million with ANZ Bank, $50 million with Westpac New Zealand Limited, $27.4 million with Kiwibank, $20 million with ASB Bank, and $15 million with MUFG Bank. These are reputable banks and have a Standard & Poor's long-term credit rating of AA-, except for MUFG Bank, which has a credit rating of A (positive).

(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)	Past due Vacated Impaired 0-30 Days ($M)	Impaired 30 Days plus ($M)	Total ($M)
At 30 June 2019					
Rent	4	3	–	1	8
Damages	–	–	–	2	2
Other receivables	14	–	–	–	14
Expected credit loss rate	0%	0%	100%	100%	
Expected credit loss	–	–	–	(3)	(3)
Total	**18**	**3**	**-**	**-**	**21**
At 30 June 2018					
Rent	2	2	–	–	4
Damages	–	–	–	3	3
Other receivables	40	–	–	–	40
Total	**42**	**2**	**-**	**3**	**47**

(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 2019					
Mortgage advances past due not impaired	–	–	–	–	–
Other mortgage advances	31	–	–	1	32
Expected credit loss	–	–		(1)	(1)
Total	**31**	**-**	**-**	**-**	**31**
At 30 June 2018					
Mortgage advances past due not impaired	–	2	–	2	4
Other mortgage advances	31	–	–	–	31
Total	**31**	**2**	**-**	**2**	**35**

* 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 2019

(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, is summarised in the table below. No Level 1 or 3 financial instruments are held at 30 June 2019 (2018: nil).

	30 June 2019 Valuation technique - Market observable Inputs (level 2) $(M)	30 June 2018 Valuation technique - Market observable Inputs (level 2) $(M)
Financial assets		
Interest rate derivatives	–	1
Total	**–**	**1**
Financial liabilities		
Interest rate derivatives	114	94
Financial guarantees – sold loans	1	1
Total	**115**	**95**

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.

For all other financial assets and liabilities, except for mortgages and short-term investments, the fair value equates to carrying value.

(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 of 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.

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 2019

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 65,256 residential properties (2018: 63,996), 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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

(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 65,256 properties around New Zealand (2018: 63,996). 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).

(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). The derivatives are measured at fair value, no adjustment is required (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 unrecouped 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(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) Estimation of expected credit losses

The measurement of expected credit losses requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Elements of the ECL models that are considered accounting judgements and estimates include:

- the internal credit grading model that is applied to similar assets based on historical information which assigns probabilities of default to groups of assets
- the criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment.

It is HNZC Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

5. Mortgages

(a) Mortgage advances

	2019 ($M)	2018 ($M)
Non-current mortgage advances	31	33
Expected credit losses	(1)	–
Net non-current mortgage advances	**30**	**33**
Current mortgage advances	**3**	**2**
Total net mortgage advances	**33**	**35**

These loans consist of Housing Innovation Fund (HIF) loans of $20 million (2018: $22 million) and historical loan products such as general and residual lending of $13 million (2018: $13 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) 2019 (%)	Weighted Average Interest rate (Excl 0% loans) 2019 (%)	2019 ($M)	Weighted Average Interest rate (All loans) 2018 (%)	Weighted Average Interest rate (Excl 0% loans) 2018 (%)	2018 ($M)
Up to 1 year	3.77	6.44	3	0.00	0.00	2
1 to 5 years	0.20	5.95	14	0.14	6.91	12
Over 5 years	2.67	5.25	16	2.76	5.59	21
Total weighted average	**2.52**	**5.25**	**33**	**2.62**	**5.60**	**35**

Interest rates on mortgages range from 0 percent to 7.90 percent (2018: 0 percent 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 allowance for expected credit losses is assumed to relate to the non-current mortgages.

Housing Innovation Fund (HIF) mortgage advances

At 30 June 2019 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 $20 million (2018: $22 million).

(b) Expected credit losses (general approach)

	Current up to 1 year ($M)	1-5 Years ($M)	Over 5 years ($M)	Total ($M)
Mortgage advances				
Expected credit loss rate	0%	0%	5%	
Estimated total gross carrying amount at default	3	14	17	34
Expected credit loss	–	–	(1)	(1)
Total mortgage advances impaired as at 30 June 2019	**3**	**14**	**16**	**33**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Approach after 1 July 2018 under PBE IFRS 9

HNZC monitors the credit risk of the counterparties to determine if the credit risk has changed since initial adoption. Indicators of a significant change in credit risk include actual or expected changes in:

- performance and behaviour of the borrower (for example, an increase in the number or extent of delayed contractual payments)
- business, financial or economic conditions that could change the borrower's ability to meet its debt obligations, for example increases in interest rates or changes in unemployment rates
- loan documentation including breaches of contract that may lead to covenant waivers or interest payment holidays, interest step-ups or additional collateral required
- past due information of debtors.

The presumption that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due has been rebutted, and therefore the 12 month ECL model has been applied. Loan arrears that are over 90 days are reviewed for impairment but are not automatically treated as impaired or provided for.

(c) Movement in provision for expected credit losses of mortgage advances

	2019 ($M)
As at 1 July 2018	-
Provision for expected credit losses	(1)
Write off	-
Balance at 30 June 2019	**(1)**

6. Receivables

(a) Receivables from non-exchange transactions

	2019 ($M)	2018 ($M)
Rental debtors	10	7
Expected credit losses	(3)	(3)
Sub-total	**7**	**4**
Other receivables	6	7
Total receivables from non-exchange transactions	**13**	**11**

An impairment loss of $5 million (2018: $6 million) relating to the credit risk associated with rental debtors and the recovery of the cost of damages has been recognised at year end.

Non-exchange other receivables relate to funds owing from the Ministry of Social Development. These debtors are all current.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(b) Receivables from exchange transactions

	2019 ($M)	2018 ($M)
Current receivables from exchange transactions		
Interest receivable	5	4
Receivable from related parties	–	2
Other receivables	3	27
Total receivables from exchange transactions	**8**	**33**

All Interest debtors (The Treasury – Capital Markets) relate to interest swaps. These debtors are all current and we have assessed that no material impairment of these debtors is required.

All receivables relate mostly to land transactions and other sundry debtors. These have been assessed and impairment for expected credit losses has been applied to the balance. The amount of the impairment is immaterial.

(c) Expected credit losses – non-exchange rental debtors

	Neither Past due Nor Impaired ($M)	Past due But not Impaired 0-30 Days ($M)	Past due Vacated Impaired 0-30 Days ($M)	Impaired 30 Days plus ($M)	Total ($M)
At 30 June 2019					
Rent	4	3	–	1	8
Damages	–	–	–	2	2
Estimated total gross carrying amount at default	**4**	**3**	**-**	**3**	**10**
Expected credit loss rate	0%	0%	100%	100%	
Expected credit loss	–	–	–	(3)	(3)
Total	**4**	**3**	**-**	**-**	**7**

7. Financial assets

	2019 ($M)	2018 ($M)
Assets at amortised costs – short-term investments		
Short-term investment on money market	35	148

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

8. Properties held for sale

	2019 ($M)	2018 ($M)
Properties held for sale	27	5

At balance date, certain properties have been reclassified from property, plant and equipment to properties held for sale if their 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 their 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 2019 the total fair value of properties held for sale, less selling and other costs, was $27 million (2018: $5 million).

9. Property, plant and equipment

Revaluation cost

	Rental properties operating assets			Other property, plant and equipment			
	Freehold Land ($M)	Rental Properties ($M)	Capital Work in Progress* ($M)	Leasehold Improve-ments ($M)	Furniture And Fittings ($M)	Computer Equipment ($M)	Total Property, Plant and Equipment ($M)
Year ended 30 June 2019							
At 1 July 2018, Revaluation Cost	**16,771**	**9,446**	**472**	**34**	**16**	**34**	**26,773**
Additions	348	742	1,469	4	2	5	2,570
Disposals	(24)	(68)	-	-	-	-	(92)
Transfers from Work in Progress	-	-	(1,061)	-	-	-	(1,061)
Other revaluations	326	57	-	-	-	-	383
Transfer to PPE from PUD	17	3	-	-	-	-	20
Transfer to PPE from held for sale	-	-	-	-	-	-	-
Transfer from PPE to held for sale	(18)	(3)	-	-	-	-	(21)
Transfer from PPE to properties under development	-	-	-	-	-	-	-
At 30 June 2019, Revaluation Cost	**17,420**	**10,177**	**880**	**38**	**18**	**39**	**28,572**
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**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Accumulated depreciation and impairment

	Rental properties operating assets			Other property, plant and equipment			
	Freehold Land ($M)	Rental Properties ($M)	Capital Work in Progress* ($M)	Leasehold Improve-ments ($M)	Furniture And Fittings ($M)	Computer Equipment ($M)	Total Property, Plant and Equipment ($M)
Year ended 30 June 2019							
At 1 July 2018, Accumulated Depreciation	**–**	**61**	**–**	**25**	**13**	**29**	**128**
Disposals	–	(3)	–	–	–	–	(3)
Depreciation charge for the year	–	265	–	2	–	3	270
Revaluation write-back	–	(233)	–	–	–	–	(233)
At 30 June 2019, Accumulated Depreciation	**–**	**90**	**–**	**27**	**13**	**32**	**162**
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**
Net book value 2019	**17,420**	**10,087**	**880**	**11**	**5**	**7**	**28,410**
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.

Valuation

Freehold land and rental properties in the portfolio were revalued as at 30 June 2019 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 $27,597 million (2018: $26,158 million).

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Right of First Refusal for sale of surplus HNZC land

Treaty settlement legislation has granted Right of First Refusal (RFR) over some of the HNZC Group's properties. 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)

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

10. Properties under development

	2019 ($M)	2018 ($M)
Properties under development	144	55

Properties under development held by the HNZC Group are recognised as non-current assets. The carrying amount of the land, buildings and improvements held in inventory is $144 million (2018: $55 million), of which $26 million represents those assets carried at net realisable value (and the rest are carried at the cost incurred).

11. Software

	Software external ($M)	Software internal ($M)	Projects work in progress ($M)	Total ($M)
Year ended 30 June 2019				
At 1 July 2018, net of accumulated amortisation	**1**	**22**	**3**	**26**
Additions	4	4	3	11
Capitalised from projects work in progress	–	–	–	–
Amortisation for the year	(1)	(16)	–	(17)
At 30 June 2019, net of accumulated amortisation	**4**	**10**	**6**	**20**
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**

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 (2018: 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.

12. Accounts payable and other liabilities

	2019 ($M)	2018 ($M)
Accounts payable	88	66
Maintenance accrual	5	6
Rates accrual	5	5
Payroll accrual	7	6
Contract retentions	15	12
Interest payable	20	16
Other payables and accruals	45	22
Total accounts payable and other liabilities	**185**	**133**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

13. Provisions

	Sold mortgage provisions ($M)	Housing innovation fund provisions ($M)	Warranty stock transfer ($M)	Total ($M)
At 1 July 2018	1	1	2	4
Release of unused amounts	–	–	–	–
Provision released and spent	–	–	(2)	(2)
At 30 June 2019	**1**	**1**	**–**	**2**
Current	–	1	–	1
Non-current	1	–	–	1
At 30 June 2019	**1**	**1**	**–**	**2**
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**

(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 2019, by David Pearson 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 $3.73 million (2018: $6.33 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 percent 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 2019

Sold mortgages	Original sold amount ($000)	Corporation's exposure ($000)	Provision made ($000)	Sufficiency margin (%)	
				2019	2018
September 1998	196,000	185	39	80	80
December 1998	98,000	2,441	253	90	90
November 1999	34,500	699	51	75	75
1996 portfolio	250,000	407	30	75	75
	578,500	**3,732**	**373**		

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 2019 was $2.2 million (2018: $3.9 million), being the amount owed under the 451 guaranteed mortgages as at 30 June 2019.

14. Employee entitlements

	2019 ($M)	2018 ($M)
Current accumulated leave provisions	11	8
Non-current long-service leave provision	1	1
Total employee entitlements	**12**	**9**

15. Income tax

The major components of income tax expense for the year were:

(a) Income tax expense/(benefit)

	2019 ($M)	2018 ($M)
Net surplus/(deficit)		
Current income tax	95	98
Prior period adjustments	(6)	(1)
Deferred income tax relating to temporary differences	(113)	(48)
Income tax expense/(benefit) reported in net surplus/(deficit)	**(24)**	**49**
Statement of changes in equity		
Deferred income tax		
Net change in deferred tax due to revaluation of buildings	55	206
Net change in deferred tax due to hedged financial derivatives from the Treasury-Capital Markets	(6)	2
Income tax expense/(benefit) reported in other comprehensive revenue and expense	**49**	**208**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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:

	2019 ($M)	2018 ($M)
Accounting profit/(loss) before tax from continuing operations	**36**	**125**
Taxation at the statutory income tax rate of 28%	10	35
Plus tax effect of:		
Permanent/temporary differences		
Non-deductible expenses	27	20
Deferred tax adjustments in relation to disposal of rental properties	(3)	(3)
Reversal of deferred tax relating to earthquake insurance proceeds now applied	(52)	-
Non-deductible losses on disposal of rental properties	-	(2)
Prior period adjustments	(6)	(1)
Income tax expense/(benefit) reported in net surplus/(deficit)	**(24)**	**49**

Income tax expense/(benefit) reported in net surplus/(deficit) is at an effective rate of (67 percent) (2018: 39 percent).

(b) Current income tax liability

	2019 ($M)	2018 ($M)
Net current tax liability/(asset) at 1 July	5	27
Current year tax charge to net surplus/(deficit)	95	97
Prior period adjustment	(6)	(4)
Income tax paid	(77)	(121)
Income tax credits sold through pooling account	-	6
Net current tax liability/(asset) at 30 June	**17**	**5**

(c) The net deferred tax liability relates to the following:

	2019 ($M)	2018 ($M)
Deferred tax liabilities		
Rental property building revaluations	2,107	2,117
Other property, plant and equipment	3	3
Earthquake insurance proceeds	1	55
Other differences relating to other property improvements	66	61
Gross deferred tax liabilities	**2,177**	**2,236**
Deferred tax assets		
Provisions – employee entitlements	(3)	(3)
Provisions – other	(2)	(2)
Financial derivatives	(31)	(25)
Gross deferred tax assets	**(36)**	**(30)**
Net deferred tax liability	**2,141**	**2,206**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

The deferred tax liability movements were:

	2019 ($M)	2018 ($M)
Net deferred tax liability/(asset) at 1 July	2,206	2,044
Recognised through other comprehensive income:		
Rental property building revaluations	55	206
Financial derivatives	(6)	2
Recognised through net surplus/(deficit):		
Temporary differences relating to Christchurch properties transferred to held for sale	(3)	(2)
Reversal of deferred tax relating to earthquake insurance proceeds now applied	(52)	–
Other temporary differences	(59)	(46)
Prior period adjustment	–	2
Net deferred tax liability/(asset) at 30 June	**2,141**	**2,206**

(d) Imputation credits

	2019 ($M)	2018 ($M)
Imputation credits available for use in subsequent reporting periods	**1,191**	**1,088**

16. Mortgage Insurance Scheme unearned premium reserve and insurance claims

The HNZC Group provides mortgage insurance to 11 (2018: 13) 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 $1,719 million (2018: $1,672 million).

The Mortgage Insurance Scheme (MIS) was assessed last December 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 2019 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).

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(a) Reconciliation of MIS unearned premium reserve

	2019 ($M)	2018 ($M)
MIS unearned premium reserve at 1 July	32	28
Insurance premium receipts	10	13
Insurance claims	–	–
Insurance premium income deferred/(recognised) for the year	–	4
Actuarially assessed increase/(decrease) in premium reserve	(10)	(13)
MIS unearned premium reserve at 30 June	**32**	**32**

(b) Estimated timing of net cash outflows

The following shows the estimate of timing of net cash outflows arising from claims:

	2019 ($M)	2018 ($M)
0 – 1 year	–	–
1 – 2 years	6	5
2 – 3 years	5	5
3 – 4 years	4	4
4 – 6 years	4	7
6+ years	13	11
Total estimated liability	**32**	**32**

(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
- A change 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.

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 37 percent of the original value of settled loans as at 30 June 2019 (2018: 38 percent) is with one bank, Kiwibank, there is no material concentration of risk at individual mortgage holder level.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(d) Sensitivity analysis

The actuarial assessment of the MIS includes an assessment of the sensitivity of the valuation to changes in the valuation assumptions.

This is completed separately for the assessment of unearned premiums, and the assessment of claims risk, which collectively make up the unearned premium/claims reserve balance, summarised in the tables below.

Sensitivity analysis – Premium liabilities as at 30 June 2019

	Probability of adequacy (%)	Discounted central estimate ($000)	Risk margin ($000)	Outstanding claims liabilities ($000)
Baseline	75%	3,456	1,275	4,731
Risk margin				
85% Probability of adequacy	85%	3,456	1,960	5,416
95% Probability of adequacy	95%	3,456	3,115	6,571
Claim probability assumptions				
+0.2 percentage point	75%	9,236	3,208	12,444
-0.2 percentage point	75%	1,140	533	1,674
Claim size assumptions				
+5% of loan amount	75%	3,944	1,452	5,396
-5% of loan amount	75%	2,951	1,097	4,048
Repayment probability assumptions				
+1 percentage point	75%	3,244	1,210	4,454
-1 percentage point	75%	3,554	1,316	4,870

Sensitivity analysis – Outstanding claims liabilities as at 30 June 2019

	Probability of adequacy (%)	Discounted central estimate ($000)	Risk margin ($000)	Outstanding claims liabilities ($000)
Baseline	75%	637	226	863
Risk margin				
85% Probability of adequacy	85%	637	347	985
95% Probability of adequacy	95%	637	552	1,189
Claim probability assumptions				
+0.2 percentage point	75%	1,614	429	2,042
-0.2 percentage point	75%	200	126	326
Claim size assumptions				
+5% of loan amount	75%	743	261	1,004
-5% of loan amount	75%	560	207	767
Repayment probability assumptions				
+1 percentage point	75%	642	228	870
-1 percentage point	75%	650	228	878

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(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 1.60 percent (2018: 2.73 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 2019 was $4.7 million (2018: $8.4 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 36.9 percent (2018: 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:

	2019 ($M)	2018 ($M)
Central estimate claims (undiscounted)	4	7
Discounting	-	(1)
Central estimate claims (discounted)	4	6
Risk margin at 75% probability of sufficiency	1	2
Premium liabilities based on LAT	5	8

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(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 2019:

	2019 ($M)	2018 ($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	1	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 1.43 percent (2018: 1.76 percent).

(g) Claims history and asset backing

Actual claims under the Mortgage Insurance Scheme are lower than those projected by the actuarial assessment at the 75% level (2018: lower than those projected by the actuarial assessment at the 75% level).

Projected claim liabilities 2019 ($M)	Actual claims 2019 ($M)	Projected claim liabilities 2018 ($M)	Actual claims 2018 ($M)
0.86	-0.01	1.62	0.09

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 2019 was $12.9 million (to 30 June 2018: $12.8 million).

(h) Credit rating

Both the HNZC Group (which manages the MIS) and HNZL have a long-term credit rating of AA+ from credit rating agency Standard & Poor's.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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:

	2019 ($M)	2018 ($M)
Financial assets as amortised cost		
Cash and cash equivalents	296	523
Receivables (exchange and non-exchange)	21	44
Mortgage advances	33	35
Short term investments	35	148
Total financial assets (previously loans and receivables)	**385**	**750**
Financial assets at fair value through net surplus/(deficit)		
Investments - Shared equity loan scheme		
Derivative financial instruments	-	-
Total financial assets at fair value through net surplus/(deficit)	**-**	**-**
Financial assets available-for-sale		
Interest rate swaps	-	1
Total financial assets – cash flow hedge relationships	**-**	**1**
Total financial assets at fair value through other comprehensive revenue and expense	**-**	**1**
Financial liabilities		
Financial liabilities – cash flow hedge relationships		
Interest rate swaps	114	94
Financial liabilities – financial guarantees		
Financial guarantees – sold loans	1	1
Total financial liabilities at fair value through other comprehensive revenue and expense	**115**	**95**
Financial liabilities measured at amortised cost		
Crown loans – floating interest rate	1,986	1,953
Market bonds	1,300	500
Commercial paper	250	200
Accounts payable and other liabilities	123	94
Total financial liabilities measured at amortised cost	**3,659**	**2,747**

For all categories of financial assets and liabilities, the carrying value approximates fair value, except for the following:

	Carrying amount		Fair value	
	2019 ($M)	2018 ($M)	2019 ($M)	2018 ($M)
Financial assets				
Mortgage advances	33	35	29	34
Total	**33**	**35**	**29**	**34**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

18. Cash and cash equivalents

	2019 ($M)	2018 ($M)
Overnight investments	–	26
Term deposits	296	497
Total cash and cash equivalents	**296**	**523**

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 (2018: $35 million).

Overnight investments earn interest at floating rates based on daily bank deposit rates. There were no overnight investments as at 30 June 2019 making the effective interest rate for overnight money market investments zero (2018: 1.95 percent).

The weighted average effective interest rate for term deposits at 30 June was 2.57 percent (2018: 2.32 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 2019 there were 113 interest rate swap agreements that had commenced (2018: 120), with a notional amount of $1,406 million (2018: $1,544 million), paying a weighted average fixed rate of interest of 4.42 percent (2018: 4.58 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 71 percent of borrowings at 30 June were effectively at a fixed rate of interest (2018: 79 percent).

Set out below are the fair values of interest rate derivatives at 30 June:

	2019 ($M)	2018 ($M)
Interest rate derivatives – assets		
Interest rate derivatives – current assets	–	–
Interest rate derivatives – non-current assets	–	1
Interest rate derivatives – total assets	**–**	**1**
Interest rate derivatives – liabilities		
Interest rate derivatives – current liabilities	29	35
Interest rate derivatives – non-current liabilities	85	59
Interest rate derivatives – total liabilities	**114**	**94**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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 2019						
Interest rate derivatives – net settled						
Liabilities	(29)	(33)	(25)	(25)	(2)	(114)
Net assets/(liabilities)	**(29)**	**(33)**	**(25)**	**(25)**	**(2)**	**(114)**
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)**

Notional principal amounts, and period of expiry, of interest rate swap contracts in effect at 30 June were as follows:

	2019 ($M)	2018 ($M)
0-1 year	249	203
1-2 years	177	249
2-3 years	340	177
3-5 years	524	586
5+ years	116	329
Total notional principal	**1,406**	**1,544**

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

	2019 ($M)	2018 ($M)
Balance at 1 July	**(66)**	**(72)**
Fair value movement of interest rate swaps	(60)	(36)
Interest expense charged to net surplus/(deficit)	38	44
Amount included in other comprehensive revenue and expense	**(22)**	**8**
Hedging reserve deferred tax	6	(2)
Balance at 30 June	**(82)**	**(66)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

20. Loans

Interest-bearing borrowings

	Carrying amount	
	2019 ($M)	2018 ($M)
Loans – current		
Commercial paper	250	200
Crown loans – floating interest rate	252	127
Total loans – current	**502**	**327**
Loans – non-current		
Market bonds	1,300	500
Crown loans – floating interest rate	1,734	1,826
Total loans – non-current	**3,034**	**2,326**
Total loans	**3,536**	**2,653**

Commercial paper

As at 30 June 2019, HNZC Group had a Note Issuance Facility Agreement allowing for a facility limit of $500 million on its commercial paper programme. In July 2019, HNZC Group increased this facility limit from $500 million to $1 billion.

At 30 June 2019, total commercial paper on issue was $250 million, an uplift of $50 million from prior financial year (2018: $200 million), paying a weighted average interest rate of 1.65% (2018: 2.07%). Total commercial paper on issue did not exceeded $500 million at any time during 2018/19 financial year.

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

HNZ 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 2019 HNZC Group had on issue $1.3 billion of medium-term notes (2018: $500 million), in four tranches, with $300 million maturing on 12 June 2023, $250 million maturing on 12 June 2025, $500 million maturing on 5 October 2026 and $250 million maturing on 18 October 2028 paying a weighted average fixed rate of interest of 2.84 percent (2018: 3.17 percent).

Crown funding

As at 30 June 2019 the HNZC Group had borrowed $1,986 million from the Crown, with maturity dates ranging from 2019 to 2037 (2018: $1,953 million maturing from 2018 to 2028), paying a weighted average fixed rate of interest of 1.65 percent (2018: 2.01 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 2019 the HNZC Group had an unsecured bank overdraft facility of $10 million (2018: $1 million) at an interest rate of 4.88 percent (2018: 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 2019, 14.20 percent of the HNZC Group's debt will mature in less than one year (2018: 24.90 percent).

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

21. Revenue

(a) Interest income and expense

	2019 ($M)	2018 ($M)
Interest income		
Interest on temporary investments and bank accounts	13	11
Interest on mortgage advances	1	1
Total interest income	**14**	**12**
Interest expense		
Interest on short-term borrowing	4	1
Interest on long-term borrowing	64	40
Interest on derivatives	38	44
Total interest expense	**106**	**84**

(b) Crown appropriation income

	2019 ($M)	2018 ($M)
KiwiSaver deposit subsidy/HomeStart	84	80
Other housing-related appropriations	18	14
Total Crown appropriation income	**102**	**94**

Total Crown appropriations were $108 million (2018: $102 million); however, $6 million (2018: $8 million) has been classified as 'Crown appropriation premium receipts' in note 21(c) below.

(c) MIS revenue

	2019 ($M)	2018 ($M)
Third-party premium receipts	4	5
Crown appropriation premium receipts	6	8
Premium revenue deferred and actuarial (increase)/decrease in premium reserve	–	(4)
Recognised insurance premium revenue	**10**	**9**
Claims expense	–	–
Net surplus/(deficit) for MIS	**10**	**9**

(d) Other revenue

	2019 ($M)	2018 ($M)
Management fees from related parties	3	3
Release of HIF impairment	1	1
Other revenue	5	3
Total other revenue	**9**	**7**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

22. Expenses

(a) Depreciation and amortisation

	2019 ($M)	2018 ($M)
Depreciation – rental properties	265	237
Depreciation – other property, plant and equipment	5	4
Amortisation of intangible assets	17	18
Total depreciation and amortisation	**287**	**259**

(b) Personnel

	2019 ($M)	2018 ($M)
Wages and salaries	137	116
Employee benefits	9	8
Other personnel costs	6	3
Total personnel	**152**	**127**

(c) Other expenses

	2019 ($M)	2018 ($M)
Professional services	36	25
Insurance	15	13
Communication	3	3
Computer costs and software maintenance fees	11	8
Accommodation, travel and allowances	6	5
Bad debts	4	4
Selling costs	2	1
MIS claims expenses	–	–
Stationery and publications	2	1
Vehicle costs	4	3
Demolition costs	10	9
Property acquisition and development costs	26	12
Other property related costs	6	6
Other	18	22
Total other expenses	**143**	**112**

* Professional services expenditure is a combination of outsourced business activities (including cost associated with the delivery of new properties), and business improvement activities.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(d) Grants

	2019 ($M)	2018 ($M)
KiwiSaver deposit/First home ownership subsidies	84	81
Total grant expenses	**84**	**81**

(e) Included in other expenses are the following fees paid to external auditors

	2019 ($M)	2018 ($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	0.66	0.51
(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	**0.68**	**0.53**

(f) Realised losses on sales, write-off and impairment of assets

	2019 ($M)	2018 ($M)
Assets impairment, write-off/demolition	(60)	(33)
Gain/(loss) on asset sales	(6)	5
Total realised gains/(losses) on sales, write-off and impairment of assets	**(66)**	**(28)**

23 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. 2019: nil (2018: nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

24. Reconciliation of net surplus/(deficit) after tax with cash flows from operating activities

	2019 ($M)	2018 ($M)
Net surplus/(deficit) after tax	**60**	**76**
Adjustments for:		
Depreciation and amortisation	287	259
Asset impairments and write-offs	60	33
(Gains)/losses on asset disposals	6	(5)
Bad debts expense	4	4
Deferred tax recognised	(113)	(48)
Accumulated interest and fair value (gains)/losses on mortgage advances	(2)	(2)
Other non-cash items and non-operating items	(23)	14
Total non-cash and non-operating items	**220**	**255**
Increase/(decrease) in provisions	(2)	(7)
Increase/(decrease) in income tax payable/(receivable)	12	(22)
Increase/(decrease) in employee entitlements	3	1
Increase/(decrease) in MIS unearned premium reserve	-	4
Increase/(decrease) in rent in advance	(2)	(1)
Increase/(decrease) in accounts payable and other liabilities	(14)	35
(Increase)/decrease in net advances to subsidiaries or related parties	(3)	(2)
(Increase)/decrease in receivables and prepayments	20	21
Total working capital movements	**14**	**29**
Net cash from operating activities	**294**	**360**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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:

	2019 ($M)	2018 ($M)
Within 1 year	320	55
After 1 year but not more than 5 years	427	119
More than 5 years	15	24
Total	**762**	**198**

(a) Sub-lease receivables

The HNZC Group had no sub-leases as at 30 June (2018: 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 2019 capital commitments amounted to $534 million (2018: $447 million) for property projects.

(d) Lending commitments

At 30 June 2019 the HNZC Group had lending commitments approved but not yet paid amounting to $1.6 million (2018: $1.6 million).

(e) Contingencies

Home Equity Scheme

At 30 June 2019 there was no contingent liability (2018: nil) 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 2019

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	2019	2018	Investment 2019 ($M)	Investment 2018 ($M)
Housing New Zealand Limited	New Zealand	100%	100%	3,415	3,415
Housing New Zealand Build Limited	New Zealand	100%	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 2019 and 30 June 2018 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 2019 (2018: 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 2019, 21 employees were key management personnel (2018: 21 employees), and no employee was acting in a temporary position (2018: nil).

Key management personnel compensation

	2019 FTEs	2018 FTEs	2019 ($000)	2018 ($000)
Board members				
Remuneration			535	535
Full-time equivalent members	11.82	11.90		
Leadership team				
Remuneration			3,702	3,687
Full-time equivalent members	9.00	9.40		
Total key management personnel remuneration			**4,237**	**4,222**
Total full-time equivalent personnel	**20.82**	**21.30**		

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

(d) Remuneration details of members of Housing New Zealand Corporation and directors of subsidiaries

	2019 $	2018 $
Both HNZC and HLC Directors		
Adrienne Young-Cooper	112,433	115,260
John Duncan	83,520	95,770
HNZC Directors		
Sandra Alofivae	942	49,000
Peter Dow	942	49,000
Tau Henare	-	49,000
Michael Schur	48,996	49,004
Alick Shaw	-	47,115
Mark Ratcliffe	49,000	42,781
Vui Mark Gosche	63,512	3,063
Leigh Auton	47,116	-
Huhana Hickey	47,116	-
Philippa Howden-Chapman	47,116	-
HLC Directors		
Peter Alexander	17,260	17,260
Matthew Harker	17,260	17,260
Total Board members' remuneration	**535,213**	**534,513**

Sandra Alofivae resigned in July 2018
Peter Dow resigned in July 2018
Leigh Auton was appointed in July 2018
Huhana Hickey was appointed in July 2018
Philippa Howden-Chapman was appointed in July 2018

The above table includes all remuneration paid or payable to each director during the year.

A finance and assurance committee member, Graeme Mitchell, who is not on the Board of Directors, has been paid $15,000 to be a member of the HNZ Finance and Assurance Committee and $16,100 to be the Chair of the HLC Risk and Assurance Committee.

Peter Alexander, who is a member of the HLC Board of Directors, is also a member of the HNZC Investment and Delivery Committee. HNZC paid $24,500 to this committee member.

Matthew Harker, who is a member of the HLC Board of Directors, is also a member of HNZC Investment and Delivery Committee. HNZC paid $24,500 to this committee member.

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 $148,500 (2018: $66,125).

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

27. Remuneration of employees – $100,000 and over

	2019	2018
$100,001-$110,000	69	81
$110,001-$120,000	110	69
$120,001-$130,000	62	33
$130,001-$140,000	41	31
$140,001-$150,000	30	23
$150,001-$160,000	33	24
$160,001-$170,000	32	16
$170,001-$180,000	18	6
$180,001-$190,000	15	5
$190,001-$200,000	10	9
$200,001-$210,000	7	9
$210,001-$220,000	5	3
$220,001-$230,000	8	4
$230,001-$240,000	4	5
$240,001-$250,000	4	2
$250,001-$260,000	2	0
$260,001-$270,000	5	1
$270,001-$280,000	3	0
$280,001-$290,000	1	2
$300,001-$310,000	0	1
$310,001-$320,000	2	2
$320,001-$330,000	1	2
$330,001-$340,000	2	2
$340,001-$350,000	2	1
$350,001-$360,000	0	1
$360,001-$370,000	0	1
$380,001-$390,000	3	0
$400,001-$410,000	3	0
$410,001-$420,000	2	1
$440,001-$450,000	0	1
$470,001-$480,000	0	1
$490,001-$500,000	2	0
$560,001-$570,000	0	1
$610,001-$620,000	1	0
$910,001-$920,000[1]	1	0
Total employees with remuneration of $100,000 and over	**478**	**337**

[1] In 2019, this employee received two years back pay and a change in structure consolidating at risk payments into base pay that were applied retrospectively. This has resulted in remuneration for the year ended 30 June 2019 being higher than otherwise would have been reported.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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 2019 four employees (2018: 22) received benefits in relation to cessation, totalling $120,675 (2018: $601,491).

28. Events subsequent to balance date

There were no material events subsequent to balance date.

29. Budgeted comparison analysis

(a) 2019 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 (SPE).

(b) Net surplus/(deficit)

Operating revenue

- **Rental revenue from income-related rent subsidy and tenants** was $37 million higher than budget, reflecting higher rent growth across all regions combined with an improved rate of occupancy.
- **Crown appropriation revenue** was $21 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 revenue** was $76 million lower than budget, due to a slower take-up of affordable and market sales.

Operating expenses

- **Repairs and maintenance** were $23 million higher than budget due to a higher volume of responsive repairs at a higher average cost.
- **Depreciation on rental properties** was $27 million higher than budget as the actual revaluations in prior years resulted in higher than budgeted increases in building values.
- **Grants** were $23 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 $55 million lower than budget, largely due to a slower take-up of affordable and market sales.

(c) Statement of Financial Position

- Overall total assets of $29.0 billion were $0.5 billion above the budget level, primarily due to higher property development than expected.
- Overall total liabilities of $6.1 billion were $158 million above the budget level, primarily due to higher crown loans and higher deferred tax asset than expected.

(d) Statement of Changes in Equity

The total equity at 30 June 2018 was $22,924 million, which is $388 million higher than budget. The opening reserve position being $289 million higher than budget was the main driver of the variance, which was due to larger revaluation gains in prior years than anticipated. Add to this is a higher 30 June 2019 asset revaluation of $93 million more than that expected in the budget.

(e) Cash Flow Statement

Net cash flows from operating activities were $61 million lower than budget due to other receipts from the Crown being $56 million lower than budgeted. The purchase of rental properties assets was $182 million higher than budgeted resulting in net cash flows used in investing activities being $207 million higher than budgeted. Net cash flow received from financing activities was $41 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 2019

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 148 to 201, that comprise the statement of financial position as at 30 June 2019, 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 132 to 144.

In our opinion:

- the financial statements of the Group on pages 148 to 201 which have been prepared on a disestablishment basis:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; 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 132 to 144 which has been prepared on a disestablishment basis:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2019, 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 24 September 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below and we draw your attention to other matters. 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.

Emphasis of Matter – Kāinga Ora – Homes and Communities Act 2019

We draw attention to note 2 which explains that the financial statements have been prepared on a disestablishment basis. This differs from the normal convention in that financial statements are prepared on a going concern basis.

The Corporation will be disestablished on 1 October 2019. All of the Corporations' operations, assets, liabilities, rights and obligations will be transferred to a new Crown entity "Kāinga Ora – Homes and Communities". All assets and liabilities will be transferred at net book value and therefore no adjustment has been made to the values recorded in the financial statements at 30 June 2019 as a result of this transfer.

Our opinion is not modified in respect of this matter.

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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.

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 Members 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.

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- 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.
- 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 6 to 128, 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 services, technical accounting services and IT and cyber reviews, which is compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

Grant Taylor
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

Housing Agency Account

Financial Statements

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 2019.

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 2019 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.

Vui Mark Gosche
Chair
Housing New Zealand Corporation

24 September 2019

John Duncan
Director
Housing New Zealand Corporation

24 September 2019

Statement of Financial Position

As at 30 June 2019

	Notes	2019 $000	2018 $000
ASSETS			
Current assets			
Cash at bank		124,734	110,334
Receivables from exchange transactions	8	19,637	31,881
Prepayments		-	2
Advances from related parties	10	1,032	-
GST receivable		155	351
Total current assets		**145,558**	**142,568**
Non-current assets			
Long term receivables from exchange transactions	8	4,096	17,870
Mortgage advances	12	641	871
Land under development	3	7,830	8,260
Work in progress	4	2,029	2,029
Rental properties	5	14,452	13,993
Plant and equipment	6	491	441
Properties intended for sale	7	22,936	22,268
Total non-current assets		**52,475**	**65,732**
Total assets		**198,033**	**208,300**
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities from exchange transactions	9	1,810	1,492
Amount due to related parties	10	-	1,895
Provision for future development costs	11	24,372	3,647
Total current liabilities		**26,182**	**7,034**
Non-current liabilities			
Provision for future development costs	11	2,615	26,564
Total non-current liabilities		**2,615**	**26,564**
Total liabilities		**28,797**	**33,598**
Net assets		**169,236**	**174,702**
EQUITY			
Crown funds		179,349	179,349
Retained earnings		(16,463)	(10,419)
Revaluation reserve		6,350	5,772
Total equity		**169,236**	**174,702**

Statement of Comprehensive Revenue and expense

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000
REVENUE			
Revenue from non-exchange transactions			
Rental income from tenants		19	211
Rental income from income-related rent subsidy		677	425
Crown appropriation income	10	8	8
Total revenue from non-exchange transactions		**704**	**644**
Revenue from exchange transactions			
Rental income from tenants		47	45
Interest income		2,211	1,453
Gain on sale of properties		22	–
Other income		427	120
Total revenue from exchange transactions		**2,707**	**1,618**
Total revenue		**3,411**	**2,262**
EXPENSES			
Loss on sale of properties		5,288	3,531
Impairment on work in progress	4	–	116
Operating expenses	2	4,167	3,396
Total expenses		**9,455**	**7,043**
Net Operating surplus/(deficit)		**(6,044)**	**(4,781)**
Other comprehensive income			
Revaluation reserve gains/(losses) on properties, plant, and equipment	5	578	262
Total comprehensive income		**(5,466)**	**(4,519)**

Statement of Changes in Equity

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Total equity at 1 July		**174,702**	**179,221**
Net surplus/(deficit) for the year		(6,044)	(4,781)
Revaluation reserve gains/(losses)		578	262
Total comprehensive income for the period		**(5,466)**	**(4,519)**
Contributions from and distributions to the Crown			
Contributions from the Crown		-	-
Return of capital to the Crown		-	-
Total contributions from and distributions to the Crown		**-**	**-**
Total changes in equity		**(5,466)**	**(4,519)**
Total equity at 30 June		**169,236**	**174,702**
Equity attributable to the Crown			
Opening balance		179,349	179,349
Contributions from the Crown		-	-
Return of capital to the Crown		-	-
Closing equity attributable to the Crown		**179,349**	**179,349**
Retained earnings			
Opening retained earnings		(10,419)	(5,638)
Net surplus/(deficit) for the year		(6,044)	(4,781)
Net transfers from asset revaluation reserve on disposal		-	-
Net transfers from asset revaluation reserve on disposal		**(16,463)**	**(10,419)**
Revaluation reserve			
Opening revaluation reserve		5,772	5,510
Asset revaluations - property, plant and equipment		578	262
Net transfers from asset revaluation reserve on disposal		-	-
Closing revaluation reserve		**6,350**	**5,772**
Total equity at 30 June		**169,236**	**174,702**

Statement of Cash Flows

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Cash flows from operating activities			
Rent receipt - tenants		18	210
Rent receipts - income-related subsidy		618	424
Rent receipts - other rental properties		732	182
Crown operating appropriation receipts		8	8
Receipts from sale of developed assets		25,759	60,254
Contract deposits received		(29)	336
Interest received		2,211	1,453
Development costs paid		(8,750)	(21,712)
Other payments to suppliers		(3,229)	(5,522)
Management fee paid to related party		(3,000)	(2,592)
Net cash flows from operating activities		**14,338**	**33,041**
Cash flows from Investing activities			
Sale of assets		22	2,899
Purchases of assets		(190)	(99)
Mortgage advances issued		230	(35)
Net flows from investing activities		**62**	**2,765**
Cash flows from financing activities			
Net cash flows from financing activities		**-**	**-**
Net cash flows		14,400	35,806
Opening cash and cash equivalents		110,334	74,528
Closing cash and cash equivalent		**124,734**	**110,334**

Notes to the Financial Statements

For the year ended 30 June 2019

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 the 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 RDR.

New Accounting Standards and interpretations

HAA applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 July 2018, as described below.

PBE IFRS 9

HAA has adopted PBE IFRS 9 Financial Instruments for the first time in these financial statements. The nature and effect of changes as a result of the adoption of this standard are described below. HAA has also adopted the consequential amendments to PBE IPSAS 30 Financial Instruments: Disclosures as a result of the application PBE IFRS 9 Financial Instruments.

PBE IFRS 9 Financial Instruments introduces into PBE Standards the reforms introduced by NZ IFRS 9 Financial Instruments in the for-profit sector. This standard replaces most of the requirements of PBE IPSAS 29 Financial Instruments: Recognition and Measurement and introduces a number of changes to the classification and measurement of financial assets, hedge accounting and impairment. PBE IFRS 9 Financial Instruments is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. However, all entities who report their financial statements in accordance with Crown accounting policies are required to adopt PBE IFRS 9 Financial Instruments at the same time as the for-profit sector.

As a result, HAA has adopted PBE IFRS 9 with effect from 1 July 2018.

The adoption of PBE IFRS 9 has resulted in changes to the accounting policies, classification of financial assets and impairment in the financial statements. The new accounting policies are set out below. HAA has applied PBE IFRS 9 retrospectively but has elected not to restate comparative information. As a result, comparative figures continue to be reported under PBE IPSAS 29.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Classification and measurement

The following financial assets were originally accounted for as loans and receivables and under PBE IFRS 9 have moved to the 'at amortised cost' classification. The measurement of these assets has not changed (except for impairment testing as outlined below) and they will continue to be measured using the amortised cost method:

- Cash and cash equivalents
- Short and long term receivables
- Advances to related parties

The following financial assets were previously recognised at fair value through surplus or deficit (unless they are designated in a hedging relationship) and under PBE IFRS 9 will continue to be accounted as such:

- Mortgage advances – Gateway loans

Gateway loans do not meet the SPPI test and will continue to be classified at fair value through net surplus/(deficit) (FVSD).

There are no changes in classification and measurement for the HNZC's financial liabilities previously measured at amortised cost.

Impairment

The impairment requirements apply to financial assets that are carried at amortised cost, debt instruments that are carried at FVSD and lease receivables. The impairment requirements under PBE IFRS 9 are based on a forward-looking expected credit loss model.

When applying the PBE IFRS 9 impairment model to its asset, HAA has identified possible future defaults by the counterparty to make a payment in full and/or on time. Impairment is recognised based on possible defaults expected, The expected credit loss (ECL) arising from the possible defaults is recognised based on the possibility of default over the next 12 months, based on the 'general approach' or the 'simplified approach' to impairment being applied. Exchange receivables and contractual non-exchange receivables apply the simplified approach. Mortgage advances and short term investments apply the general approach

Accounting Policies

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.

At initial recognition, financial assets or financial liabilities in the scope of PBE IFRS 9 are measured at their fair value plus or minus, in the case of a financial asset or financial liability not at FVSD, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Gains or losses on financial instruments are recognised in net surplus/(deficit) in the period in which they occur.

For all categories of financial assets and liabilities measured at amortised cost, the carrying value approximates fair value.

Financial assets

Financial assets in the scope of PBE IFRS 9 are classified as either subsequently measured at amortised cost, fair value through other comprehensive revenue and expense (FVOCRE) or fair value through surplus or deficit (FVSD). The classification depends on the business model for managing the financial assets and its contractual cash flow characteristics. HAA only holds financial assets at Only the amortised cost and FVSD.

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.

Due to the short-term nature, and the fact that balances are held with institutions with high credit ratings, no impairment allowances are recognised on cash balances.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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 expected credit losses (ECL).

HAA applies a simplified approach in calculating ECLs. Therefore, HAA does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date, using a provision matrix. This is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Bad debts are written off when identified. Financial difficulties of the debtor and/or default payments are considered objective evidence of the receivable being credit impaired.

Receivables are recorded as current, except for those expected to be received beyond the next 12 months which have been recorded

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.

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.

As it is closely related to the host agreement, the embedded derivative is not accounted for separately to the host agreement .

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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 de-recognition 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.

Financial liabilities

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.

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.

Properties intended for sale

Properties intended for sale comprises:

- superlots from the 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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.

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 the 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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.

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 make 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 and 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 the 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.

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 2019

2. Operating expenses

	2019 $000	2018 $000
Management fee	3,000	2,592
Consultants	31	27
Depreciation on rental property	175	183
Depreciation on property, plant and equipment	84	69
Premises Security	1	15
Property maintenance	722	422
Insurance	2	32
Land rates	388	418
Water rates	26	32
Communal property costs	5	6
Audit fees	42	40
Legal fees	-	4
Rental expense	117	118
Property acquisition and development costs	-	118
Commission on rent	-	2
Valuations	18	19
Community development costs	5	23
Net discount on deferred settlement debtors and future development costs*	(492)	(757)
Other expenses	43	33
Operating expenses	**4,167**	**3,396**

* Future cash flows associated with deferred settlement debtors and future development costs have been discounted to their net present values accordingly.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

3. Land under development

	2019 $000	2018 $000
Land under development for resale	**7,830**	**8,260**

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 2019 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 William Liew (BProp, SPINZ, ANZIV). The fair value less cost to sell is $8.54 million (2018: $10.82 million).

Movements in land under development

	2019 ($000)	2018 ($000)
Land under development for resale at 1 July	8,260	7,392
Transfer to property, plant and equipment	–	(5)
Development costs incurred during the year	(430)	873
Land under development for resale at 30 June	**7,830**	**8,260**

4. Work in progress

	2019 ($000)	2018 ($000)
Work I progress 1 July	2,029	3,913
Impairment	–	(116)
Disposal	–	(1,768)
Work in progress at 30 June	**2,029**	**2,029**

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

5. Rental properties

	2019 ($000)	2018 ($000)
Land	7,758	7,476
Building	6,694	6,517
Rental properties at 30 June	**14,452**	**13,993**

	MOVEMENTS			
	2019		2018	
	Land ($000)	Buildings ($000)	Land ($000)	Buildings ($000)
Rental properties at 1 July	7,476	6,517	6,962	6,911
Additions during the year	–	56	–	81
Revaluation	282	296	514	(252)
Depreciation for the year	–	(175)	–	(183)
Transfer to property, plant and equipment	–	–	–	(40)
Rental properties at 30 June	**7,758**	**6,694**	**7,476**	**6,517**

Rental properties comprising land and buildings were revalued to fair value as at 30 June 2019.

The valuation was carried out by an independent valuer, Quotable Value New Zealand, a company employing registered and qualified valuers.

The revaluation effect relating to rental properties was a net increase of $0.58 million (2018: an increase of $0.26 million). This net increase has been recognised in the revaluation reserve.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

6. Plant and equipment

	Equipment ($000)	Furniture ($000)	Leasehold Improvements ($000)	Software ($000)	Total ($000)
2019					
COST					
Balance at 1 July	75	176	398	–	649
Additions	1	–	61	72	134
Balance at 30 June	**76**	**176**	**459**	**72**	**783**
LESS:					
ACCUMULATED DEPRECIATION					
Balance at 1 July	(44)	(50)	(114)	–	(208)
Depreciation charges for the year	(15)	(18)	(46)	(5)	(84)
Balance at 30 June	**(59)**	**(68)**	**(160)**	**(5)**	**(292)**
2019 Net carrying amount	**17**	**108**	**299**	**67**	**491**
2018					
COST					
Balance at 1 July	75	152	359	-	586
Additions	–	19	–	-	19
Transfers	–	5	40	-	45
Balance at 30 June	**75**	**176**	**399**	**-**	**650**
LESS:					
ACCUMULATED DEPRECIATION					
Balance at 1 July	(29)	(33)	(78)	-	(140)
Depreciation charges for the year	(15)	(17)	(37)	-	(69)
Balance at 30 June	**(44)**	**(50)**	**(115)**	**-**	**(209)**
2018 Net carrying amount	**31**	**126**	**284**	**-**	**441**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

7. Properties intended for sale

	2019 ($000)	2018 ($000)
Properties intended for sale at 1 July	22,268	21,135
Disposals during the year	(121)	(1,991)
Transferred development costs	789	3,124
	22,936	**22,268**

For the purposes of testing whether an impairment has occurred to the properties intended for sale as at 30 June 2019, 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 William Liew (BProp, SPINZ, ANZIV).

As at 30 June 2019 the fair value less cost to sell was $56.69 million (2018: $72.29 million).

8. Receivables from exchange transactions

	2019 ($000)	2018 ($000)
Current receivables		
Account receivables	19,637	31,881
Allowance for expected credit losses	-	-
Net realisable value of current accounts receivable	**19,637**	**31,881**
Non-current receivables		
Long-term accounts receivable	4,096	17,870
Total non-current receivables	**4,096**	**17,870**
Total receivables	**23,733**	**49,751**

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 $0.63 million gain recognised directly in the net surplus/(deficit) for the year (2018: $0.66 million gain). Treasury-published discount rates ranging from 1.00 percent to 1.38 percent (2018:1.83 percent to 2.25 percent) were used to calculate the net present value.

All receivables have been assessed and impaired for expected credit losses with the impairment being applied to the balance. The amount of the impairment is immaterial

9. Accounts payable and other liabilities

	2019 ($000)	2018 ($000)
Current accounts payable and other liabilities		
Trade creditors	82	1,463
Accrued expenses and other liabilities	1,728	29
Total current accounts payable and other liabilities	**1,810**	**1,492**

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

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 (2018: nil) and $0.008 million in operating appropriations (2018: $0.008 million) from the Crown.

In the year to 30 June 2019 the Corporation provided management services to HAA. A management fee of $3.0 million (2018: $2.6 million) was charged by HLC (2017) Limited 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 2019 the balance of the total amount owed by the Corporation and its subsidiaries to HAA was $1.03 million (2018: $1.90 million was owed to the Corporation by HAA resulting in a net movement of $2.93 million).

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.

11. Provision for future development costs

	2019 ($000)	2018 ($000)
Current provisions		
Provision for development costs	24,372	3,647
Total current provisions	**24,372**	**3,647**
Non-current provisions		
Provision for development costs	2,615	26,564
Total non-current provisions	**2,615**	**26,564**
Total provisions for development costs	**26,987**	**30,211**
Movement in carrying amounts		
Provisions for development costs		
Carrying amounts at 1 July	30,211	36,635
Additional provisions recognised	9,136	11,291
Development expenditure incurred	(12,360)	(17,715)
Total carrying amount at 30 June	**26,987**	**30,211**

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 2019. An additional 258 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 769,654 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 $0.135 million loss recognised directly in the net surplus/(deficit) for the year (2018: $0.098 million gain). Treasury-published discount rates ranging from 1.00 percent to 1.76 percent (2018: 1.83 percent to 2.25 percent) were used to calculate the non-current provision.

In the year to 30 June 2019 site remediation costs of $3.53 million are included in the future development costs provision based on estimates provided by HLC management (2018: $3.99 million).

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

12. Mortgage advances

	2019 ($000)	2018 ($000)
Beginning of year	871	836
Fair value gain/(loss)	316	-
Increase/(Repayment) of advances	(546)	35
Total provisions for development costs	**641**	**871**

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 2019

13. Financial instruments

	Loans & Receivables ($000)	Fair Value Through Net Surplus/ (Deficit) ($000)	Amortised Cost ($000)	Total ($000)
30 June 2019				
Financial assets				
Cash at bank	124,734	–	–	124,734
Receivables	23,733	–	–	23,733
Mortgage advances	–	641	–	641
Advances to related parties	–	1,032	–	1,032
Total financial assets	**148,467**	**1,673**	**–**	**150,140**
Financial liabilities				
Accounts payable and other liabilities	–	–	1,810	1,810
Total financial liabilities	**–**	**–**	**1,810**	**1,810**
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 from related parties	–	–	1,895	1,895
Total financial liabilities	**–**	**–**	**3,387**	**3,387**

14. Right of First Refusal for sale of land

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 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 2019

15. Commitments

Capital commitments

As at 30 June 2019 there is a commitment to pay $0.507 million in relation to the completion of civil project works within the Hobsonville development site (2018: $1.9 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 2019, AVJ has paid $2.556 million of venture proceeds for Stage 2; and $3.253 million of venture proceeds for 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 (2018: nil).

17. Subsequent events after balance date

There have been no significant events since balance date (2018: nil).

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Independent Auditor's Report

To the readers of Housing Agency Account's financial statements for the year ended 30 June 2019

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 207 to 225, that comprise the statement of financial position as at 30 June 2019, 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 207 to 225:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; 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 24 September 2019. 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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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 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.

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Other information

The Board Members are responsible for the other information. The other information comprises the information included on page 206, 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.

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

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

Housing New Zealand
Housing New Zealand Corporation

New Zealand Government

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