HOUSING NEW ZEALAND

Our Statement of **Performance Expectations**

2018 | 2019

Housing New Zealand
Housing New Zealand Corporation

Housing New Zealand is the country's largest residential landlord. Approximately 180,000 people live in our homes – almost 4 percent of New Zealand's resident population.

Contents

Statement of responsibility

Housing New Zealand Group (Housing New Zealand) comprises Housing New Zealand Corporation and its subsidiaries, Housing New Zealand Limited, HLC (2017) Limited, and Housing New Zealand Build Limited.

Housing New Zealand Corporation is a Statutory Corporation and Crown entity operating pursuant to the Housing Corporation Act 1974 and Crown Entities Act 2004. Its subsidiaries, Housing New Zealand Limited, HLC (2017) Limited, and Housing New Zealand Build Limited are all limited liability companies and are required to comply with the Companies Act 1993.

The information contained in the 2018/19 Statement of Performance Expectations for Housing New Zealand has been prepared in accordance with the Crown Entities Act 2004.

In signing this statement, as Board Chair, I acknowledge my responsibility for the information contained in it, and confirm the appropriateness of the assumptions underlying the prospective operations and financial statements of Housing New Zealand.

The information contained in this Statement of Performance Expectations is consistent with existing appropriations and with the appropriations set out in the Appropriation (2018/19 Estimates) Bill.

Signed:

Adrienne Young-Cooper
Chair

26 June 2018

Countersigned:

Vui Mark Gosche
Deputy Chair

26 June 2018

Introduction

Housing New Zealand's Statement of Performance Expectations (SPE) sets out our operational and financial performance expectations for the 2018/19 financial year. Our SPE is a companion document to the 2017-2021 Statement of Intent, which provides further detail on our role and the key factors influencing the way we operate.

Our SPE enables our responsible Ministers to participate in setting the annual performance expectations for Housing New Zealand. It also informs Parliament of those expectations and provides a base against which our actual performance can be assessed.

Who we are

Housing New Zealand is a statutory Crown entity responsible for providing high-quality state housing to people in the greatest need, for the duration of their need, alongside supporting the Government's priorities in the supply of emergency, transitional, KiwiBuild and market housing.

We are the largest residential landlord in New Zealand, owning about 61,000 properties and leasing about 2,500 properties. In all, we manage approximately 63,500 properties. The portfolio is valued at $25.2 billion, making it one of the Crown's largest assets. Approximately 184,000 people live in our homes.

About HLC

HLC is wholly owned by Housing New Zealand and manages the development of Crown land as Housing New Zealand's agent. The company was established in 2006 to develop the former Hobsonville Air Force base into a new township. In 2016 HLC was tasked with helping Housing New Zealand provide more homes more quickly to growth areas, particularly Auckland. Since then HLC's role has expanded to act as the master planner and land developer for large-scale developments. It plays an essential role in ensuring the effective delivery of the Auckland Housing Programme.

QUICK FACTS

Properties

Housing New Zealand owns approximately

61,000

We lease around

2,500

In all, we manage approximately

63,500

Portfolio

The value of the owned portion

$25.2b

at 30 June 2017, making it one of the Crown's largest assets

People

Approximately

184,000

live in our homes

HLC's approach to large-scale developments is integrated urban community development. This includes both master-planning a new community, like Hobsonville Point, and building on an existing community such as at Mt Roskill and Northcote. These large-scale developments usually include a mix of public housing, affordable and market housing. In other words, HLC's role is significant in preparing land for many of the state homes and ensuring a cohesive approach to community development.

Our operating environment

With the change of government in late 2017, the new Government has made the following important structural changes in its first 100 days:

Healthy Homes Guarantee Act 2017

This legislation was enacted in December 2017 to ensure all rental homes in New Zealand meet minimum standards for heating, insulation, drainage, ventilation, moisture ingress and draught-stopping. Housing New Zealand is supporting the Ministry of Business, Innovation and Employment (MBIE) as it develops regulations. We have completed significant work over the last three years to ensure our homes are warm and dry and meet relevant standards for ceiling and underfloor insulation, and will do further work required under the new regulations.

Stopping stock transfer of Housing New Zealand homes

The Government announced that the transactions (stock transfers) programme would cease in December 2017. Appropriate business-as-usual, small-scale sales by Housing New Zealand will continue.

Starting the Government's KiwiBuild programme

KiwiBuild aims to deliver 100,000 homes over 10 years across the country at affordable price points. An interim KiwiBuild unit has been set up within MBIE to investigate the channels of housing development in the short, medium and long term.

We are working with MBIE and the Ministry of Social Development towards the delivery of KiwiBuild.

We are also working closely with the Government to:

- confirm the Government's priorities and targets across the housing types and to support the development of a New Zealand Housing Strategy
- review the Residential Tenancies Act 1986
- establish the Housing Commission or Urban Development Authority
- establish funding and regulatory settings for public housing provision
- collaborate with key government agency stakeholders on joint initiatives (eg, Corrections, Te Puni Kōkiri, and the Ministry of Health).

Our policy settings for 2018/19

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

Increasing the state, affordable and market supply of housing, both in Auckland and across the rest of the country.

Achieving KiwiBuild outcomes for affordable housing by working with the KiwiBuild unit in MBIE.

Supporting the delivery of housing through the use of longer-term contracts.

Reducing build cost and promoting innovation.

Working with other agencies to identify and deliver urban development opportunities.

Taking a tenant-focused approach to tenancy management and partnerships and developing appropriate service models.

Only selling 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.

Providing the Minister with advice on a sustainable funding strategy for Housing New Zealand.

Working 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.

The table to the right outlines the Crown's social objectives for Housing New Zealand for housing and services related to housing, and how Housing New Zealand plans to respond.

Crown's social objectives for housing	How Housing New Zealand will respond
a. Addressing the shortage of housing to ensure that those most in need get access to appropriate services and support.	We will address this with our efforts towards increased pace and scale of housing supply at reduced cost, as encompassed in our first and second strategic priorities in our Strategic Plan. The significant initiatives underway include the delivery of the various housing programmes across the country, using innovative methods and leveraging our scale to speed up housing supply.
b. 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.	We will address this by focusing on our third strategic priority, which is to optimise the management of our homes. The significant initiatives underway include embedding our area planning framework, responding to the Healthy Homes Guarantee Act, rolling out a retrofit programme, and improving our maintenance activities.
c. Helping tenants 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.	We will address this by delivering our fourth strategic priority – to increase the understanding of our customers and put their needs at the centre of our decisions. The significant initiatives underway include developing and implementing a customer strategy, reviewing service delivery models, building closer partnerships with agencies and community service providers to offer tenant support, and reviewing our operational policies including those on pets, drugs and addiction, to help tenants live well in our homes.
d. 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.	We will address this by playing our part across the range of housing types, including finalising our affordable housing strategy, confirming our role in KiwiBuild, and completing our strategic review of our transitional, emergency and Community Group Housing. We will also continue to deliver our large-scale work through HLC's master-planning approach, ensuring appropriate community development support for people moving into our new medium and large developments, and developing frameworks and guidelines to ensure that our larger projects accommodate the wellbeing needs of the communities who will call them home.

Crown's social objectives for housing	How Housing New Zealand will respond
e. Aligning asset and tenancy management decisions with the Ministry of Social Development's contracting framework and purchasing strategy.	In relation to this, our investment plans will take into consideration the Ministry of Social Development's Purchasing Strategy if and when it is updated. The Ministry of Social Development does not currently have any expectations for Housing New Zealand about alignment with the contracting framework.
f. Supporting the Government's housing policy goals by working with the Government on any restructure of housing responsibilities in the public sector and the design and delivery of KiwiBuild.	We will address this by playing our role as the public housing sector leader and continuing our efforts under our fifth strategic priority, which is to positively influence the housing sector's performance. The significant initiatives underway include collaborating with the Government, MBIE, and the Ministry of Social Development on starting KiwiBuild, establishing the Housing Commission, confirming the Government's priorities on the range of housing types, reviewing the Residential Tenancies Act, and supporting skills training and apprenticeships to grow the building sector through HLC's engagement with youth and local communities in Auckland.

Many of these initiatives to deliver against the social objectives for housing will span years, or will lead to subsequent work in following years. For example, the construction work of our build programmes will take several years to deliver, and the initiatives to leverage scale will evolve over time. The implementation of the strategic work like the customer strategy, the affordable housing strategy, and the embedding work of area planning will similarly lead to additional initiatives in subsequent years.

This document is focused on the 2018/19 year. The initiatives outlined here are aligned with the initiatives mentioned in our current Statement of Intent (SOI), but on a more detailed level for the coming year. Two SOI initiatives have been stopped, reflecting the new direction of the current Government. These are: stopping stock transfer and stopping the delivery of the Social Housing Reform Programme. We have also added a new initiative to refresh our approach to our Crown Treaty obligations, as requested by the Minister of Housing and Urban Development.

Our strategic framework

Our roles

While our core role is to provide state housing, we also contribute to a broadening range of outcomes across the range of housing types. Our focus for the upcoming years is to increase the pace and scale of housing supply, and offer better care for our customers. Our role is described in more detail in our 2017-2021 Statement of Intent.

We will provide innovative and informed leadership across four parts of the housing sector:

State Housing

Delivery of **state housing**, including working to sustain tenancies, for those in need, and supporting tenants to move towards independence. This includes an organisational shift to integrate our understanding of tenant needs into our asset plans.

Public Housing Market Leader

A leadership role in **the public housing sector**, which involves more outward-facing activity for us and greater collaboration with others to improve social outcomes.

Affordable Housing

An increasing role in **affordable housing**, involving greater engagement with the wider housing market to improve housing affordability. This includes delivering a share of KiwiBuild on our land and managing home ownership products.

Transitional Housing

A role in **transitional housing** by making a clear contribution to meeting demand for households needing shorter-term support as they transition to a permanent housing solution.

The nature of our work requires us to have a long-term view of our assets and the management of their lifecycles. The decisions and choices we make now need to ensure our organisation's long-term financial sustainability. As an investment-intensive organisation, we plan for our assets according to a long-term horizon. Our intended capital and operational programmes of work take into account our outputs, levels of service, business practices and enabling systems.

As we shift to become a world-class public housing provider, we aim to enable tenants to live well in our homes and communities. This tenant-focused approach requires us to gain a clearer understanding of the growing complexities of our tenants' needs, and tailor support to help them sustain tenancies and/or reach housing independence. We need to continue to identify and coordinate with other service providers in the community, based on the related needs from tenant groups, and achieve better social outcomes.

We also need to deliver positive change through appropriate community development, including large-scale master planning and new medium- or higher-density development, to support the wellbeing needs of the communities who will call them home.

Our key areas of focus for 2018/19

We act on the roles outlined above by focusing our activities around the five priorities set out in our current Statement of Intent for 2017-2021 – these are:

- increasing the pace and scale of housing supply
- reducing our cost of building and, in turn, influencing cost in the sector
- optimising the management of our homes
- increasing our understanding of our customers and putting their needs at the centre of our decisions
- using our experience to influence the performance of the housing sector.

Our priorities remain the same for 2018/19, in the areas of:

- increasing the supply of public housing
- leveraging our scale and our pipeline of work to reduce build costs

- continuing with a more tenant-focused approach to tenancy management including actively supporting our tenants to sustain their tenancies
- renewing our housing stock to ensure our homes are warm, dry and safe
- increasing understanding of our customers through the development of our customer strategy
- contributing to housing policies and sharing knowledge with others to influence the performance of the housing sector.

In summary, the focus on rapid house construction and better care for our customers will continue.

We will also continue to build a reliably high-performing organisation, which means:

- Being strategy driven
- Having brilliant and engaged people
- Being operationally excellent
- Being efficient.

Our five priorities

1 Priority One: Increase the pace and scale of housing supply

Why is this a priority?

The Government and the Minister of Housing and Urban Development have conveyed a clear message that one of their top priorities in housing is to grow supply, making more public housing available to those in need. Housing New Zealand is expected to remain the dominant public housing provider.

We are focusing on growing our supply of new housing to address demand pressure and housing shortages across the country. While Auckland remains a focus, we also have build programmes underway in Christchurch, Wellington City and the Hutt Valley, as well as a number of regional areas.

What will we do in 2018/19?

Develop strategies and refresh investment frameworks

In view of the long-term nature of our asset cycles, in 2018 we have developed a 30-year long-term investment plan to form the baseline for our future construction and maintenance programmes, and have updated our asset management strategy (AMS) to get better alignment between our housing and tenant needs. The AMS provides direction for national, regional and area-based investment to support increasing housing delivery.

Seek financing through bond issuance

As our development activity is increasing significantly to help meet demand, we are building more homes than we have for decades throughout New Zealand. To meet the upfront capital cost of the build programmes, we intend to raise a significant amount of capital via domestic bonds issued to wholesale investors.

Continue housing supply through HLC as our delivery agent

Through HLC, we will continue the master-plan led and large-scale development in Auckland, and consider how this approach can apply to other locations. HLC will continue to respond positively on urban development opportunities, for example working with MBIE on the Unitec development.

Continue our focus on the Auckland Housing Programme

We will continue to implement Stage 1 of our Auckland Housing Programme, which aims to deliver more than 4,000 (gross) new state homes in Auckland by June 2020. We will prepare a programme case on Stage 2 during 2018/19.

Deliver a Regional Housing Programme

We will make significant capital investment in regions across the country in areas facing major demand pressure. In order to do this, we will prepare a Regional Housing Programme case by August 2018 for our Board to consider.

Increase activities in Wellington and Christchurch

We will ramp up our programmes of work for Wellington and Christchurch, which both have public housing shortages. Following Stage 2 of the Auckland Housing Programme, we will prepare cases for a Wellington Housing Programme, followed by a Christchurch Housing Programme, and aim to present these to our Board in late 2018 and 2019.

Use offsite manufacturing

We will develop a clear process for offsite manufacturing of homes to enable faster, safer and more predictable procurement, and save time and cost of delivery.

We will look for potential partners and continue to develop the capacity and capability of the 'Offsite Manufactured Solutions Panel' from which we source our supply.

We will put in place robust criteria and evaluation mechanisms to ensure the building materials and methods we select will match our requirements and meet building codes in all respects.

Adopt a large-scale supplier strategy

As our output is going to materially increase, we can leverage our economies of scale when we negotiate with suppliers to provide greater certainty to the market.

We intend to encourage modern methods of construction, such as offsite manufacturing, and encourage construction suppliers and contractors to invest in their businesses and staff, and expand their operations through longer-term contracts that provide surety and stability of demand.

Communicate our pipeline and intentions

We will communicate the 10-year delivery forecast of our housing programmes to support relationships with suppliers and provide certainty to the market.

Work with councils to streamline the consent process

We will adopt short- and medium-term initiatives to streamline the building consent process, including for offsite manufactured buildings and building components. This will enable a faster approval process for our standardised products.

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

Why is this a priority?

While pressure on affordability continues, we need to focus on working more efficiently to ensure the scale of change required to our housing stock is financially viable.

This priority also helps us demonstrate to the sector how to achieve cost and other efficiencies, providing an opportunity to partner with the sector to find the best ways of achieving asset delivery at scale.

What will we do in 2018/19?

Use standardised design

We are actively looking at how to reduce time and cost to build by using specific, repeatable designs for different housing types. We are working through the later stages of standardising design for single and double level homes and the next step is apartments. Standard designs increase the speed of development and allow for a large-scale supplier programme, which will lift productivity.

Negotiate longer-term contracts based on volume

We will start implementing multi-year contracts based on high-volume supply. This will mean purchasing large volumes of building components and supplying them across our build programme (eg, fixtures and fittings, floor coverings and windows/doors), and negotiating with build partners based on volume, rather than individual projects.

Build better homes through technology and innovation

We will pilot trusted, mature technologies, such as cross-laminated timber (CLT) and closed wall panel systems, to meet Housing New Zealand's overall technical and commercial requirements.

Explore offsite manufacturing solutions

We have been piloting the use of CLT across some projects in Auckland. These have shown that offsite manufactured solutions can generate greater time savings than conventional construction methods. We will continue to investigate and optimise the time, quality, cost, and health and safety advantages of offsite manufacturing solutions in partnership with suppliers.

Improve project evaluation capacity

A systematic and collaborative review process will improve the way we evaluate our completed development projects. This will inform continuous improvement on construction programmes and improve efficiency across the organisation.

Maximise the potential of our build cost data

In 2018/19 we will develop our benchmark cost indicators and confirm cost reduction targets with the Minister. We will report on our contracting and actual performances against these benchmarks and cost reduction targets.

3 Priority Three: Optimise management of our homes

Why is this a priority?

Managing our homes is a core capability of our business as a public housing provider. With about $25.2 billion of property, we are one of the largest asset holders in the New Zealand public sector, and so effectively managing our assets is imperative. Good management of the lifetime costs of our assets is a key driver to being financially sustainable and we need to continually improve on this.

Demonstrating best practice in managing our homes also allows us to showcase leadership and boost the overall capability of the public housing sector in New Zealand.

What will we do in 2018/19?

Comply with the Healthy Homes Guarantee Act

We are planning significant programmes of work to ensure our homes are warm, dry and safe. Specific programme details will be identified once regulations are confirmed to ensure we comply by July 2019.

Roll out our Retrofit Programme

As our homes age, we are looking to retrofit (upgrade) them to improve their durability and energy efficiency, and provide better comfort and health outcomes for our customers, where this makes economic sense to do so. We will complete a retrofit pilot project in Hutt Valley in 2018, and draw on what we learn from the trial to prepare a national programme business case in early 2019 for our Board to consider. We anticipate a national programme would retrofit up to 1,000 homes a year, and we will retrofit at least 200 homes in 2018/19 through an expanded pilot.

Continuously improve asset information

We use best-practice standards and processes to ensure good quality asset data for both new and existing homes. This allows the continuous improvement of data collection, use and management, and better-informed decision making about our homes.

Enhance the complaint management process

We are reviewing our current complaint management process, and will enhance the system in 2018/19 to include a Complaints Commissioner function and a Complaints Review Officer.

Explore new technologies to improve maintenance

As part of our technology plans, we will explore how new technologies such as sensors, the Internet of Things, and machine learning can improve the efficiency and effectiveness of our maintenance and construction operations and add value for tenants and to their homes.

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

Why is this a priority?

As we shift to become a world-class public housing provider, we aim to enable tenants to live well in our homes and communities.

The tenant-focused approach requires us to gain a clearer understanding of the growing complexities of our tenants' needs, and tailor support to help them sustain tenancies and/or reach housing independence.

We need to continue to identify and coordinate with other service providers in the community, based on the related needs from tenant groups, and achieve better social outcomes.

What will we do in 2018/19?

We have significant work underway to improve our service to our tenants and their families in partnership with the broader social sector. This work includes a more personalised approach to tenancy management, providing our tenants with access to the support they need, enhancing our collaboration with service partners, and providing the right homes in the right places to ensure healthy and sustainable tenancies.

Develop a new customer strategy

As demand for public housing increases, more of our new tenants are presenting with complex and challenging needs and behaviours. Our service response needs to adapt to these changes by developing tailored housing solutions and approaches for working with different customer groups, to enable them to live well in their homes and communities. We are developing a customer strategy that will identify the priority customer groups that we will focus on, and our strategic asset and service response to their needs. The first draft will be completed by August 2018 and will form the basis of our actions next year.

We will develop measures for assessing progress on delivering our tenant-focused approach, and its benefits for our tenants. These will include appropriate measures for sustaining tenancies, connecting tenants in need to the right service providers who can help them, and placing tenants in homes that meet their needs.

Sustain tenancies

In light of the Government's emphasis on the tenant-centred approach, we will continue our efforts to provide better tenant care and improve outcomes for our tenants, while operating with the right policies and processes to support our tenants to stay in their homes for as long as they need them. Termination of a tenancy is only considered an option if circumstances place staff, contractors or the public at grave risk. Our work to sustain tenancies includes:

- **Reviewing and developing our service delivery model**
  We will review the effectiveness of service delivery to our tenants to support different tenant groups and reflect the growing complexity of our tenancy base. This will include developing service models that reflect the costs of managing different tenant groups and advising the Minister on potential service models incorporating international best practice and proposed performance measures by December 2018.

- **Building up local and regional partnerships with specialist service providers**
  We will identify clear links between the needs of our tenants and what services are available (eg, mental health and addiction services). This holistic service approach will support our tenants and enhance the communities they are part of.

- **Developing an interim operating approach focusing on intensive management**

  This involves establishing the framework, processes and systems needed for intensive tenancy management for our tenants with the highest needs, using specialised resources within our organisation and linking tenants into wider government and local support providers.

- **Reviewing our operational policy on pets**

  Pets have benefits for tenants and their families, so we have moved to a more supportive approach to tenants having pets. In 2018/19 we will align our practices with the revised policy.

- **Reviewing our operational policy on addiction and drug-related harm**

  We view addiction and drug-related harm as primarily a health issue, and work with those suffering from addiction and drug-related harm rather than evicting them for illegal activity. The connections we are building with addiction and counselling services will support customers. Manufacturing and supply of illegal substances are still treated as criminal acts.

Establish shared objectives on the national level and develop closer ties with social sector agencies who can help our tenants

We are collaborating with our strategic partners. We will build strong partnerships with a range of social sector agencies so that we have a shared approach to support the communities we collectively serve. Currently we are:

- collaborating with Fire and Emergency New Zealand to create a shared work programme which would include, for example, a tenant fire awareness campaign. This includes opportunities for seasonal campaigns and fire safety advice relevant to Housing New Zealand tenants, along with programmes to raise awareness among children and young adults about the dangers and consequences of lighting fires
- creating a plan to update existing memoranda of understanding or relationship agreements with agencies including the Department of Corrections
- liaising with Oranga Tamariki – Ministry for Children, and potentially re-scoping work with the Ministry of Health, to form purposeful partnerships with the possibility of establishing shared work programmes.

Refresh our approach to Crown Treaty obligations

We will refresh our approach to the Crown's Treaty of Waitangi obligations and commitments. This will include engagement with iwi, and consultation with agencies.

Redevelop state housing at Greys Avenue

We plan to start the demolition and redevelopment of the 139 Greys Ave building in Auckland CBD in 2018/19, for completion in late 2021. The new building will be a flagship supportive housing project, with up to 80 units for tenants with high needs and up to 200 units for other tenants. It will provide greater outcomes for independence, sustainability of tenancies, health and wellness, employment opportunities and skills development, as well as community connectedness in a safe, warm and dry environment.

Place customer needs in our development decision making

We will continue to refine and scale up our approach to delivering positive change through our development projects by taking a considered approach, for example:

- continuing to deliver our large-scale work through a master-planned approach led by HLC
- ensuring appropriate community development support for people moving into our new multi-unit developments
- developing frameworks and guidelines to ensure that our larger projects accommodate the wellbeing needs of the communities who will call them home.

Strategically review our contribution to emergency, transitional, Community Group Housing and other non-standard housing types

We have scoped and started a strategic review of how we deliver property services to emergency, transitional and Community Group Housing providers, including determining what the future growth potential is and how we can support providers to meet expected demand.

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

Why is this a priority?

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

What will we do in 2018/19?

Increase sector capacity by leveraging volume contracts

We will soon move to high-volume contracts and provide visibility of our long-term build programme, to encourage our construction and supply partners to grow in capacity, capability and innovation.

Influence sector performance on health and safety

We will continue to increase our engagement with contractors and the entire sector to support compliance and engagement on health and safety.

Share standardised plans

As we develop standardised plans for our homes, we will share our plans with the public, so that the sector has free access to the output of our research. Without proprietary ownership, all developers will be able to use and improve on the plans, and customise the designs to their needs, resulting in greater efficiency.

Share our optimised procurement approach with other housing providers

Our large-scale supplier programme, which aims to optimise our procurement capability to source large-scale supply of construction contractors and supplies, will enable us to share what we learn with other public housing providers in areas of supply chain management. In particular, our efforts to encourage construction suppliers to invest and expand operations in modern methods of construction will influence not only the Housing New Zealand supply chain, but the wider housing market.

Support skills training and stimulate apprenticeships to grow the building sector

We are actively considering how to support skills training and apprenticeships through our procurement approach, in particular the supplier strategy. HLC has a number of initiatives underway to engage with youth in development areas. These include providing construction learning programmes at schools, using youth-based online job and mentoring platforms, and working with construction partners to raise awareness among youth in the communities where we are developing.

Summary of our strategic framework

Our strategic direction is grounded in a broad strategic framework with four key components:

- The long-term **outcomes** we contribute to
- Our **role** in achieving those outcomes
- The **results** we are aiming for by 2021
- Our 2017-21 **priorities** to achieve our results

This SPE outlines the scope of each of our functions and output classes and the key operational results we will be working to achieve by the end of Year One (2018/19) of our four-year strategic framework.

The long-term **outcomes** we contribute to

Healthier and more stable families and communities

New Zealanders with public housing need have access to and sustain tenancies for duration of need

A healthy and diverse public housing sector able to meet demand

New Zealand housing market provides affordable accommodation for more New Zealanders

New Zealanders with emergency need have access to and sustain temporary accommodation for duration of need

Our **role** in achieving those outcomes

State Housing

We support customers in need to sustain their tenancies and move toward independence where possible

We deliver the right volume of quality state housing in the right place and matched to customer needs, and we renew our existing portfolio of homes

Public Housing Market Leader

We lead with quality advice and innovation that positively influence the performance of the public housing sector

Affordable Housing

Transitional Housing

We address the demand pressure in the wider housing sector by enabling housing construction at KiwiBuild price points and transitional housing, as well as administering affordability products through innovation, leadership, and leveraging our land and scale

Note that our strategic framework is being updated to reflect the four-year budget and the latest Government direction, and an updated version will be released as part of our Statement of Intent refresh.

The **results** we are aiming for by 2021

85%	of customers are satisfied with our customer services
98%	of homes are let
Measure to be developed	Tenants in need sustaining their tenancies
90%	Alignment of portfolio additions with the Ministry of Social Development purchasing strategy
44 years	Average age of our stock
More than 76%	of our homes meet tenant bedroom requirements
85%	of customers are satisfied with their home
95%	of surveyed lettable homes meet or exceed the baseline standard
15%	reduction in construction programme build costs
68,000	Grow Housing New Zealand's managed stock by an average of 1,100 net additional state homes per annum to a total of just over 68,000 houses (by June 2022)

Success monitored through qualitative feedback from other agencies and from the community housing sector

Number of affordable or market homes enabled **2,660 June 2022** (At least 20% at KiwiBuild price points)

Other markers of success include having demonstrated market acceptance of higher-density/cheaper housing

Success monitored through delivery of agreed volume of emergency housing supply

Other markers of success are effectively working with the Ministry of Social Development and providers in managing emergency housing stock and commercial leases

Our **priorities** to achieve our results

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

Our organisational response

A reliably high-performing organisation

To be successful in delivering our priorities, we need to ensure our organisation is functioning well. Our response to the direction mentioned above is through the framework of becoming a high-performing organisation. The framework outlines four key qualities and characteristics of high performance for an organisation:

- Being strategy driven
- Having brilliant and engaged people
- Being operationally excellent
- Being efficient

These characteristics sit alongside three underlying attributes – reputation, health, safety and security, and behaviours and attitudes.

Our roles

State Housing

Public Housing Market Leader

Affordable Housing

Transitional Housing

Our priorities

1. Increase the pace and scale of **housing supply**
2. **Reduce our cost** of building and, in turn, influence cost in the sector
3. Optimise **management of our homes**
4. Increase our **understanding of our customers** and put their needs at the centre of our decisions
5. Use our experience to **influence the performance of the housing sector**

How does the organisation respond?

A reliably high-performing organisation

Strategy Driven

Brilliant and Engaged People

Operationally Excellent

Efficient

Reputation • Health, Safety & Security • Behaviours & Attitudes

In particular we will focus on:

- improving the management capability within the organisation
- identifying and retaining talented staff
- improving our health, safety and security practices
- undertaking workforce analysis to improve business decisions
- reviewing our organisational cost structures
- refreshing our organisational and asset management strategies
- continuing to improve our support systems and processes
- managing organisational risks
- transitioning to 'as a service' technology provision where appropriate.

What will we do in 2018/19?

- **Being strategy driven**

  In addition to the large-scale supplier strategy and the customer strategy mentioned earlier in this document, we will also:

  - **Implement the asset management strategy and long-term financial strategy**

    These two strategies form the strategic basis for our asset planning across the country and, together with the area planning approach, provide robust decision making on our regional build programmes.

  - **Refresh and embed our area planning approach and framework**

    As our focus broadens from the main cities to include the regions, we are refreshing our planning activities for assets in the regions, to align with our strategic framework and priorities. We will embed the area planning process into our activity forecast so that we have a long-term plan in place across our portfolio. This will make our decision making more efficient and transparent, and create better outcomes for our tenants and communities.

  - **Develop an environmental strategy**

    The construction and renewal of our assets impact on the natural environment. We also face risks, challenges and opportunities related to climate change. Our environment strategy will determine our response for reducing our environmental impact and responding to environmental risks.

  - **Develop and finalise an affordable housing strategy**

    We will develop and finalise an affordable housing strategy that responds to the Government's policy. This will include clarifying and confirming our role in and contribution to KiwiBuild, and our ongoing role in, and approach to, the delivery of financial products to support home ownership, and identifying appropriate funding mechanisms.

  - **Evolve our performance measurement framework**

    We will continue to develop and align our performance measurement framework, to ensure consistency and clarity in the way we monitor and report on the progress we make.

- **Having brilliant and engaged people**

  - **Embed our vision and values**

    In 2017/18 we revised and re-launched our organisational vision 'Building lives and communities by housing New Zealanders. He pukenga wai, he nōhanga tāngata; he nōhanga tāngata, he putanga kōrero'. To support the vision and organisational strategy, we have developed a Values Charter, Kotahitanga, based on substantial feedback from our people to articulate the values, behaviours and attitudes that drive a culture that supports brilliant and engaged people. In 2018/19 we will focus on embedding the revised vision and values within our organisation and ensuring that all of our people programmes support the culture.

  - **Workforce planning**

    We will build on our understanding of tomorrow's workforce, incorporating current environmental, social and labour market data with business requirements, to inform our recruitment and development plans. Workforce plans and competency requirements will be transparent and will encourage a mindset of continuous learning that is consistent with our values.

  - **Capability building**

    We will provide ways for all our people to achieve their potential and deliver on our performance expectations. We will ensure continuous learning and skills development, and grow leadership capability to support a culture of shared purpose, trust, collaboration and empowerment.

– **Staff health and wellbeing, safety and security**

Our commitment to the health and wellbeing, safety and security of our people and tenants will be an organisational priority. We will continue to invest in:

› developing robust policies and guidelines on how to interpret, administer and comply with legal requirements and to reduce any exposure to critical risks in our organisation

› enabling our people to promote, prioritise and engage in health, safety and security

› providing learning opportunities where knowledge will reduce risk and increase ownership and leadership

› being a sector leader, sharing and engaging with the wider government health and safety leadership programme

› providing tools for employees, contractors and residents to maintain healthy, safe and secure practices on our work sites and in our properties

› recognising the importance of wellbeing, including mental health.

- **Being operationally excellent**

Housing New Zealand's forecast capital expenditure for 2018/19 is $1.34 billion (comprising rental property additions and upgrades, and management of infrastructure assets). The following table highlights spending and funding assumptions over the coming financial years.

RENTAL INFRASTRUCTURE CAPITAL ADDITIONS	2017/18 $M	2018/19 $M	2019/20 $M	2020/21 $M	2021/22 $M
Buy-ins	171.4	191.1	151.3	149.2	139.6
Redevelopment and new builds	642.2	957.9	940.9	844.0	758.4
Upgrades and improvements	158.3	166.5	163.4	201.5	216.8
Infrastructure	8.5	21.7	11.9	12.0	12.1
Total	**980.5**	**1,337.2**	**1,267.5**	**1,206.5**	**1,126.9**
Funded By					
Sales	33.4	40.4	48.0	169.2	171.4
Appropriations	5.8	5.8	5.8	5.8	5.8
Borrowing	720.0	850.0	900.0	301.0	300.0
Cash from operations	221.3	441.0	313.6	730.6	649.7
Total Funding	**980.5**	**1,337.2**	**1,267.5**	**1,206.5**	**1,126.9**

- **Being efficient**

We manage approximately $25.2 billion worth of assets and during 2018/19 we will collect close to $1.3 billion in revenue from rents and rental subsidies. Because of the scale of this investment, it is vital that we make sound financial decisions to ensure the Government has the greatest impact for the investment it has made.

REVENUE COMES FROM	$M
Rental income from tenants	412
Rental income from income-related rent subsidy	847
Crown appropriation income	132
Interest realised gains and other income	116
Total Revenue	**1,507**

WHERE REVENUE GOES TO	$M
Repairs and maintenance	343
Rates	160
Third-party rental leases	51
Depreciation – rental properties	238
Depreciation and amortisation – infrastructure assets	22
Personnel	141
Interest costs	117
Impairment, write-offs and loss on sales	45
Grants	107
Other expenses	202
Total Expenses	**1,426**
Surplus Before Tax	**81**

Being efficient is relevant to every part of our business. Efficient organisations manage their expenditure, lifecycle costs, supply chains and contracts well, and set clear targets and priorities that enable them to make good, timely decisions.

We have significant opportunities to increase our efficiency. We will:

- leverage the scale of our large asset programmes, by focusing on our contract management and procurement capabilities, and planning further into the future to give our organisation and contractors more certainty about our future activities
- leverage our scale improvement programme to establish an understanding of our different cost drivers and review delivery mechanisms for developments. This includes using standardised design and offsite manufacturing methods of construction
- implement our new large-scale supplier strategy, which outlines a systematic approach to engaging with the building industry
- invest in our procurement analytics and review contracts across the business to ensure they deliver value for money.

How will we measure our success?

STRATEGY/FRAMEWORK	TIMEFRAME
Long-Term Financial Strategy	Refreshed by June 2018; embedding from Q1 2018/19 onwards
Asset Management Strategy	Refreshed by June 2018; embedding from Q1 2018/19 onwards
Large-Scale Supplier Strategy	High-level strategy endorsed by the Board in February 2018
Large-Scale Supplier Programme	Planning and implementation during 2018/19
Customer Strategy	1st draft of strategy presented to the Board in August 2018
Customer Strategy implementation initiatives	To be confirmed during 2018/19 year
Environmental Strategy	To be confirmed during 2018/19 year
Affordable Housing Strategy	Board proposal on Housing New Zealand's potential roles and initiatives in June 2018, further strategy work will be confirmed during 2018/19
Auckland Housing Programme	Refresh of Phase 1, and completion of Phase 2 case target date is December 2018, depending on external factors such as KiwiBuild and Housing Commission etc
Regional Housing Programme	Programme case to the Board and Minister by end of August 2018
Wellington, Christchurch, Retrofit, and Transitional Programmes	To be confirmed during 2018/19 year

ACTUAL 2016/17	MEASURE	STANDARD 2017/18	FORECAST 2017/18	STANDARD 2018/19
N/A	Net operating costs of managing our housing portfolio per housing unit (excludes depreciation)	$11,700	$11,814	$12,604
N/A	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) as a percentage of total income	33%	37%	33%
N/A	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) to Interest costs	4.12	5.10	3.62
N/A	Total Recordable Injury Frequency Rate	1.38	1.15	1.15
N/A	Annual employee engagement*	Progress toward 2021 target of top quartile results in NZ public sector	This will not be measured in 2017/18	To be confirmed

* Housing New Zealand is currently reviewing its way of measuring employee engagement, and will develop an appropriate measure in 2018/19.

For the year ending 30 June 2017, the Office of the Auditor-General rated the Housing New Zealand management control environment, systems and control for measuring financial and non-financial service performance as either Very Good or Good. The recommendations on improvement of financial and non-financial information are being addressed.

Statement of non-financial performance expectations

Our functions and outputs

Our activities and investments are split across the following areas:

MANAGING OUR HOMES (Output Class 1)

Undertaking activities associated with tenancy and property management, including:

- establishing and managing tenancies, and ensuring our tenants are linked with specialist support services where this is appropriate to help them to sustain their tenancies
- managing and maintaining our existing homes so tenants have access to warm, dry and safe homes that they can operate within their means, while we ensure the value and overall quality of our homes are maintained
- managing and maintaining homes for Community Group Housing, emergency and transitional housing providers.

NEW STATE HOUSING SUPPLY (Output Class 2)

Undertaking asset development and reconfiguration programmes to ensure our homes are of the right type, and in the right places, to meet demand for state homes and improving the quality and longevity of state housing supply through renewal programmes. This output class also includes new supply provided to Community Group Housing, emergency and transitional housing providers.

PUBLIC ACCOUNTABILITY AND MINISTERIAL SUPPORT (Output Class 3)

Providing ministerial services to the Minister of Housing and Urban Development and the Associate Minister of Housing and Urban Development.

ENABLING HOUSING SUPPLY AND HOME OWNERSHIP (Output Class 4)

Undertaking activities associated with the release of surplus Housing New Zealand land that enables or facilitates the development of affordable, KiwiBuild and market housing. It also includes managing financial home ownership products that assist individuals and households to purchase their first home. These include Welcome Home Loans and Kāinga Whenua loans, and the KiwiSaver HomeStart grant (Crown appropriated) as well as assisting first home ownership through the sale of Housing New Zealand's homes under the Tenant Home Ownership and First Home Ownership schemes.

DEVELOPMENT SERVICES PROVIDED TO THE HOUSING AGENCY ACCOUNT (Output Class 5)

Undertaking property development and management services on behalf of the Crown. This relates to land and buildings that have been transferred to direct Crown control. Most activity within this output class relates to the services provided by HLC, a subsidiary of Housing New Zealand, in the management and development of Hobsonville Point (under control of the Housing Agency Account), a large-scale integrated urban development project in northwest Auckland on land formerly used by the New Zealand Defence Force.

When completed, Hobsonville Point will have over 3,500 homes, supported by two new schools, community facilities, amenities, public transport facilities and neighbourhood centres.

A RELIABLY HIGH-PERFORMING ORGANISATION

Planning activities and investments to ensure we continue to invest adequately in our organisational capability. We will continue to develop a high-performing workforce that can respond effectively to change and ensure it is supported by reliable and secure systems. We will also focus on maintaining our long-term financial sustainability.

Reporting to Ministers

We will provide a quarterly report to the Minister of Housing and Urban Development and the Associate Minister of Housing and Urban Development, which will present an accurate and relevant picture of performance over the previous three months, including:

- commentary on contextual information such as activities undertaken in the quarter, progress made against our priority areas, and emerging risks or opportunities
- performance indicators designed to provide a view of operating and financial performance, including the costs of building and our management of vacant properties
- a summary set of financial reports.

We will continue to report progress on our contribution to the growth of the public housing sector. We will also consult with Ministers on our progress against the Auckland Housing Programme and portfolio redevelopment around the rest of New Zealand. This will include significant capital expenditure* in line with the consultation process set out in the Treasury Owner's Expectations Manual.

* The threshold for ministerial consultation is currently set at $30 million.

Managing our homes OUTPUT CLASS 1

We support our customers to sustain their tenancies and move toward independence where possible

We renew our existing portfolio of homes

Description

Under this output class, Housing New Zealand allocates and manages tenancies of individuals and households, while ensuring these homes are well maintained.

As a public housing landlord, we do more than a private landlord. While we collect rent, and inspect and maintain our homes, we also work with our tenants to reduce any debt they may have incurred with us, and link them with specialist support services, where appropriate, to sustain their tenancies.

Management and maintenance of our homes is critical to ensuring our tenants have access to warm, dry and safe homes that they can operate within their means. It also ensures the overall quality and value of our housing portfolio are maintained for future generations.

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 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 housing providers.

Activities

- Working with the Ministry of Social Development to place eligible applicants from the housing register into Housing New Zealand homes and sustaining these tenancies
- Managing existing tenancies
- Undertaking planned maintenance programmes and improving amenities
- Ensuring urgent repairs and maintenance are undertaken in response to tenants' requests
- Undertaking debt collection activities for overdue rent, property damage, and residual income-related rent arrears
- Setting and reviewing market rents
- Responding to Government health and safety objectives
- Linking tenants with specialist support services if they require support

2018/19 managing our homes priorities

Three of our five organisational priorities are relevant to this output class.

- Optimise the management of our homes
- Increase our understanding of our customers and put their needs at the centre of our decisions
- Use our expertise to influence the performance of the housing sector

How we assess our service performance

REF:	ACTUAL 2016/17	MEASURE	STANDARD 2017/18	FORECAST 2017/18	STANDARD 2018/19
1.1	91%	Customer satisfaction with Customer Services Centre	80%	84%	85%
1.2	79%*	Percentage of Customer Services Centre calls answered in two minutes	N/A	80.8%	80%
1.3	N/A	Percentage of tenants who are not in rental arrears	N/A	N/A	93%
1.4	97.2%	Percentage of homes that are let (occupied days)	97.2%	98.4%	97.5%
1.5	N/A	Average number of days from a home becoming vacant to being 'ready to let'	24 days	19.1 days	18 days
1.6	N/A	Percentage of homes in Auckland that are let to applicants from the Ministry of Social Development's housing register within 15 days of the home becoming available	90%	88%	90%
1.7	82%	The percentage of lettable properties that meet or exceed the baseline standard	89%	End of year measure	89%
1.8	70%	Percentage of customers satisfied with repairs and maintenance	75%	65.7%	75%
1.9	3.5 hours	Average time to respond to urgent health and safety queries	4 hours	2.8 hours	4 hours
1.10	71%	Percentage of repairs and maintenance spend on planned activity	69%	68%	70%

* This was the percentage of Customer Services Centre calls answered in four minutes (not two minutes).

Revenue and output expenses

DESCRIPTION	BUDGET 2018/19 $M	COMMENT
Revenue Crown	861.0	The revenue and expenses of this output class are in relation to management of the property portfolio. It includes all rent revenue and administration, maintenance and tenant servicing expense for state and Community Group Housing, and revenue and ownership expense for transitional housing. It includes net interest expense.
Revenue Other	438.8	
Expenses	1,095.1	
Net surplus/(deficit)	204.7	

Output class revenue and expense tables may have rounding differences.

New state housing supply OUTPUT CLASS 2

We deliver the right volume of quality state housing in the right place and matched to customer needs

Description

Under this output class, Housing New Zealand redevelops its current properties, builds new homes, purchases properties, and improves the quality and longevity of existing homes through renewal programmes to meet the changing needs of our state housing tenant base.

Activity in this area helps to reconfigure our portfolio to meet demand – ensuring properties are in the right place and of the right size.

Housing New Zealand will provide 6,900 (gross) newly built state homes over the next four years. HLC will play a significant role in preparing land for many of these homes, ensuring a cohesive master-planning approach to community development.

Over the next four years Housing New Zealand will contribute on average 1,100 net additional state homes and grow its total portfolio to just over 68,000 houses. Our intention is that building homes delivers the vast majority of the additions to our portfolio, rather than buy-ins or leasing. This will contribute to the growing number of houses in New Zealand as well as to better financial outcomes.

The table opposite provides a breakdown of the types of activities Housing New Zealand uses to manage the growth of its state housing portfolio. The table also attempts to clearly articulate the breakdown of our key delivery performance measures 2.1 and 2.2 in the service performance over the page. We will provide the Minister and the Treasury with regular reporting on this breakdown and our development pipeline to ensure complete transparency of our delivery programme. We will provide the final delivery breakdown in our 2018/19 Annual Report.

Housing New Zealand also provides some housing that is not supported by income-related rent subsidies – including Community Group, emergency and transitional housing. Housing New Zealand will also provide regular updates to the Minister and the Treasury on our delivery of these homes. As our role of non-standard housing types expands, we will look to create a separate output class specifically for the supply of this category.

Scope

The scope of this output class is limited to activities associated with asset development and reconfiguration programmes aimed at increasing the supply of state 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 new supply provided to Community Group Housing, emergency and transitional housing providers.

Activities

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

HNZ ASSET GROWTH ACTIVITY	REFERENCE
Building activity	
New state homes built on HNZ land (redevelopment)	
+ New state homes built on land purchased by HNZ (new build)	
= Gross HNZ newly built state homes (SPE 2.1 below)	**A = (SPE 2.1)**
- State homes demolished	
= Total net HNZ newly built state homes	**B**
Transactional activity	
Existing homes purchased from the private market for state housing use	
- (HNZ state homes sold to the private housing market + intra-company transfers for other social uses)	
= Net acquisitions	**C**
Leasing activity	
New and renewed leases of homes for state housing use	
- Expired state home leases	
= Net leased state homes	**D**
Total net growth in HNZ state homes (SPE 2.2)	**B+C+D = (SPE 2.2)**

2018/19 new state housing supply priorities

Three of our five organisational priorities are relevant to this output class.

- Increase the pace and scale of housing supply
- Reduce the cost of building and, in turn, influence cost in the sector
- Use our expertise to influence the performance of the housing sector

How we assess our service performance

REF:	ACTUAL 2016/17	MEASURE	STANDARD 2017/18	FORECAST 2017/18	STANDARD 2018/19
2.1	466*	Deliver at least 20% of the four-year state housing (gross) build target	1,211*	950 - 1,055*	>1,380**
2.2	N/A	Increase the overall number of Housing New Zealand's managed stock of state housing	N/A	N/A	>1,100**

* Prior to 2018/19 this was not an SPE performance measure, however these are the equivalent actuals for these years. Also note that during these years the delivery actuals included Community Group, emergency and transitional housing – we will now report these separately.

** Note the 2018/19 target excludes Community Group, emergency and transitional housing units.

Revenue and output expenses

DESCRIPTION	BUDGET 2018/19 $M	COMMENT
Revenue Crown	0.0	The revenue and expenses of this output class are in relation to housing supply, housing divestment and land development.
Revenue Other	0.0	
Expenses	110.9	
Net surplus/(deficit)	(110.9)	

Public accountability and ministerial support OUTPUT CLASS 3

We lead with quality advice and innovation that positively influence results and decision making to achieve the government's housing objectives

Description

The Government's vision for public housing is for a strong sector that is responsive to the changing needs of New Zealanders. We are the largest provider of public housing in New Zealand. This output class also includes services that Housing New Zealand provides to our stakeholder Ministers and our public accountability requirements. Housing New Zealand does not receive an appropriation from the Government to provide these services; they are funded from Housing New Zealand's resources.

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

- 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

2018/19 public accountability and ministerial support priorities

One of our five organisational priorities for the year is related to this output class.

- Use our expertise to influence the performance of the housing sector

How we assess our service performance

REF:	ACTUAL 2016/17	MEASURE	STANDARD 2017/18	FORECAST 2017/18	STANDARD 2018/19
3.1	99%	Ministerial correspondence, parliamentary questions, and Official Information Act requests delivered meet the agreed deadline	95%	99.5%	95%
3.2	100%	Ministerial services delivered meet the quality criteria	95%	99.8%	95%

Revenue and output expenses

DESCRIPTION	BUDGET 2018/19 $M	COMMENT
Revenue Crown	0.0	The revenue and expenses of this output class are in relation to the costs associated with ministerial services and government accountability functions.
Revenue Other	0.0	
Expenses	16.6	
Net surplus/(deficit)	(16.6)	

Enabling housing supply and home ownership OUTPUT CLASS 4

We contribute to the affordability and accessibility of housing through innovation and leadership, leveraging our land and scale and administering effective affordability products

Description

This output class includes Housing New Zealand's contribution to supporting the development of the affordable and KiwiBuild housing market, and improving housing affordability generally. This will be achieved through a combination of increasing the supply of land for affordable and market housing, where appropriate, and delivering a suite of financial home ownership products that assist individuals and households to purchase their first home.

Over the next four years Housing New Zealand will enable or build 2,660 new homes on land owned or previously owned by Housing New Zealand for affordable, KiwiBuild and market housing. At least 20 percent of these homes will be produced at KiwiBuild price points.

The majority of these homes will come from HLC-led, master-planned areas. As HLC's role in our housing programmes continues to expand, we will investigate specific performance measures as required for HLC-led activities.

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, KiwiBuild and market housing. It also includes the management of financial home ownership products that assist individuals and households to purchase their first home.

Activities

Activities associated with increasing general and affordable housing supply include:

- releasing land to enable or facilitate affordable, KiwiBuild and general housing supply in areas of high demand
- selling land or housing assets that are no longer required.

It also includes the proactive management of financial home ownership products that assist individuals and households to purchase their first home, and administering the following programmes on behalf of the Crown and Housing New Zealand-initiated programmes:

- Welcome Home Loans and Kāinga Whenua loans (Crown appropriated)
- KiwiSaver HomeStart grant (Crown appropriated)
- Housing New Zealand's First Home Ownership Scheme
- Housing New Zealand's Tenant Home Ownership Scheme

2018/19 enabling housing supply and home ownership priorities

Three of our five organisational priorities are relevant to this output class.

- Increase the pace and scale of housing supply
- Reduce the cost of building and, in turn, influence cost in the sector
- Use our expertise to influence the performance of the housing sector

How we assess our service performance

REF:	ACTUAL 2016/17	MEASURE	STANDARD 2017/18	FORECAST 2017/18	STANDARD 2018/19
4.1	103	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	N/A	>270
4.2	N/A	KiwiBuild* homes built or enabled as a percentage of total units delivered or enabled on land previously owned by Housing New Zealand	N/A	N/A	>20%
4.3	N/A	Proportion of enabled homes delivered by third parties within agreed timeframes	95%	N/A	95%
4.4	3.9 working days	Average number of days taken to assess a completed KiwiSaver application**	7 working days	4.1 working days	5 working days
4.5	1,381	Number of new loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme	<2,500	1,600 – 1,700	<2,500

* 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.

** During 2016/17 Housing New Zealand received 31,731 KiwiSaver applications and approved 16,712. This compared with 26,544 applications received in 2015/16, of which 15,411 were approved.

Revenue and output expenses

DESCRIPTION	BUDGET 2018/19 $M	COMMENT
Revenue Crown	116.1	The revenue and expenses of this output class are in relation to products that are managed on the Crown's behalf and expenses associated with the First Home Ownership and Tenant Home Ownership schemes.
Revenue Other	83.7	
Expenses	196.2	
Net surplus/(deficit)	3.6	

Development services provided to the Housing Agency Account OUTPUT CLASS 5

Description

This output class relates to management and development services for properties that have been transferred to Crown control.

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.

In 2018/19 as required we will update Output Class 5 to reflect HLC's expanded role in the provision of development services to the Crown (eg, HLC's role in Unitec and Tāmaki Regeneration Company).

Activities

- 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

2018/19 development services provided to the Housing Agency Account priorities

One of our five organisational priorities is relevant to this output class.

- Use our expertise to influence the performance of the housing sector

How we assess our service performance

Housing Development Project – Hobsonville					
REF:	ACTUAL 2016/17	MEASURE	STANDARD 2017/18	FORECAST 2017/18	STANDARD 2018/19
5.1	N/A	Revenue generated from land sales	>$72 million	$54.6 million	>$29 million
5.2	N/A	Value of HLC-led capex projects delivered	$4.15 million	$24.9 million	> $29 million
5.3	N/A	Units delivered that are long-term rental or affordable housing as a percentage of total units delivered	>20%	20%	>20%
5.4	N/A	Percentage of residents satisfied with the overall living experience at Hobsonville Point	>75%	75%	>75%

Revenue and output expenses

DESCRIPTION	BUDGET 2018/19 $M	COMMENT
Revenue Crown	0.0	The revenue and expenses of this output class are in relation to management and development services for Crown-owned property.
Revenue Other	19.8	
Expenses	19.8	
Net surplus/(deficit)	0.0	

Forecast financial statements

Forecast financial highlights for 2018/19

Housing New Zealand manages a portfolio of approximately 63,500 houses. The value of the owned portion of this portfolio was $25.2 billion at 30 June 2017. This is an increase of $2.5 billion on what the portfolio was previously valued at as at 30 June 2016 of $22.7 billion. Another portfolio valuation is due to be completed by 30 June 2018.

The 2018/19 forecast operating surplus before tax is $47 million, with no surplus distribution to the Crown.

In 2018/19 we expect to receive $1,507 million in income, comprising:

- $1,259 million in rental income
- $132 million in other operational funding for Crown programmes
- $116 million in interest and other income.

In 2018/19 we expect to incur $1,381 million in operating expenses. These expenses are mainly made up of:

- $343 million in repairs and maintenance (compared with $335 million budgeted in 2017/18)
- $260 million in depreciation and amortisation
- $211 million in property leases and rates
- $117 million in interest costs
- $107 million in grant payments, primarily from the KiwiSaver scheme
- $343 million in personnel and other expenses.

We also expect to incur $45 million of write-offs, driven by redevelopment activity.

In 2018/19 Housing New Zealand expects to spend $1,316 million on housing asset purchases and improvements, and expects to receive $41 million from the sale of housing assets.

In 2018/19 Housing New Zealand expects to make payments to the Crown of up to $175 million consisting of income tax of $95 million and interest costs of $80 million.

Forecast statement of comprehensive revenue and expense

	GROUP FORECAST 2018 $M	GROUP BUDGET 2019 $M	GROUP BUDGET 2020 $M	GROUP BUDGET 2021 $M	GROUP BUDGET 2022 $M
Revenue					
Revenue from non-exchange transactions					
Crown appropriation revenue	102	123	123	123	124
Rental income from income-related rent subsidy (IRRS)	805	843	907	965	1,023
Rental income from tenants receiving IRRS	348	361	388	411	435
Rent Relief Fund revenue	4	4	4	4	5
Revenue from exchange transactions					
Rental income from tenants at market rent	51	51	51	51	51
Interest revenue	9	17	19	22	24
Mortgage Insurance Scheme	6	9	9	9	9
Other revenue	9	99	61	312	259
Total revenue	**1,334**	**1,507**	**1,562**	**1,897**	**1,930**
Expenses					
Repairs and maintenance	335	343	375	399	392
Rates	150	160	174	189	205
Third-party rental leases	53	51	53	52	53
Depreciation – rental properties	235	238	250	273	296
Depreciation and amortisation – infrastructure assets	21	22	13	12	15
Personnel	125	141	146	152	158
Interest expense	83	117	152	186	220
Grants	90	107	107	107	107
Other expenses	115	202	164	408	366
Total expenses	**1,207**	**1,381**	**1,434**	**1,778**	**1,812**
Other gains/(losses)					
Gain/(loss) on disposal of assets	6	–	–	–	–
Loss on asset write-offs	(70)	(45)	(54)	(56)	(54)
Total other gains/(losses)	**(64)**	**(45)**	**(54)**	**(56)**	**(54)**
Surplus/(deficit) before tax	**63**	**81**	**74**	**63**	**64**
Current tax expense	85	95	93	95	102
Deferred tax expense/(benefit)	(57)	(61)	(62)	(68)	(75)
Income tax expense/(benefit)	**28**	**34**	**31**	**27**	**27**
Net surplus/(deficit) after tax	**35**	**47**	**43**	**36**	**37**
Other comprehensive revenue and expense					
Revaluation reserve gains/(losses)	511	520	605	670	738
Impairment of assets	–	–	–	–	–
Hedging reserve gains/(losses)	–	–	–	–	–
Income tax on items of other comprehensive revenue and expense	(87)	(76)	(93)	(104)	(109)
Other comprehensive revenue and expense net of tax	**424**	**444**	**512**	**566**	**629**
Total comprehensive revenue and expense net of tax	**459**	**491**	**555**	**602**	**666**

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

Forecast statement of financial position

	GROUP FORECAST 2018 $M	GROUP BUDGET 2019 $M	GROUP BUDGET 2020 $M	GROUP BUDGET 2021 $M	GROUP BUDGET 2022 $M
Assets					
Current assets					
Cash and cash equivalents	35	35	35	35	35
Mortgage advances	4	4	4	4	4
Receivables and prepayments from exchange transactions	64	64	64	64	64
Receivables from non-exchange transactions	8	8	8	8	8
Short-term investments	586	465	456	231	75
Available-for-sale investments	10	–	–	–	–
Properties intended for sale	27	27	27	27	27
Total current assets	**734**	**603**	**594**	**369**	**213**
Non-current assets					
Property, plant and equipment	26,293	27,781	29,269	30,424	31,574
Properties under development	11	11	11	11	11
Mortgage advances	37	37	37	37	37
Interest rate derivatives	3	3	3	3	3
Intangible assets	24	14	14	15	15
Total non-current assets	**26,368**	**27,846**	**29,334**	**30,490**	**31,640**
Total assets	**27,102**	**28,449**	**29,928**	**30,859**	**31,853**
Liabilities					
Current liabilities					
Rent in advance	36	36	36	36	36
Accounts payable and other liabilities from exchange transactions	96	96	97	97	100
Income tax payable	27	27	27	27	27
Crown loans	336	336	336	336	336
Market debt – commercial paper	200	150	150	150	150
Provisions	1	1	1	1	1
Employee entitlements	7	7	7	7	7
Interest rate derivatives	41	41	41	41	41
Total current liabilities	**744**	**694**	**695**	**695**	**698**
Non-current liabilities					
Crown loans	1,637	1,637	1,637	1,638	1,638
Market debt – bonds	500	1,400	2,300	2,600	2,900
Deferred tax liability	2,074	2,088	2,119	2,155	2,188
Interest rate derivatives	64	64	64	64	64
Mortgage Insurance Scheme unearned premium reserve	28	28	28	28	28
Provisions	1	1	1	1	1
Employee entitlements	1	1	1	1	1
Total non-current liabilities	**4,305**	**5,219**	**6,150**	**6,487**	**6,820**
Total liabilities	**5,049**	**5,913**	**6,845**	**7,182**	**7,518**
Net assets	**22,053**	**22,536**	**23,083**	**23,677**	**24,335**
Equity					
Equity attributable to the parent	3,553	3,545	3,537	3,529	3,521
Retained earnings	627	742	855	1,142	1,412
Revaluation reserve	17,945	18,321	18,763	19,078	19,474
Hedging reserve	(72)	(72)	(72)	(72)	(72)
Total equity	**22,053**	**22,536**	**23,083**	**23,677**	**24,335**

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

Forecast statement of changes in equity

	GROUP FORECAST 2018 $M	GROUP BUDGET 2019 $M	GROUP BUDGET 2020 $M	GROUP BUDGET 2021 $M	GROUP BUDGET 2022 $M
Total equity at 1 July	**21,598**	**22,053**	**22,536**	**23,083**	**23,677**
Revaluation of property, plant and equipment					
Revaluation reserve gains/(losses)	511	520	605	670	738
Impairment of assets	–	–	–	–	–
Deferred tax on property, plant and equipment revaluations	(87)	(76)	(93)	(104)	(109)
Financial assets at fair value through other comprehensive revenue					
Hedging reserve gains/(losses)	–	–	–	–	–
Deferred tax on hedging reserve gains/(losses)	–	–	–	–	–
Net surplus/(deficit) for the year after tax	35	47	43	36	37
Total comprehensive revenue and expense for the period	**459**	**491**	**555**	**602**	**666**
Contributions from and distributions to the Crown					
Net capital contributions (to)/from the Crown	(4)	(8)	(8)	(8)	(8)
Payment of dividends to the Crown	–	–	–	–	–
Total contributions from and distributions to the Crown	**(4)**	**(8)**	**(8)**	**(8)**	**(8)**
Total changes in equity	**455**	**483**	**547**	**594**	**658**
Total equity at 30 June	**22,053**	**22,536**	**23,083**	**23,677**	**24,335**
Equity attributable to the Crown					
Opening balance	3,557	3,553	3,545	3,537	3,529
Net capital contributions (to)/from the Crown	(4)	(8)	(8)	(8)	(8)
Closing equity attributable to the Crown	**3,553**	**3,545**	**3,537**	**3,529**	**3,521**
Retained earnings					
Opening retained earnings	536	627	742	855	1,142
Net surplus/(deficit) for the year after tax	35	47	43	36	37
Net transfers from asset revaluation reserve on disposal of properties	56	68	70	251	233
Annual distribution	–	–	–	–	–
Closing retained earnings	**627**	**742**	**855**	**1,142**	**1,412**
Revaluation reserve					
Opening revaluation reserve	17,577	17,945	18,321	18,763	19,078
Asset revaluations – property, plant and equipment	511	520	605	670	738
Impairment of assets	–	–	–	–	–
Deferred tax on property, plant and equipment	(87)	(76)	(93)	(104)	(109)
Net transfers from asset revaluation reserve on disposal of properties	(56)	(68)	(70)	(251)	(233)
Closing revaluation reserve	**17,945**	**18,321**	**18,763**	**19,078**	**19,474**
Hedging reserve					
Opening hedging reserve	(72)	(72)	(72)	(72)	(72)
Fair value gains/(losses)	–	–	–	–	–
Deferred tax on derivative fair value movement	–	–	–	–	–
Closing hedging reserve	**(72)**	**(72)**	**(72)**	**(72)**	**(72)**
Total equity at 30 June	**22,053**	**22,536**	**23,083**	**23,677**	**24,335**

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

Forecast cash flow statement

	GROUP FORECAST 2018 $M	GROUP BUDGET 2019 $M	GROUP BUDGET 2020 $M	GROUP BUDGET 2021 $M	GROUP BUDGET 2022 $M
Cash flows from/(used in) operating activities					
Rent receipts – tenants	395	408	435	458	482
Rent receipts – income-related rent subsidy	805	843	908	965	1,023
Rent relief fund income	4	4	4	4	5
Crown receipts for HomeStart grants	88	106	106	106	106
Other receipts from the Crown	31	51	51	54	55
Mortgage Insurance Scheme (MIS) income	10	11	12	12	13
Interest received from customers and investments	9	17	19	22	24
Other receipts	5	83	44	292	239
Payments to suppliers and employees	(891)	(986)	(1,016)	(1,111)	(1,118)
Income tax paid	(85)	(95)	(93)	(95)	(102)
Interest paid	(83)	(118)	(153)	(187)	(220)
Net cash flows from/(used in) operating activities	**288**	**324**	**317**	**520**	**507**
Cash flows from/(used in) investing activities					
Sale of rental properties and management assets	33	41	48	169	171
Mortgage and other lending repayments	–	–	–	–	–
Purchase of rental property assets	(927)	(1,316)	(1,255)	(1,194)	(1,114)
Purchase of management assets	(5)	(13)	(6)	(6)	(6)
Purchase of intangible assets	(3)	(8)	(6)	(6)	(6)
Mortgage and other lending	–	–	–	–	–
Short-term investments	(123)	130	10	224	156
Net cash flows from/(used in) investing activities	**(1,025)**	**(1,166)**	**(1,209)**	**(813)**	**(799)**
Cash flows from/(used in) financing activities					
Capital contributions	(4)	(8)	(8)	(8)	(8)
Net funds from borrowings	720	850	900	301	300
Annual distribution	–	–	–	–	–
Net cash flows from/(used in) financing activities	**716**	**842**	**892**	**293**	**292**
Net cash flows	(21)	–	–	–	–
Opening cash and cash equivalents	56	35	35	35	35
Closing cash and cash equivalents	**35**	**35**	**35**	**35**	**35**

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

Statements of underlying assumptions

These statements have been compiled on the basis of current Government policy. They comply with Public Benefit Entity Financial Reporting Standard (PBE FRS) 42 *Prospective Financial Statements*. They are presented to fulfil Housing New Zealand's statutory obligations under the Crown Entities Act 2004.

In this section, Housing New Zealand refers to Housing New Zealand Corporation and its subsidiaries. The principal subsidiary of Housing New Zealand Corporation is Housing New Zealand Limited, which owns and manages state housing.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts.

Opening balances of the Statement of Financial Position are estimates derived from the best assumptions for the closing balances at 30 June 2018.

Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Judgements and estimates are derived from historical experience and reasonable current assumptions. Actual results may differ from these estimates under different assumptions and conditions, which may materially affect the financial results or the financial positions reported in future periods.

The significant forecasting assumptions used in developing the financial forecasts in the Statement of Performance Expectations are detailed in the table below:

FORECASTING ASSUMPTION	RISK	FINANCIAL EFFECT/ ACTION TAKEN	NET LEVEL OF UNCERTAINTY
Expected interest rates on investments Interest rates on investments are consistent with the three-month term deposit rate.	Actual interest rates may differ significantly from those estimated.	Housing New Zealand manages any significant change in interest rates through the term of investment and/or the type of investment.	Low
Expected interest rates on borrowings Interest rates on Crown debt are based on projected borrowing rates from the Crown, depending on the expected maturity of the debt, and taking into account the existing fixed rates locked in on the debt. Interest rates on debt issued by the market are based on projected market borrowing rates, depending on the expected maturity of the debt.	Actual interest rates may differ significantly from those estimated.	Housing New Zealand has an interest rate hedging policy that minimises any significant change to interest rates on projected borrowings.	Low
Credit risk – Welcome Home Loans (Mortgage Insurance Scheme) The Mortgage Insurance Scheme insures low-equity mortgage lending with terms averaging 28 years. Premiums for this product are received upfront but the risks of default are greatest over the first 15 years of the loan. Part of the premium received is moved to reserves to be recognised in future years in proportion to the risk of default.	The cash reserve is insufficient to meet subsequent defaults.	External actuaries assess the adequacy of held reserves every six months.	Low

FORECASTING ASSUMPTION	RISK	FINANCIAL EFFECT/ ACTION TAKEN	NET LEVEL OF UNCERTAINTY
Revenue from rents A rent growth rate is applied in line with current market expectation.	Market rent is outside the control of Housing New Zealand.	Rent is the largest single item contributing to operating surplus. Variance to forecast rent has the largest potential impact on operating surplus.	Medium
Maintenance expense Maintenance spend is based on expected volumes and run rates for maintenance expenses.	Actual maintenance work completed may be different from that forecast.	Housing New Zealand has significant influence over maintenance programmes and expenditure.	Low
Price adjustors (cost indices) Larger expense items such as rates and personnel have been inflated for externally driven cost movement expectations.	Actual inflation may differ from that projected.	Housing New Zealand will regularly monitor future financial information and assess its impact on the projected financial position.	Low
Asset revaluations Property values change in line with current market expectation.	Property values can be volatile. Revaluation movements may be significantly different from forecast.	The impact of volatility on Housing New Zealand's operating surplus and comprehensive income could be significant.	Medium

Assumptions

	2017/18 %	2018/19 %
Financing indices		
Average overall rate	4.6	3.6
Price adjustors		
Rent growth	0 - 4.7	2.3
Rates	5.0	5.0
Maintenance (underlying)	2.4	2.3
Taxation adjustors		
Goods and Services Tax (GST)	15	15
Income tax	28	28
Deductibility of depreciation on housing assets	0	0
Property revaluations		
Rental properties	5.0	1.9

Cost allocation policy

All costs are classified into responsibility cost centres. Most costs are able to be charged directly to output classes on either cost code alone or cost code in combination with cost centre. Remaining costs are charged to output classes by way of an allocation process based on cost drivers and related activity use.

Managing the Crown's investment

Housing New Zealand is forecast to have total assets of $28.4 billion at 30 June 2019, funded by liabilities of $5.9 billion and equity of $22.5 billion.

Value of the Crown's investment

The equity (assets less liabilities) is the value of the Crown's investment in Housing New Zealand.

The equity figures in the table below are based on estimates of property revaluation.

EQUITY AS AT 30 JUNE 2018 $M	EQUITY AS AT 30 JUNE 2019 $M
22,053	22,536

All current capital appropriations are drawn down in the ratio of 22:78 debt to equity.

Aside from capital appropriations, Housing New Zealand's capital expenditure programme is funded by cash flows generated from operations and private sector borrowings.

Business diversification

Housing New Zealand would obtain the agreement of responsible Ministers before making any material changes to its business.

Agreements that result in compensation from the Crown

Housing New Zealand may enter into contractual arrangements with the Crown as required from time to time. Such arrangements would include agreements in line with section 20B of the Housing Corporation Act 1974. All contractual arrangements will be identified in the Annual Report.

Housing New Zealand and the Crown have agreed, under section 7 of the Housing Restructuring and Tenancy Matters Act 1992, that Housing New Zealand will be compensated for any difference between market rents and income-related rents. This is because Housing New Zealand is required to charge qualifying tenants an income-related rent rather than a market rent.

Statement of accounting policies

Corporate information

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 (Housing New Zealand) 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 Housing New Zealand is to give effect to the Crown's social objectives by providing housing, and housing-related services, in a business-like manner to people in the greatest need for as long as that need exists, and to ensure the Minister of Housing and Urban Development and Associate Minister of Housing and Urban Development, and the Treasury receive appropriate information on public housing and housing-related services.

In order to achieve its core objective of facilitating housing solutions for those most in need, Housing New Zealand manages an asset portfolio of approximately 63,500 residential properties across New Zealand. 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 fit-for-purpose homes to those with the greatest housing needs, including acquiring, maintaining, upgrading or divesting state homes.

HNZC and its subsidiaries are designated public benefit entities (PBEs), defined as "reporting entities whose primary objective is to provide goods and 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 registered office of Housing New Zealand Corporation is Level 10, 80 Boulcott Street, Wellington.

Summary of significant accounting policies

(a) Basis of preparation

The prospective financial information is prepared based on PBE FRS 42 *Prospective Financial Statements* as appropriate for PBEs reporting under Tier 1 of the PBE Standards. The financial statements constitute a projection for the year ending 30 June 2018. As a projection, the financial information is prepared on the basis of one or more hypothetical but realistic assumptions, which reflect possible courses of action for the prospective financial information period as at the date this information has been prepared. The prospective financial information may vary from actual results. The financial information is forward looking and should be read in conjunction with the assumptions set out on pages 44 to 46. Because such statements involve risks and uncertainties, actual events may differ materially from those expressed or implied in forward-looking financial statements.

The financial statements have been prepared on a historical cost basis, except for rental properties, freehold land, derivative financial instruments, actuarially-assessed provisions, available-for-sale financial assets, and financial assets at fair value through net surplus/(deficit) that are measured at fair value.

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

(b) Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, which include the requirement to comply with Generally Accepted Accounting Practice in New Zealand.

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

(c) Basis of the Housing New Zealand Group

Housing New Zealand financial statements comprise the financial statements of HNZC (the Parent) and its subsidiaries, being Housing New Zealand Limited (HNZL), HLC (2017) Limited and Housing New Zealand Build Limited 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.

(d) 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 and 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.

(e) Rental property land and buildings

Housing for Community Groups held by HNZC, and state housing held by 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 the net surplus/(deficit) for the ear.

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 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 this asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Any gain or loss arising on derecognition of an asset is included in 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 the building and its components, including chattels, as follows:

Rental properties	10-60 years

(f) Work in progress

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

(g) Property 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.

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

Housing New Zealand 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 measured 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) Borrowing costs

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

(j) Intangible assets

Housing New Zealand has computer software, which is a non-monetary asset without physical substance and 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 Housing New Zealand's way of working, structures, processes, products and systems.

Computer software is capitalised at cost and amortised over a four- to seven-year period. 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

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

Non-cash-generating plant and equipment and intangible assets

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

Value in use is determined by using either a depreciated replacement cost approach, restoration cost approach, or 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) Investments and other financial assets

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

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

Recognition and derecognition

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

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

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

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

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

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

(m) Mortgages and housing-related lending

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

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

(n) Trade and other receivables

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

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

(o) Long-term receivables

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

(p) Cash and cash equivalents

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

(q) Accounts payable and other liabilities

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

They represent liabilities for goods and services provided to Housing New Zealand prior to the end of the financial year that are unpaid and arise when Housing New Zealand 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.

(r) Interest-bearing borrowings

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

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

(s) 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 relates to risks that have not yet expired at the reporting date. A reserve includes amounts recognised when contracts are entered into and premiums charged, and reduces as premium income recognised over the term of the contract in accordance with the pattern of insurance service provided under the contract. This liability is discounted to recognise the time value of money. Also a risk margin percentage is factored in using the 75 percent probability of sufficiency level.

At each reporting date, Housing New Zealand 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.

Housing New Zealand 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.

(t) Provisions

Provisions are recognised when Housing New Zealand 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.

(u) Leases

The determination of whether an arrangement is or contains a lease is based on 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) Housing New Zealand 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) Housing New Zealand as a lessor

Leases in which Housing New Zealand 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.

(v) Revenue

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

(i) Revenue from exchange transactions

Revenue from exchange transactions is generated when an exchange of transactions of approximately equal value has occurred between Housing New Zealand and a third party.

The following represents the revenue of Housing New Zealand for exchange transactions:

Revenue from tenants at market rent

Revenue received from the tenants paying 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

Housing New Zealand receives management fees, on a recovery basis, from the Housing Agency Account for managing the development of land.

(ii) Revenue from non-exchange transactions

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

Revenue generated from non-exchange transactions is represented below:

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

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

Crown operating appropriations

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

(w) Contingent assets

Housing New Zealand 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.

(x) 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 the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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 initial recognition exemption (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 Housing New Zealand'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 asset 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 substantially 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.

(y) Other taxes

Housing New Zealand is mainly an exempt supplier in relation to Goods and Services Tax (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.

(z) Derivative financial instruments

Housing New Zealand 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

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

(ii) Hedge accounting

Housing New Zealand uses financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value.

For the purposes of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability or 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 and the ineffective portion is recognised in the net surplus/(deficit).

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

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

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.

(aa) 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.

(ab) 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.

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

Housing New Zealand owns approximately 61,000 residential properties, 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 public 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, Housing New Zealand 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 public 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 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 Housing New Zealand committed to the impending sale or distribution transaction.

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

Housing New Zealand 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 Housing New Zealand 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 – Housing New Zealand as lessor

Housing New Zealand 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 Housing New Zealand. 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.

Housing New Zealand 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

Housing New Zealand revalues rental properties annually. Fair value is determined by reference to market-based evidence from independent valuers Quotable Value New Zealand.

Housing New Zealand owns approximately 61,000 properties around New Zealand. 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 portfolio due to the homogeneous nature of the portfolio. Properties are valued based inherently on their 'highest and best use'.

(ii) Fair value of derivative financial instruments

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

(iii) Mortgage guarantee provision

As part of the agreement to sell mortgages to Westpac Banking Corporation, Housing New Zealand guaranteed a certain number of those mortgages. The mortgage sale 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.

(iv) Impairment of non-financial assets

As at each balance date, all assets are assessed for impairment by evaluating conditions specific to Housing New Zealand 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 Housing New Zealand's accounting policy for income tax purposes requires management's judgement. Judgement is also required in assessing whether deferred tax assets and liabilities are to be recognised in some cases. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only when they may be recovered, dependent on the generation of sufficient future taxable profits.

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

(vi) Estimation of useful lives of assets

Housing New Zealand 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 Housing New Zealand 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.

Housing New Zealand 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 the accounting policies for property, plant and equipment and rental properties, and amortisation rates are set out in the accounting policies for intangible assets.

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

(vii) Recoverability of loans and receivables

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

Appropriations – output tables

The following tables set out the appropriated funding Housing New Zealand expects to receive from the Crown in 2018/19. This funding is shown by appropriation and programme, and is aligned with Housing New Zealand's output classes.

Output Table: Operating Appropriations 2018/19

APPROPRIATION AND PROGRAMME	$M	HOUSING NEW ZEALAND'S OUTPUT CLASSES				
		MANAGING OUR HOMES	NEW STATE HOUSING SUPPLY	PUBLIC ACCOUNTABILITY & MINISTERIAL SUPPORT	ENABLING HOUSING SUPPLY & HOME OWNERSHIP	SERVICES TO THE HOUSING AGENCY ACCOUNT
HNZC Housing Support Services						
Mortgage Insurance Scheme (Welcome Home Loan)	8.700	–	–	–	8.700	–
KiwiSaver Housing Deposit Subsidy – Administration	2.998	–	–	–	2.998	–
Total HNZC Housing Support Services	**11.698**	**0.000**	**0.000**	**0.000**	**11.698**	**0.000**
Housing Assistance						
Community Owned Rural Rental Housing Loans Interest Subsidy	0.072	–	–	–	0.072	–
Housing Innovation Fund Interest Subsidy	0.700	–	–	–	0.700	–
Other Legacy Loan Costs	0.370	–	–	–	0.370	–
Nat/WPT Portfolio – Loss of Interest SPOB	0.010	–	–	–	0.010	–
SHAZ Bridging Finance	0.007	–	–	–	0.007	–
Total Housing Assistance	**1.159**	**0.000**	**0.000**	**0.000**	**1.159**	**0.000**
Housing Assistance is exempt from Crown performance reporting as it is less than $5m						
Purchase of Housing and Related Services for Tenants Paying Income-Related Rent (*)	**863.827**	**863.827**	**0.000**	**0.000**	**0.000**	**0.000**
Performance measure is reported by Ministry of Social Development in its Annual Report						
KiwiSaver Deposit Subsidy	**106.120**	**0.000**	**0.000**	**0.000**	**106.120**	**0.000**
KiwiSaver Deposit Subsidy is exempt from Crown performance reporting as information is unlikely to be informative						
Total Operating Appropriations	**982.804**	**863.827**	**0.000**	**0.000**	**118.977**	**0.000**

* The Income-Related Rent Subsidy (IRR) budget value is based on a different set of assumptions than is used by the Ministry of Social Development (MSD) for the IRRS Crown appropriation budgets, creating a difference between values reported by MSD.

Output Table: Multi-Category Appropriations 2018/19

APPROPRIATION AND PROGRAMME	$M	HOUSING NEW ZEALAND'S OUTPUT CLASSES				
		MANAGING OUR HOMES	NEW STATE HOUSING SUPPLY	PUBLIC ACCOUNTABILITY & MINISTERIAL SUPPORT	ENABLING HOUSING SUPPLY & HOME OWNERSHIP	SERVICES TO THE HOUSING AGENCY ACCOUNT
Community Group Housing MCA						
Community Group Housing Market Rent Top-Up	13.891	13.891	–	–	–	–
Community Housing Rent Relief	4.104	4.104	–	–	–	–
Acquisition and Improvement of Community Group Housing Properties – Non-Departmental Capital Expenditure	5.800	–	5.800	–	–	–
Total Multi-Category Expenses and Capital Expenditure	**23.795**	**17.995**	**5.800**	**0.000**	**0.000**	**0.000**

MCA performance reported by Ministry of Social Development in its Annual Report.

Market Rent Top-Up exempt from Crown performance reporting as information is unlikely to be informative, Rent Relief exempt from Crown performance reporting as less than $5m, Capital Expenditure exempt from Crown performance reporting as less than $15m.

Output Table: Capital Appropriations 2018/19

APPROPRIATION AND PROGRAMME	$M	HOUSING NEW ZEALAND'S OUTPUT CLASSES				
		MANAGING OUR HOMES	NEW STATE HOUSING SUPPLY	PUBLIC ACCOUNTABILITY & MINISTERIAL SUPPORT	ENABLING HOUSING SUPPLY & HOME OWNERSHIP	SERVICES TO THE HOUSING AGENCY ACCOUNT
Refinancing of HNZC and HNZL Debt	**127.185**	**0.000**	**127.185**	**0.000**	**0.000**	**0.000**

Performance measure is reported by Ministry of Social Development in its Annual Report

Total HNZC Capital Appropriations	**127.185**	**0.000**	**127.185**	**0.000**	**0.000**	**0.000**

Housing New Zealand
Housing New Zealand Corporation

New Zealand Government