Our Statement of **Performance Expectations**

2019 ▸ 2020

Housing New Zealand
Housing New Zealand Corporation

Housing New Zealand is the country's largest residential landlord.

Approximately 186,000 people live in our homes – almost 4 percent of New Zealand's resident population.

Cover image:

Area Manager Fraser with tenant Alison wearing her Queen's Service Medal awarded for services to conservation in the portside community of Lyttelton, where she lives.

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 2019/20 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 (2019/20 Estimates) Bill.

Signed:

Vui Mark Gosche
Chair
25 June 2019

Countersigned:

Adrienne Young-Cooper
Deputy Chair
25 June 2019

Introduction

Housing New Zealand's Statement of Performance Expectations (SPE) sets out our operational and financial performance expectations for the 2019/20 financial year. Our SPE enables our responsible Ministers to participate in setting the 2019/20 performance expectations for Housing New Zealand, informs Parliament of those expectations and provides a base against which our actual performance can be assessed.

Our SPE is a companion document to our four-year Statement of Intent (SOI). Our SOI outlines in greater detail our role and the key factors influencing the way we will operate over the medium term. Our SPE provides an annual view of performance expectations against the medium-term intentions in our SOI.

Who we are

Housing New Zealand is a statutory Crown entity responsible for providing high-quality public housing and housing-related services to people in the greatest need, for the duration of their need, alongside supporting the Government's priorities in the supply of transitional, affordable and market housing. We are the largest residential housing provider in New Zealand, owning about 61,700 properties and leasing about 2,700 properties. In all, we manage approximately 64,400 properties and approximately 186,000 people live in those homes. The portfolio is valued at $26.7 billion as at 30 June 2018, making it one of the Crown's largest assets.

HLC

HLC is a subsidiary of Housing New Zealand and acts as our agent in managing the comprehensive master planning and large-scale redevelopment of Crown land. The company was formed in 2006 to manage the development of Hobsonville Point, a new township of 4,000 homes in Auckland's northwest. HLC has been tasked with helping Housing New Zealand provide more homes more quickly to growth areas, particularly Auckland, by managing complex housing development projects on underutilised Government-owned land, including comprehensive redevelopment programmes in Northcote, Mt Roskill and Mangere.

More recently the Government has asked HLC to establish a new large-scale suburban redevelopment project in Porirua, near Wellington, and to work alongside the Tāmaki Regeneration Company to deliver more homes to Point England, Panmure and Glen Innes in Auckland's east. Aside from providing a greater range of new, high-quality homes at pace and scale, the projects HLC is leading will create improved infrastructure, more connected neighbourhoods and better amenities.

Our vision and values

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

Housing New Zealand believes that people do their best within an environment of trust, care, contribution, humility and learning. We also do our best when we take personal responsibility to achieve our shared vision of building lives and communities by housing New Zealanders. Kotahitanga was developed by the whole organisation and this working environment is the foundation of our success.

Transition to become a part of Kāinga Ora – Homes and Communities

The Government announced in October 2018 that the functions of the key housing delivery agencies – Housing New Zealand (including HLC) and the KiwiBuild Unit – will join together to be part of Kāinga Ora – Homes and Communities. This is an important step to consolidate key functions across the public sector to improve outcomes and will result in a significant amount of change for Housing New Zealand over the next 12 months. When Kāinga Ora is established, it will:

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

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

The Minister of Housing and Urban Development's expectations for 2019/20

The Minister of Housing and Urban Development's expectations for Housing New Zealand for the 2019/20 financial year have been framed in the context of our transition to become part of Kāinga Ora. In the lead-up to the establishment of Kāinga Ora, we will be expected to work closely with the Kāinga Ora Establishment Board (responsible for overseeing the establishment of the new entity), and with the Ministry of Housing and Urban Development (HUD) and other relevant agencies.

The Minister's expectations also reflect the Government's broadened mandate for Housing New Zealand to focus on improving the current and future wellbeing of our customers, strengthen our community focus and maintain and gain our momentum in providing warm, dry, safe housing that meets the needs of our customers.

These expectations include:

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

To achieve these expectations, Housing New Zealand will:

Maintain and gain our momentum through business-as-usual

A critical focus during the transition period is to maintain and gain our momentum, particularly relating to our asset delivery, customer focus, and financial sustainability. We will continue to undertake our core functions of providing high-quality public housing and tenancy services and support the Government's delivery of transitional, affordable and market housing.

Support a smooth transition to establishing Kāinga Ora

The successful transition of Housing New Zealand, HLC and the KiwiBuild Unit into Kāinga Ora is essential for the achievement of the Government's public housing and urban development objectives, and will be a critical focus for us over the next 12 months. During the transition, we will:

- collaborate and work closely with the relevant agencies, the Kāinga Ora Establishment Board and HUD ahead of the formal establishment of Kāinga Ora
- plan to integrate Housing New Zealand and HLC long-term asset and investment planning with the KiwiBuild Unit ahead of the formal establishment of Kāinga Ora
- contribute to the development of an organisational strategic framework and investment approach that will support the wider strategic thinking for Kāinga Ora
- focus on implementing the Government's decisions to further protect Māori interests in our property and urban development activities during the transition to Kāinga Ora's establishment
- focus on ensuring the impacts of the transition on Housing New Zealand tenants and our people are managed and communicated well.

This 2019/20 SPE reflects the direction from the Government for Housing New Zealand during the transition period and outlines our activity and public accountability in the context of the transition. Once Housing New Zealand becomes part of Kāinga Ora, this SPE will be replaced with a new SPE for Kāinga Ora that encompasses the functions of

the new entity. The development of the new SPE will be supported by longer-term strategy work and will be informed by the development of an SOI for Kāinga Ora.

Embedding a new shift of focus on wellbeing

The Government has signalled a clear shift of focus on measuring outcomes for New Zealanders by improving current and future wellbeing. At Housing New Zealand we understand the importance of a safe, warm and dry home for people's wellbeing, and how it connects with supporting the Government's priorities on reducing child poverty and improving mental health. Lack of appropriate housing and access to wider social services can significantly impact not only physical and mental health, but overall wellbeing. Providing people, especially the vulnerable, with access to a stable home is fundamental in ensuring good public outcomes both now and in the future.

The Treasury has developed a Living Standards Framework (LSF) and LSF Dashboard to help analyse and measure intergenerational wellbeing, and assess the policy effects on New Zealanders' living standards over time. Public sector agencies are expected to think more holistically and in intergenerational terms about what they do and the outcomes they want to achieve.

Housing New Zealand has been working with the Treasury and other agencies to consider how we apply the wellbeing approach to our strategic planning and performance reporting, as well as our evaluation and research. We will increase our focus on public outcomes and collective action in these areas to inform better decision making, action and delivery.

Over 2019/20 we will start embedding wellbeing into our strategic planning and performance monitoring, which will lead to better public outcomes for our customers, our staff and all New Zealanders, both now and for generations to come.

The Crown's social objectives for housing

In September 2018 the Minister of Housing and Urban Development announced that the Crown social objectives for housing would be embedded in legislation in late 2019. The new objectives outline the ongoing expectations for Housing New Zealand and enrich our mandate to achieve good public outcomes for housing, customers, neighbourhoods and communities.

The work to deliver on the Crown's social objectives for housing will take a number of years. The 2019/20 SPE focuses on our contribution for the 2019/20 year.

Crown's social objectives for housing	How Housing New Zealand will respond
Providing good quality, warm, dry and healthy rental housing for those who need it most	We will: ▪ upgrade our portfolio to meet the Healthy Homes Guarantee Act requirements ▪ continue our central role in achieving the Government's housing targets, accelerating the scale and pace of delivery and providing the Government's desired regional mix of housing ▪ continue our focus in Auckland and increase our investments in other cities and many regional centres ▪ deliver our Innovate, Partner, Build programme to support our build cost reduction targets ▪ address the renewal of our aging stock and upgrade the performance of these homes through our Retrofit programme, particularly around their thermal performance to ensure they are warm and dry and support improved social, health and economic outcomes for our customers.

Crown's social objectives for housing	How Housing New Zealand will respond
Assisting tenants to sustain a tenancy; supporting tenants to be well-connected to their communities, to lead lives with dignity, and the greatest degree of independence possible	We will: ▪ continue to work with customers to reduce any debt they may have incurred with us ▪ link our customers with specialist support services, where appropriate, to sustain their tenancies ▪ continue to focus on our core tenancy management role and take a tailored, customer-focused approach to delivering tenancy services ▪ implement a number of initiatives within our Customer Programme, including developing a new service delivery model that responds to the different needs of our customers ▪ improve the accessibility in our homes for people and their whānau facing mobility issues. We will: – finalise an accessibility policy for Housing New Zealand properties and start implementation, including ongoing monitoring of the policy and engagement with customers and stakeholders – set appropriate targets for the number of our houses that meet universal design standards incorporating features that suit more people for longer – apply findings from our Retrofit pilot to develop an appropriate approach to accessibility issues for our existing properties – continue to work with funders for modification and provide bespoke solutions to our Community Group Housing tenants – improve information about customer needs and the accessibility of our properties.

Crown's social objectives for housing	How Housing New Zealand will respond
Being a fair and reasonable landlord, treating tenants and their neighbours with respect, integrity and honesty	We will: ▪ not only collect rent and maintain our homes, but also implement our Customer Programme and changes to our operational policies, like those on pets, drugs and addiction ▪ begin to review our policies against our service principles of trust, dignity, respect and empowerment to provide more compassionate and empathetic tenancy management ▪ continue our Intensive Tenancy Management service, Te Waka Urungi, to support customers with high and complex needs to get the support they need ▪ support our customers and treat them as valued members of society.
Managing our housing stock prudently, upgrading and managing the portfolio to ensure it remains fit for purpose	We will: ▪ continue our focus on maintaining, managing and renewing our housing portfolio ▪ implement requirements outlined in the Healthy Homes Guarantee Act, as well as our Retrofit programme, which sets out a programme of renewal for our aging assets, as well as upgrading their performance, particularly thermally. This programme will also reduce our portfolio maintenance requirements.

Crown's social objectives for housing	How Housing New Zealand will respond
Assisting the neighbourhoods and communities in which we operate housing to flourish as cohesive, safe and prosperous places to live	We will: ▪ increase our focus on building trust and connections between our customers and their communities ▪ develop a Community Strategy to improve communities' access to public spaces, amenities and the service support they need, and involve communities in shaping their surroundings ▪ continue our focus on managing comprehensive master planning and large-scale redevelopment through HLC's work to create improved infrastructure, more connected neighbourhoods and better amenities.
Working with other agencies to achieve housing policy goals and improve tenant welfare	We will: ▪ actively work on joint projects to improve housing outcomes, including those with Oranga Tamariki and the Department of Corrections, addressing fuel poverty by developing options for helping customers with costs of energy; and with HUD on transition to Kāinga Ora ▪ continue to support and share experience with agencies and the sector through our expert advice on a range of policy and regulatory development processes including Residential Tenancies Act reforms, mental health, homelessness, corrections, and refugee settlement ▪ continue to support skills training and the Government's programmes to stimulate apprenticeships to grow the building sector.
Providing services and products to support people to access affordable housing	We will: ▪ support the Government's housing targets by contributing to the development of the affordable housing market, delivering and enabling KiwiBuild homes and proactively managing financial home ownership products for those purchasing their first home.

Our priorities 2019/20

Our short-term priorities have been informed by our operating environment, our policy settings, and our intention to improve the outcomes for our customers. Our priority statements have been fine-tuned recently to focus on supporting our customers and communities and our ongoing commitment to provide warm, dry and safe housing for our customers.

For the 2019/20 year these priorities are:

- Increase our understanding of our customers and communities and put their diverse needs at the centre of our decisions and actions
- Increase the pace and scale of land and housing supply
- Reduce our cost of building and, in turn, ensure our financial sustainability
- Optimise the management, maintenance and renewal of our homes
- Strengthen the performance of the housing sector
- Be a high-performing organisation.

The main changes to our priorities for 2019/20 from the 2018/19 SPE include:

- strengthening our number one priority - understanding our customers and putting their diverse needs at the centre of our decisions and actions - to include our focus on communities and the outcomes we seek to achieve for the communities we serve
- adding a sixth priority relating to our organisational capability. 'Be a high-performing organisation' will ensure we are well set up to support the delivery of our other priorities.

Our activity for 2019/20 will be framed around these priority areas, which are described in greater detail below.

Priority 1:

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

Why is this a priority?

For our customers to live well with dignity and stability in their homes, it is essential for us to focus on understanding their needs and take a tailored, customer-focused approach to tenancy management. To fulfil the enduring Crown's social objectives for housing, we will put customers' diverse needs at the centre of our decisions and actions. Understanding our current and future customers will shape the decisions we make today about the types of homes and communities we build, and the way we deliver services. We acknowledge the role the community and other social services play in supporting our customers to live well in, and connect with, their communities.

What will we do in 2019/20?

Implement our Customer Programme

- Through our Customer Programme develop and begin implementing a new service model to:
  - improve the services and support we provide to our customers and work more closely with communities
  - develop appropriate approaches to support customers with different types of needs. For example, we will investigate alternative housing designs for large or intergenerational families and continue to provide our Intensive Tenancy Management service.
- Evaluate our Intensive Tenancy Management service, Te Waka Urungi

  Our Intensive Tenancy Management service, Te Waka Urungi, will continue to work with customers with high and complex needs to help them access the support they need to live well in their homes and communities. In 2019/20 we will evaluate its effectiveness and use this information to improve our approach to helping customers sustain their tenancies.
- Continue to work with funders to increase the number of supported housing places available to high-need customers

  'Supported housing' refers to housing customers who receive intensive support to live in their homes. In 2019/20 we will work with funders and service providers to increase the number of supported housing places including:
  - Community Group Housing
  - Transitional housing
  - Housing First
  - Housing for specific target groups (including for ex-prisoners who are reintegrating into the community, and for at-risk youth)

- Community Group Housing

Our Community Group Housing (CGH) provides housing solutions to eligible groups in New Zealand such as organisations that provide residential community housing to people with specialised housing needs. These groups work with people who experience mental illness; people who have physical and intellectual disabilities; women, men and children seeking refuge; families, including those with emergency housing needs; youth and children at risk; ex-prisoners reintegrating into society; and people who require residential alcohol and drug services.

The groups are responsible for managing their residents and their day-to-day needs. Housing New Zealand is responsible for ensuring the properties remain fit for purpose for the duration of a group's tenancy. We also stay in regular contact with groups to ensure they can continue providing their service from their tenancy.

- Transitional housing

We are a member of the Government's cross-agency Transitional Housing Programme, led by HUD, which aims to ensure a sufficient supply of transitional housing across the country. Our role in this cross-agency team is to supply a portion of the additional transitional housing required in specific locations across the country. The housing we supply provides a place for families to stay while their needs can be understood and addressed, and longer-term sustainable accommodation can be found.

We lease the properties to service providers who are contracted by HUD to manage the properties and the people living in them. Service providers work with the families living in transitional homes to put in place tailored support services to help them move forward. This can include budgeting advice or social services, depending on identified need. This support can last for up to three months while they are living in the transitional home and a further three months once they are placed into permanent housing.

- Housing First

Housing First is a proven, internationally recognised approach to housing and supporting homeless people with multiple, high and complex needs. The programme was launched in Auckland with Government and Auckland Council funding in March 2017, and expanded to Christchurch, Tauranga and Hamilton in 2018, and Rotorua in April 2019. The programme is also being established in other regions including Wellington, Napier/Hastings, Whangarei, Northland, Blenheim and Nelson.

Housing First's approach is to provide housing quickly and then offer tailored support for as long as it is needed to help people stay housed and address the issues that led to their homelessness. Housing New Zealand, along with community housing providers (CHPs), private landlords and iwi, provides housing places as part of the programme.

- **Continue to align our operational policies with our Customer Strategy and other organisational objectives**

  In 2019/20 we will continue to translate our Customer Strategy and other organisational objectives into our operational-level policies to support our customers to sustain their tenancies. This includes work in the operational policy areas of:

  - Addiction and drug-related harm

    We view drug use as primarily a health and addiction issue, and are continuing to develop a policy that supports our customers to achieve wellbeing outcomes rather than penalising them. In 2019/20 we will extend the work we have already done in dealing with methamphetamine to other drug and alcohol addiction issues, to develop a clear operational policy and guidelines for our people.

  - Pets

    We have adopted a more empathetic approach to pet ownership and allow customers to have a pet in their homes subject to certain conditions. In 2019/20 we will monitor the impact of this and provide any further training needed for our frontline people in this area.

  - Accessibility

    We understand the importance of physical accessibility in homes for our customers with mobility issues. In 2019/20 we will:

    + finalise an accessibility policy for Housing New Zealand properties, start implementing it, monitoring it and engaging with customers and stakeholders on an ongoing basis
    + set appropriate targets for the number of our houses that meet universal design standards incorporating features that suit more people for longer
    + apply findings from our Retrofit pilot to develop an appropriate approach to accessibility issues for our existing properties
    + continue to work with funders for modification and provide bespoke solutions to our Community Group Housing tenants
    + improve information about customer needs and the accessibility of our properties.

  - Complaints

    We are reviewing our approach to managing complaints and feedback and will create a standard framework across all types of complaints and all areas of the business. This means redesigning our complaints policy and processes to align with best practice and make them more effective for both customers and staff.

Work as one with other social sector agencies to enhance performance

Strengthening our relationships with agencies that play a key role in our customers' communities will allow us to deliver better outcomes for our customers and demonstrate best practice in the housing sector. We will continue to look for opportunities to partner and collaborate with social sector agencies that can help our customers. In 2019/20 we will look at creating new relationships with:

- Local Government New Zealand
- Royal New Zealand College of General Practitioners
- Oranga Tamariki
- Ministry of Health
- Ministry for Pacific Peoples
- Electricity Retailers' Association of New Zealand

and refreshing the existing relationship with New Zealand Police.

Improve outcomes for Māori

We have a diverse cultural and ethnic customer base and a significant proportion of our customers identify themselves as Māori. We engage with iwi as a key part of supporting the Crown's commitment to the Treaty of Waitangi. To improve outcomes for Māori customers and their whānau, as well as iwi across New Zealand, we will continue to:

- participate in Right of First Refusal and Treaty transactions as required including upholding Iwi Right of First Refusal where it has been granted over Housing New Zealand land
- have early and repeated engagement with iwi and consultation with relevant agencies where our activity intersects with iwi and Māori interests
- work with HUD to develop a Māori Work Plan, including a refreshed Māori Housing Strategy, which will inform our engagement with local Māori, iwi and hapū groups
- work with HUD and Te Puni Kōkiri (TPK) to help deliver the Government's objectives for Māori housing, including exploring solutions for home ownership on Māori-owned land
- consider ways to ensure our property designs take cultural sensitivities into account
- work with the Papaioea Housing Alliance and TPK to provide home ownership opportunities to whānau in the Te Tihi pilot through Te Ara Mauwhare – Pathways to Home Ownership

- work with agencies and community groups to address key barriers to housing for Māori and identify opportunities to improve overall wellbeing of whānau in our homes through a range of initiatives in communities around New Zealand
- use our family link specialists to find suitable potential apprentices to connect to providers in an apprenticeship pilot for Māori youth living in our homes
- refine and deliver a Māori Opportunities Model, which will allow us to work with our mana whenua partners to articulate collective goals for Māori housing, and urban and community development, and work in partnership towards these.

Develop and implement our Community Strategy

Housing New Zealand has a significant impact on how communities function through the way we serve our customers, particularly in concentrated clusters of high-deprivation communities, and also through the scale of our redevelopment and asset regeneration programmes. This impact is set to grow as we transition to become part of Kāinga Ora. At the same time, communities can play a significant role in helping us to support our customers to live stable and connected lives.

During 2019/20 we will complete and begin to implement a new Community Strategy focused on promoting wellbeing by contributing to communities being empowered, connected and cohesive through understanding their needs. The strategy will identify the role Housing New Zealand should play and who we need to partner with to create thriving and supportive communities.

Offer MyHNZ

We want to support our customers' sense of independence by giving them access to their personal information anytime, and to increase their contact choices by providing another channel to interact with us. We have developed a tool called MyHNZ, which will allow customers to complete basic queries and functions online. MyHNZ will free up our Customer Support Centre to make more proactive care calls and offer increased tenancy services.

In 2019/20 we will add more functionality to the tool to allow for information sharing on a wider range of services for our customers.

Over the longer term, MyHNZ will enable us to participate in the digital transformation across government agencies to deliver better services to New Zealanders.

Priority 2:

Increase the pace and scale of land and housing supply

Why is this a priority?

Housing demand remains high and affordability remains a challenging issue in New Zealand. In response, we have made it a priority to increase our supply of new housing and release land, particularly in areas with significant affordability challenges, to deliver state housing and enable affordable housing. We will achieve this by delivering our Innovate, Partner, Build programme and continuing our long-term strategic asset and financial planning activities. HLC will continue to enhance community outcomes as part of our large-scale redevelopment programmes. We are also looking to increase efficiency in our construction methods and adjust the way we contract with build partners to support delivery at scale.

What will we do in 2019/20?

Increase the pace and scale of delivery

- Implement multi-year capacity partnering agreements

  Housing New Zealand is signing up to 'capacity partnering agreements' with suppliers – giving them multi-year contracts to build a set number of homes each year, rather than the current system of contracting from project to project. Providing greater certainty of future work will give the firms we work with a sound basis on which to innovate and expand their operations to match Housing New Zealand's growing build programme.

- Use offsite manufacturing

  'Offsite manufacturing' refers to the manufacture of building components or buildings away from the final building site. Over the last year we have developed a clear process for offsite manufacturing as a construction method, and will continue to use it in 2019/20. This will allow faster, safer and more predictable procurement, and save time and cost of delivery.

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

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

- Work with councils to streamline consent processes

  Housing New Zealand has now achieved Qualified Partner status with the Auckland Council, and this is streamlining our consenting process in the Auckland region. We are making progress on a medium-term initiative 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.

Continue to deliver large-scale work through a master-planned approach led by HLC

Housing New Zealand's subsidiary HLC will continue to expand its role in leading large-scale development projects on behalf of the Crown. HLC will continue to partner with the Tāmaki Regeneration Company to deliver more homes in Point England, Panmure and Glen Innes in Auckland's east, as well as assist with and consult on other large-scale redevelopment projects, such as the development on land formerly owned by Unitec.

HLC is also responsible for delivering large-scale master-planning and land development programmes for Housing New Zealand, and will continue to do so for programmes in Auckland and Porirua.

Large-scale programmes delivered or supported by HLC

- Northcote
- Mt Roskill
- Eastern Porirua
- Hobsonville Point
- Roskill South
- Owairaka
- Oranga
- Mangere
- Tamaki

The work HLC undertakes is not just about numbers of homes. These projects will create improved infrastructure and amenities and will strengthen and connect neighbourhoods and communities. In 2019/20 HLC will:

- refine and deliver comprehensive place-making and community development strategies
- continue to work with its Alliance Partner, Piritahi, in delivering large-scale civils and infrastructure and site remediation work in Auckland
- refine its spatial delivery strategy and carry out comprehensive community surveys as part of its Wellbeing Evaluation Framework. The framework will help HLC to articulate the impact of redevelopment activities on residents' and communities' wellbeing, in a way that aligns with the Treasury's wellbeing approach.

What is happening in Porirua?

Eastern Porirua: HLC, in partnership with Housing New Zealand, will be leading the regeneration of Eastern Porirua to replace approximately 2,000 outdated state houses with around 4,000 homes, including state, affordable, market and KiwiBuild homes.

HLC will be working alongside the community, the Porirua City Council and the local iwi, Ngāti Toa Rangatira, to achieve positive shared outcomes for the community such as improved infrastructure, more connected neighbourhoods, increased opportunities for home ownership, and better amenities.

Up to $1.5 billion in government funding is expected to be spent over the project life on making Eastern Porirua a better place to live, work and raise a family. A full business case for the Eastern Porirua Regeneration Project will be developed by the end of 2019/20, with progress on existing development initiatives already committed to continue.

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

Continue our large-scale redevelopment programmes

We have a number of large-scale housing developments underway across different parts of the country. Our largest and most notable redevelopment projects are in Auckland and include Northcote, Mt Roskill, Mangere, Greys Avenue in central Auckland and McLennan in Papakura. These programmes will deliver a combination of state, affordable and market homes.

What is happening in Greys Ave?

Housing New Zealand is redeveloping 139 Greys Avenue in central Auckland. The existing building on the site is now at the end of its life and no longer meets the needs of our customers, but is ideally located for its connection to support services in Auckland's city centre. It will be redeveloped between now and 2022 to create a supportive and connected inner-city housing environment consisting of 276 apartments, with at least 200 retained as state homes. The building will also include 24/7 onsite wrap-around support services for our customers.

During 2019/20 we plan to complete the demolition of the existing building and commence construction of the new building. We are continuing to work closely with key government agencies, non-profit organisations and international experts, as well as our customers and neighbours as our plans for Greys Avenue progress.

Architect's rendering of the proposed Greys Avenue development.

Seek financing through bond issuance

To raise finance to expand and continue the development of new homes across the country, Housing New Zealand issues bonds to wholesale investors. We currently have an approved debt limit of $3.05b for finance sourced from outside the Crown. While we do not anticipate any increase in debt limit being required to meet costs associated with our 2019/20 programme, we are currently working with HUD and the Treasury officials to prepare a request to extend the borrowing limit to enable construction contracts to be entered into beyond 2019/20. This reflects costs associated with proposed new programmes, additional investment to improve the standards of our homes, and higher than anticipated infrastructure costs. We plan to present this request to the Minister of Housing and Urban Development and the Minister of Finance for approval in October ahead of the Crown Half Year Economic and Fiscal Update.

Continue to support the delivery of affordable housing

Housing New Zealand will continue to support the delivery of KiwiBuild and the Government's housing targets by increasing land supply for affordable and market housing. Housing New Zealand (including HLC) is working with the KiwiBuild Unit and will deliver KiwiBuild homes through private sector partners in Auckland, or by building directly on Housing New Zealand land (as with our McLennan development in Papakura, for example). This will spread to other parts of New Zealand and we will continue to work closely with the KiwiBuild Unit to provide land in appropriate areas and housing that aligns with market demand.

Continue to supply transitional housing

In addition to delivering our own build programmes, we will continue to acquire and build new homes as part of the Government's cross-agency Transitional Housing Programme led by HUD.

Priority 3:

Reduce the cost of building and, in turn, ensure our financial sustainability

Why is this a priority?

While pressure on housing affordability continues, we need to focus on working more efficiently to ensure the scale of change required to our housing stock is financially viable and sustainable over the long term. Reducing our construction costs is vital for our investment in new homes to meet the required return rates and sustain our build activities. 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 and pace. We will continue to drive down our build costs through the Innovate, Partner, Build programme. This includes exploring new and innovative solutions so we are well positioned to contribute to the overall stock of housing.

What will we do in 2019/20?

Reduce build costs and promote innovation

We will continue to leverage the scale of our build programme to reduce cost and promote innovation in the design, procurement and delivery of homes.

- Use standardised design

  We are now using our standardised designs in new home development, particularly as part of the capacity partnering agreements. The next step will be to produce standardised designs for walk-ups and apartments.

- Reduce cost through volume contracts for materials

  We have commenced market sounding with materials suppliers and will look to move to high-volume contracts for key materials based on our long-term build programme. We will also encourage our material suppliers to grow in capacity, capability and innovation.

- Build better homes through technology and innovation

  Since we began piloting hybrid cross-laminated timber technology (CLT), we have learnt that this building system has significant advantages over some conventional building systems, particularly in terms of health and safety, and delivery times. We will continue to pilot well-established, mature technologies, such as CLT and closed wall panel systems in our Rehmix R&D programme, to meet our overall technical and commercial requirements.

  Our Rehmix R&D programme aims to optimise the amenity, design, delivery and lifecycle outcomes of our CLT buildings through the use of Design for Manufacture and Assembly (DfMA) methodologies, digital collaboration processes and built environment modelling tools. We are working closely with the industry to deliver

the programme collaboratively. During 2019/20 demonstration pilots will be used to test the outcomes from the research.

We will also continue to investigate the feasibility of using manufactured bathrooms for various typologies in our build programme and plan to pilot the use of this modern method of construction.

We will refresh and enhance the suite of tools available to staff when scoping, designing and delivering projects where there are poor ground conditions and lightweight buildings, and innovative new foundation systems are to be adopted.

We will also identify other innovation products and building technologies.

Maximise the potential of our build cost data

Over 2019/20 we will learn more about the build cost information we are able to capture. We will develop performance reporting and benchmarking to help us understand various cost drivers and assist with delivery decisions. The information may also support knowledge transfer across the wider housing industry.

Cross-laminated timber provides some major advantages over traditional building materials, with its exceptional structural, fire and sustainability capabilities.

Priority 4:

Optimise the management, maintenance and renewal of our homes

Why is this a priority?

As one of the public sector's largest asset holders, we need to manage our homes effectively to ensure they are financially sustainable and well matched to our customers' needs. This means maintaining and renewing our homes so they are warm, safe and dry for our customers and aligned with the Government's housing standards. The way we manage our homes also needs to keep up to date with our customers' changing needs to improve the efficiency of our operations.

What will we do in 2019/20?

Comply with new healthy homes standards

In February 2019 the Government announced the new healthy homes standards to ensure rental properties in New Zealand are warm and dry for tenants. The regulations will become law from 1 July 2019 and Housing New Zealand and community housing providers must comply with the standards by 1 July 2023. The new standards exceed the building code in some areas, such as heating. All our new homes meet building code standards and we have completed significant work over the last three years through our Warm and Dry programme to ensure our older homes are warm and dry. As New Zealand's biggest public housing provider it is critical that we lead the sector by example and we now have a significant work programme in place starting in 2019/20 to bring our portfolio up to the new standards.

Implement Maintenance 2020

We want to ensure our maintenance programmes are efficient and allow greater flexibility to meet the needs of our customers. We are looking to make improvements in this space through our Maintenance 2020 programme, which will provide better maintenance and repair service to our customers to ensure our homes are warm, dry, safe and well maintained. This will be developed over the 2019/20 year, ready for delivery in mid-2020.

Maintain building compliance

We want to ensure our properties are safe and maintain the right level of compliance against building legislation. We are developing the way we procure and administer these services to meet the growing needs of our most vulnerable customers. We complete over 40,000 inspections each year and have gone above minimum requirements to ensure we provide the service that is needed.

Comply with the Residential Tenancies Act

We will implement any changes required by the Residential Tenancies Amendment Bill No 2. We will also provide input to agencies as they develop broader legislative reform of the Residential Tenancies Act.

Roll out our Retrofit programme

Our Retrofit programme seeks to sustainably retrofit our homes, effectively resetting the lifecycle of our assets at a lower initial cost than a complete rebuild and reducing the need for maintenance on a home. This programme also includes service-level upgrades, particularly focused on making the thermal performance of a property as close to the new build standards as possible, to maintain an indoor air temperature in line with the World Health Organization's recommendation.

In 2019/20 we will complete our second pilot in the Hutt Valley and will continue to retrofit more properties in both Hutt Valley and other areas across New Zealand. Housing New Zealand Board has approved a programme case for Retrofit including the rollout of Stage One of the programme which will cover 1,500 to 2,000 homes over the next three years. We will evaluate the lessons learned from retrofitting these homes before rolling out our programme more widely across the country. Given it is scale, we are in the process of consulting on this programme with the Minister.

Improve fire safety in homes

We have been investigating ways to improve fire safety in Housing New Zealand homes. A Memorandum of Understanding signed with Fire and Emergency New Zealand is allowing us to work more closely together, underpinning our mutual interest and commitment to wellbeing and safety in relation to fires.

We are working to ensure that we have comprehensive data on fire incidents at Housing New Zealand properties and can use this information to improve our training and awareness programmes. Qualitative research will be conducted to understand the experience of customers who have had fires in their homes and identify what else we can do to support them to be safe in their homes.

In addition, we are working with Fire and Emergency New Zealand to identify the next generation of fire safety interventions and to assess potential options for Housing New Zealand properties.

Explore new technologies to improve management and maintenance

- Smart homes

  We are currently piloting the use of sensors in our properties to measure their humidity, temperature and air quality performance. The sensors will shed light on the effectiveness of our key programmes to ensure our properties are warm and dry, as well as on the influence of customer behaviour on individual properties. We are looking to extend the pilot beyond December 2019 and increase the number of properties with sensors installed.

  One of the key issues we are considering is whether our properties can be heated to the World Health Organization standard of 18°C, the cost to our customers of doing so and the extent to which fuel poverty is resulting in cold homes.

- Asset information management

  Housing New Zealand is continuing to improve the quality of our asset data for both new and existing assets through our Asset Information Management project, which focuses particularly on land and building information. This will better inform our investment decisions when maintaining, managing and renewing our homes and includes best practice approaches by:

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

A retrofit is going to renew Barbara's home to make it warmer, drier, safer and more comfortable than ever before. The Housing New Zealand Retrofit programme is into its second pilot now, looking at upgrading 200 older homes in Lower and Upper Hutt.

Priority 5:

Strengthen the performance of the housing sector

Why is this a priority?

As the largest public housing provider in New Zealand, we have a key role to play in helping the housing sector to grow and succeed. With our scale, expertise and a clear government mandate, we are well positioned to show leadership in the housing sector. Our scale and expertise position us well to support and help shape the Government's policy and direction for the housing sector. We need to work with the sector, and champion best practice, to achieve the right outcomes for New Zealanders and boost overall sector capacity.

What will we do in 2019/20?

Increase sector capacity by leveraging volume contracts

We have signed capacity partnering agreements with some of our build partners and intend to offer further agreements to additional partners in 2019/20. We have begun market sounding with materials suppliers with a view to moving towards high-volume contracts for materials. We expect these initiatives to encourage our construction partners and material suppliers to grow capacity, capability and innovation.

Match our build solutions to medium-density demand

We will work collaboratively with trusted designers, manufacturers, assemblers and product suppliers to optimise our designs in the three- to six-level building categories. Medium-density development will help make the best use of scarce land in an existing urban infill situation, while balancing quality public and private space in greenfield situations. Our approach will help facilitate capacity growth in our high-priority typologies such as one- to two-bedroom apartments and walk-up units near existing urban centres.

Support skills training and stimulate apprenticeships to grow the building sector

We have initiated an apprenticeship pilot programme and placed apprentices with build partners or their subcontractors. The employment of apprentices has been integrated into the capacity partnering agreements with our build partners and associated key performance indicators have been included to enable us to track and monitor how these arrangements are progressing. During 2019/20 we will expand the programme to other build partners and subcontractors.

We are looking at how our customers can connect with these opportunities and at expanding the type of work to cadetships and work experience. We are also working with the Department of Corrections to find how ex-prisoners who have undertaken construction training can connect with these opportunities. This involves developing

a framework and consistent set of practices to ensure we have a sustainable supply of work and support structures for apprentices and our build partners.

HLC will continue to deliver the Construction Plus programme for connecting locals with employment and training opportunities in infrastructure, civils and construction to produce better long-term economic and wellbeing outcomes in the communities that are experiencing redevelopment.

Partner with the community housing sector

To support the growth of the community housing sector, we have focused on building a collaborative relationship with both Community Housing Aotearoa (CHA) and the wider community housing provider sector. By working with the sector's peak body we will use our experience, influence and skills to increase the capacity and capability of the wider housing sector to deliver and manage public housing.

In 2019/20 we plan to:

- work closely with HUD to support and collaborate with community housing providers (CHPs) particularly as we transition to become part of Kāinga Ora
- work in partnership with Ngāti Toa as they establish themselves as a new community housing provider for Western Porirua. This will include offering opportunities for Ngāti Toa to take advantage of our knowledge and capacity to increase their and capacity and capability
- continue to improve our working relationships with CHPs, including refining our engagement framework to further assist CHPs when they look at engagement opportunities with Housing New Zealand
- in collaboration with CHA, help identify areas where we can work together on specific initiatives, such as joint training for CHP and HNZ staff, as well as looking at secondment opportunities
- in association with CHA, draft articles in 2019/20 that detail the roles, responsibilities and challenges faced by state, public and other social housing providers in a way that informs our collective customer base and the general public.

Continue to offer financial ownership products

We also address housing demand pressure in the wider housing sector by administering financial home ownership products. In 2019/20 we will continue to proactively manage these products that we administer on behalf of the Government, such as the Welcome Home Loan and KiwiSaver first home savings withdrawal product, which help New Zealanders to purchase their first home.

Priority 6:

Be a high-performing organisation

Why is this a priority?

Being a high-performing organisation is fundamental in ensuring the delivery of our strategic priorities discussed above. It has always been part of our strategic framework and we have formally added it as the sixth strategic priority for our organisation. This priority focuses on having the right capability to deliver on our priorities and maintain momentum across our core functional areas as we transition to become part of Kāinga Ora. We are working to have sound business processes and practices that drive a positive workplace culture as outlined in our values charter, Kotahitanga.

What will we do in 2019/20?

The steps we are taking to achieve this priority have been framed around four key characteristics common to high-performing organisations - being strategy driven, attracting and retaining brilliant and engaged people, striving for operational excellence and driving efficiency. Across all of these areas we are focused on retaining and growing our organisational momentum during the transition to become part of Kāinga Ora. In this context we will:

Plan our financial and asset management for the long term

To support our investment decision making, we have developed a comprehensive asset planning framework which ensures we can provide fit-for-purpose homes and communities for our customers in a sustainable manner. This framework is based on National Asset Management Support (NAMS) Steering Group best practice and signals our intention to operate in a business-like manner within our current settings. Our key functional strategies that support our financial and asset management for the long term are our Long-term Investment Plan (LTIP) and our Asset Management Strategy (AMS).

Our LTIP outlines the investment objectives and the funding and financing needed to ensure the long-term financial sustainability of the organisation. A 30-year horizon is modelled, since the majority of our assets will reach major lifecycle decision points within the next 30 years. This period also encompasses our significant reconfiguration and growth challenge, and enables us to deliver an investment programme that will be sustainable beyond the 30-year mark.

Our AMS articulates the strategic decisions our Board has made on where, and how, we will deliver our asset programmes in a sustainable manner over the next 10 years for our customers. It articulates how, as a long-term asset owner, we will manage the varying lifecycle requirements of our existing assets to provide warm, dry and safe homes for our customers that they can operate within their means and to safeguard the Crown's investment. It also sets out how we will realign our portfolio to meet the needs

of our existing and future customers. The AMS provides the operational parts of our business with a clear decision-making framework for managing our assets, and a strategic framework for delivering our Investment Plans and Asset Management Plan in accordance with our LTIP. AMS 2018 is consistent with the LTIP in that it:

- represents a baseline plan for managing the state housing portfolio
- sets out how we will ensure that our responses align with our goals and are appropriate to the age and condition of the asset, the area it is located in, and tenant requirements.

In 2019/20 we will continue to use our Board-approved AMS and LTIP to deliver on both the Government's and the Board's expectations for the state housing portfolio until new settings are agreed under Kāinga Ora.

Embed strategic directions set in investment plans

In 2018/19 we developed investment plans that translate the strategic direction set out in the AMS and the LTIP. The plans articulate the demand, levels of service, approach and associated operational budgets for these portfolios and broadly set out the planned activity across the country. The Regional Investment Plan responded to unprecedented demand in the regions and was approved by the Board in August 2018.

Following the announcements to establish Kāinga Ora, interim Auckland and Wellington Investment Plans are being developed in line with the revisions to the LTIP to provide guidance to the business until an integrated AMS is developed for Kāinga Ora.

In 2019/20 we will embed the directions set by these documents into operational decision making and prioritisation to ensure our asset decisions are aligned with our strategic intentions.

Employ our Technology Strategy

Our 2019 Technology Strategy describes the overarching direction for technology at Housing New Zealand until 2021. The strategy is shaped by a number of drivers, opportunities and business strategies, where technology plays a role as a key enabler for our people, partners, customers and homes into the future.

The 2019 Technology Strategy is complete and passing through final approvals. The strategy has the following themes:

- Digital Core Architecture – retain current core systems and integrate new capabilities
- Digital Service Channels – create smart online services that make it easier for our customers to engage with us and live well in our homes. This includes increased functionality of MyHNZ and new digital services for customers

- Empowered Workforce – leverage modern tools that optimise the capabilities of our people and partners
- Connected Government – work with partners, community and related agencies to improve social outcomes for our customers
- Invest in Intelligence – information-driven, fact-based insights underpin our strategic and operational decisions

All of these will be underpinned by our efforts towards operational excellence, governance and maturity, supporting our people and customers with secure and relevant services, and understanding and implementing measures that ensure the credibility of technology into the future.

Maintain continuous improvement

In mid-2018 Housing New Zealand embarked on a Continuous Improvement programme, to focus on making regular, small improvements to our business and customer experience. The approach puts our people at the centre of the initiatives, and provides a range of training, tools and collegial support. Continuous improvement has a place in any reliably high-performing organisation. Our Continuous Improvement programme will generate both cultural and technical benefits and we expect to start seeing efficiency gains in the first quarter of 2019/20.

In 2019/20 we will continue to expand the knowledge of our people by providing training and coaching to 25 percent of our people by the end of the financial year. Specialised stakeholder management sessions will be developed to give our leaders the knowledge to support their people with adoption of continuous improvement.

Maintain our Investor Confidence Rating

Housing New Zealand's investment management capability and performance have been recognised through the Government's Investor Confidence Rating (ICR) review. In the 2018 ICR assessment we retained an A rating and have been identified as having the strongest all-round investment management capability of all the government agencies assessed to date. In addition to ranking existing results, the ICR assessment provides guidance on how we can maintain and improve our investment management capabilities. We are using the 2018 assessment results as a roadmap to continuous improvement across the organisation and during 2019/20 our focus will include improving our approach to investment management, portfolio and project management maturity, organisational change management, asset management, and systems performance.

Enhance our investment and project portfolio management approach

Our Housing Investment Framework (HIF) sets expectations for how we deliver investments in our housing portfolio that respond to and align with the strategic direction set out in our AMS and LTIP. Our investment activity is delivered through our portfolio, programmes and projects. The HIF articulates how these investments should be managed, including ensuring we balance financial sustainability with maximising social outcomes. During 2019/20 we will be focused on delivering to the expectations set out in the HIF.

Given the scale of work underway across our national portfolio, it is also important that we have clear oversight of our projects and programmes. In 2019/20 we will embed a project portfolio management tool within the business that will improve our ability to monitor, evaluate and report on projects and programmes across our delivery pipeline. A more systematic approach to project portfolio management will ensure continuous improvement and greater efficiency across our organisation.

Support transition to a low emissions economy by implementing our Environmental Strategy

We understand the importance of being environmentally sustainable and our 2018/19 Environment Strategy has identified the key impacts and areas of influence we have over the natural environment. The strategy also proposed opportunities to reduce our footprint or improve environmental outcomes in the sector. We are investigating how we can use these opportunities, what the impacts will be on our organisation, and their timeframes.

Homestar 6 will be the minimum standard for new single- and double-storey state housing builds (except apartments) contracted by Housing New Zealand from 1 July 2019. We will investigate the feasibility and effectiveness of renewable energy generation and battery storage systems to reduce greenhouse gas emissions and the impacts of energy poverty for our customers and improve resilience in our communities. We will deliver a national waste diversion programme to reduce the negative environmental impacts of our demolition, retrofit and construction activities. We will also engage with transport providers to enable better access for our customers to cycling, public transport, mobility services and car share schemes to reduce their transport emissions.

Undertake regular housing research

Housing New Zealand is part of a wider, more complex housing sector. Recently we have seen a significant amount of change – in government and operational policy and regulation, in the demand for public housing, and in the types of public housing services we deliver. Our approach in placing our customers at the centre of our decision making

requires us to have an in-depth understanding of the people who live in our homes and to know that our services contribute to positive social outcomes and improved lives.

To achieve this, we undertake research on key priority areas as well as evaluations of our services, pilots and trials. Our research and evaluation models vary from conducting primary research through internal or external researchers, and working collaboratively with agencies, research organisations and universities, to providing insight and advice on external research focused on our tenant population or public housing. We also regularly scan the wider research environment and attend seminars and presentations to learn about research findings that are of interest to our work.

As part of Kāinga Ora, Housing New Zealand will be working with HUD and other Crown agencies to develop and implement a housing sector work plan. This will include collaborative work on joint projects where appropriate.

In 2019/20 our general areas of focus for research and evaluation include:

- Research
  - Understanding the characteristics, needs and service use of our customers using administrative data in the Integrated Data Infrastructure (IDI)
  - Outcomes from urban regeneration on individual and collective wellbeing, and urban sustainability
  - Mixed tenure communities
  - Productivity in the construction industry
  - Lived experiences of children in different housing tenures
  - Energy usage in homes
- Evaluation
  - Evaluation of the Healthy Homes Initiative – in collaboration with other agencies and organisations
  - Evaluation of the Intensive Tenancy Management service model

Engage in workforce planning

Our people are our greatest asset. We need to anticipate and prepare for changes in our current workforce and have confidence that our approach to workforce and capability planning keeps pace with changes in our sector and environment.

In 2019/20 we will extend our knowledge and application of workforce planning tools, to give leadership teams across Housing New Zealand more insight into our existing workforce opportunities and challenges so they can plan and prepare for any anticipated changes.

Be a good employer

Part of being a high-performing organisation is being a good employer. We will continue to develop a brilliant and engaged culture through:

Leadership, accountability and culture	• We recognise the importance of quality leadership if we are to be a world-class housing provider. Our leadership programmes will support and drive a positive workplace culture as outlined in Kotahitanga, our values charter. • We will review our core people frameworks and processes to satisfy ourselves that they actively reflect the values and behaviours important at Housing New Zealand.
Recruitment, selection and induction	• As an equal opportunities employer, we value diversity and ensure our policies, practices and processes are fair, consistent and equitable for all job applicants and employees. We are committed to recruiting new talent fairly based on merit, and enhancing the hiring experience for our candidates and managers.
Employee development, promotion and exit	• Developing our people is fundamental to the success of our organisation. We will continue to provide an environment that supports our people to develop their potential and, to the best of their ability, contribute to the achievement of our goals. • We will continue to embed Forward Conversations, our approach to performance and development in support of Kotahitanga.
Flexibility and work design	• We will continue to address work-life balance with flexible work practices where people's requirements fit within business needs.
Remuneration, recognition and conditions	• We support a culture of shared purpose, trust and collaboration by paying our people fairly for their expected contribution and in a way that minimises opportunity for unconscious bias. • As of January 2018 no person working for Housing New Zealand is paid less than the living wage.

Harassment and bullying prevention	• Our aim is to provide a workplace environment that is a safe, engaging, caring place to work, free from harassment and workplace bullying. • We will continue to foster a positive workplace environment for our people.
Staff safety health and wellbeing	• As an employer it is Housing New Zealand's obligation to prevent work-related harm to the physical and mental health and safety of the people who work for us, both employees and contractors. • We will continue to support a safe and healthy environment for our people. • A detailed review of the top health and safety risks for Housing New Zealand is being undertaken. • Professional supervision, to be implemented in late 2019, will support the objective of our health and wellbeing plan.

In late 2018 Housing New Zealand completed the AskYourTeam survey, which asked our people to think about the drivers of success in our organisation and, most importantly, how to improve them. AskYourTeam is being used across the public sector to help transform organisation and leadership performance. The average score across all survey questions for Housing New Zealand was 64 percent, against the public sector benchmark of 61 percent. The first survey provided us with a valuable baseline and we will continue to run at least one AskYourTeam survey each year.

We also track and measure our Total Recordable Injury Frequency Rate (TRIFR) – the number of injuries per 200,000 hours worked – and benchmark our results against the Business Leaders' Health and Safety Forum, a movement of CEOs and business leaders committed to building their own health and safety leadership capability and driving better safety performance in their own business and beyond. Our results and target for 2019/20 are set out in the table below.

Actual 2017/18	Measure	Standard 2018/19	Forecast 2018/19	Standard 2019/20
Not measured in 2017/18	Our overall engagement score as measured by AskYourTeam survey	N/A	64%*	66%
1.13	Total Recordable Injury Frequency Rate	1.15	2-2.5**	1.15

* AskYourTeam NZ public sector benchmark 61%.

** Total Recordable Injury Frequency Rate Business Leaders' Health and Safety Forum benchmark 3.13.

Ensure financial sustainability

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

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

During 2019/20 we will continue to improve our investment decision-making processes by embedding our refreshed Financial Investment Manual and reviewing our wider Housing Investment Framework and its supporting documentation.

- Capital investment

We manage approximately $26.7 billion worth of assets. Over the next four years Housing New Zealand is forecast to invest $6.6 billion (comprising rental property additions and upgrades, and management of infrastructure assets). The following table highlights spending and funding assumptions over the coming financial year.

Rental Infrastructure Capital Additions	2018/19 $m	2019/20 $m
Buy-ins	334	394
Redevelopment and new builds	952	838
Upgrades and improvements	138	242
Infrastructure	21	28
Total	**1,445**	**1,502**
Funded By		
Sales	27	43
Appropriations	6	6
Borrowing	783	1,297
Cash from operations	629	156
Total Funding	**1,445**	**1,502**

- Operational expenditure

During 2019/20 we will collect close to $1.4 billion in revenue from rents and rental subsidies and we will invest $386 million on maintaining our existing housing portfolio. 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.

	2018/19 $m	2019/20 $m
Revenue Comes From		
Rental income from tenants	418	448
Rental income from income-related rent subsidy	881	944
Crown appropriation income	113	133
Interest realised gains and other income	129	225
Total Revenue	**1,541**	**1,750**
Where Revenue Goes to		
Repairs and maintenance	369	386
Rates	159	171
Third-party rental leases	50	50
Depreciation - rental properties	264	276
Depreciation and amortisation - infrastructure assets	22	15
Personnel	163	167
Interest costs	108	142
Impairment, write-offs and loss on sales	62	74
Grants	86	106
Other expenses	230	355
Total Expenses	**1,513**	**1,742**
Surplus Before Tax	**28**	**8**

The key financial indicators used by Housing New Zealand to monitor overall financial sustainability or financial performance at a strategic level are included in the following table.

Actual 2017/18	Measure	Standard 2018/19	Forecast 2018/19	Standard 2019/20
$12,018	Net operating costs of managing our housing portfolio per housing unit (excludes depreciation)	$12,604	$12,772	$13,147
37%	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) as a percentage of total income*	33%	33%	33%
5.00	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) to Interest costs *	3.62	4.33	3.58

* For the purpose of this calculation EBITDA excludes affordable products contribution and asset write-offs for Forecast 2018/19 and Standard 2019/20.

For the year ending 30 June 2018 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:

Sustaining tenancies and 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 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 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 or land owned by third parties 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.

Development at Forbes Road, Mangere.

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
- progress against our investment plans and significant asset development programmes of work
- a summary set of financial reports.

We will continue to report on progress on our contribution to the growth of the public housing sector. We will also consult with Ministers on the progress against our build activity in Auckland 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 $50 million.

Sustaining tenancies and managing our homes

▶ OUTPUT CLASS 1 ◀

We support our tenants to sustain their tenancies and move towards independence where possible

We renew our existing portfolio of homes

Description

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

As a public housing landlord, we not only collect rent, but also 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. This 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 transitional housing. The output class relates 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 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

2019/20 Sustaining tenancies and managing our homes priorities

Four of our six organisational priorities are relevant to this output class.

1	4	5	6
Increase our understanding of our customers and communities and put their diverse needs at the centre of our decisions and actions	Optimise the management, maintenance and renewal of our homes	Strengthen the performance of the housing sector	Be a high-performing organisation

How we assess our service performance

Ref:	Actual 2017/18	Measure	Standard 2018/19	Forecast 2018/19	Standard 2019/20
1.1	83%	Customer satisfaction with Customer Services Centre	85%	78%	85%
1.2	N/A	Percentage of Customer Services Centre calls answered in two minutes	80%	82%	80%
1.3	N/A	Percentage of tenants who are not in rental arrears	93%	93%	93%
1.4	98.2%	Percentage of homes that are let (occupied days)	97.5%	98.1%	97.5%
1.5	19 days	Average number of days from a home becoming vacant to being 'ready to let'	18 days	16.8 days	18 days
1.6	88%	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%	90%	90%

Ref:	Actual 2017/18	Measure	Standard 2018/19	Forecast 2018/19	Standard 2019/20
1.7	90%	The percentage of lettable properties that meet or exceed the baseline standard	89%	90%	90%
1.8	67%	Percentage of customers satisfied with repairs and maintenance	75%	68%	75%
1.9	2.8 hours	Average time to respond to urgent health and safety queries	4 hours	1.9 hours	4 hours
1.10	68%	Percentage of repairs and maintenance spend on planned activity	70%	62%	65%*

* This target has been reduced to 65% as we no longer include our Retrofit programme budget as planned expenditure. Retrofit is considered part of our renewal activity. We have also reduced the budget required for our methamphetamine reinstatement programme as a result of the revised contamination standards for residential properties leading to fewer meth reinstatements being required.

Revenue and output expenses

Description	Budget 2018/19 $m	Budget 2019/20 $m	Comment
Revenue Crown	861.0	957.6	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	472.1	
Expenses	1,095.1	1,241.9	
Net surplus/(deficit)	**204.7**	**187.8**	

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 our current properties, builds new homes, purchases properties and purchases land for building homes. We also improve the quality and longevity of our existing homes through our renewal programmes to meet the changing needs of our state housing tenant base for homes in the right place and of the right size.

Housing New Zealand will provide 7,140 (gross) newly built state homes over the four-year period 2019/20 to 2022/23. 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 four-year period 2019/20 to 2022/23 Housing New Zealand will contribute on average 1,100 net additional state homes and grow our total portfolio to just over 68,000 houses. Our intention is that building homes will deliver the vast majority of the additions to our portfolio, rather than buy-ins or leasing. This will contribute to the growing number of houses in New Zealand as well as to better financial outcomes.

The table opposite provides a breakdown of the types of activities Housing New Zealand uses to manage the growth of our state housing portfolio. The table also shows the breakdown of our key delivery performance measures 2.1 and 2.2 included in the service performance over the page. We will provide the Minister and the Ministry of Housing and Urban Development 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 2019/20 Annual Report.

Housing New Zealand also provides some housing that is not supported by income-related rent subsidies. This includes Community Group, transitional housing and housing for the Department of Corrections. Housing New Zealand will also provide regular updates to the Minister and HUD on our delivery of these homes.

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, transitional housing and housing for specific target groups.

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)**

2019/20 New state housing supply priorities

Four of our six organisational priorities are relevant to this output class.

2	3	5	6
Increase the pace and scale of land and housing supply	Reduce the cost of building and, in turn, ensure our financial sustainability	Strengthen the performance of the housing sector	Be a high-performing organisation

How we assess our service performance

Ref:	Actual 2017/18	Measure	Standard 2018/19	Forecast 2018/19	Standard 2019/20
2.1	838*	Number of newly constructed state houses (gross)**	>1,380	1,380	>1,500
2.2	435	Increase the overall number of Housing New Zealand's state housing managed stock	>1,100	1,100	>1,175

* This was not an SPE measure in the 2017/18 year; however, these are the equivalent actuals for the 2017/18 performance year. Also note that during this year the delivery actuals included Community Group and transitional housing – these were not included from 2018/19 onwards.

** A newly constructed home is defined as a home that is newly built and has not previously been occupied before its use for state housing purposes.

Revenue and output expenses

Description	Budget 2018/19 $m	Budget 2019/20 $m	Comment
Revenue Crown	0.0	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	0.0	
Expenses	110.9	163.8	
Net surplus/(deficit)	**(110.9)**	**(163.8)**	

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

This output class includes services that Housing New Zealand provides to our Ministers and for 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 Ministry of Housing and Urban Development, Te Puni Kōkiri, Te Arawhiti, 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 Kāinga Ora
- 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

2019/20 Public accountability and ministerial support priorities

Two of our six organisational priorities for the year are related to our contribution to this output class.

5 Strengthen the performance of the housing sector

6 Be a high-performing organisation

How we assess our service performance

Ref:	Actual 2017/18	Measure	Standard 2018/19	Forecast 2018/19	Standard 2019/20
3.1	99.5%	Ministerial correspondence, parliamentary questions, and Official Information Act requests delivered meet the agreed deadline	95%	98%	95%
3.2	100%	Ministerial services delivered meet the quality criteria	95%	100%	95%

Revenue and output expenses

Description	Budget 2018/19 $m	Budget 2019/20 $m	Comment
Revenue Crown	0.0	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	0.0	
Expenses	16.6	23.2	
Net surplus/(deficit)	**(16.6)**	**(23.2)**	

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, affordable home ownership 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 on land formerly owned by Housing New Zealand or on land owned by third parties. Housing New Zealand also delivers a suite of financial home ownership products that assist individuals and households to purchase their first home.

Over a five-year period from 2019/20 to 2023/24 Housing New Zealand will enable or build 3,600 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. HLC's role in our housing programmes continues to expand. Their services are also being contracted by third parties to undertake master planning activities on their behalf, including the Tāmaki Regeneration Company and on land previously owned by Unitec.

Scope

The scope of this output class is limited to activities associated with the release of surplus Housing New Zealand land or on land owned by third parties 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.

Activities also include 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

2019/20 Enabling housing supply and home ownership priorities

Four of our six organisational priorities are relevant to this output class.

2	3	5	6
Increase the pace and scale of land and housing supply	Reduce the cost of building and, in turn, ensure our financial sustainability	Strengthen the performance of the housing sector	Be a high-performing organisation

Housing New Zealand and Violence Free Families organised Our Amazing Place Waterview Community Day for residents in Auckland.

How we assess our service performance

Ref:	Actual 2017/18	Measure	Standard 2018/19	Forecast 2018/19	Standard 2019/20
4.1	259	Number of new homes enabled or constructed for sale on land owned or previously owned by Housing New Zealand	>270	272	>500
4.2	N/A	Affordable* homes enabled as a percentage of total units delivered or enabled on land previously owned by Housing New Zealand	>20%	22%	>40%
4.3	86%	Proportion of enabled homes under construction by third parties within agreed timeframes**	95%	74%	95%
4.4	3.9 working days	Average number of days taken to assess a completed KiwiSaver application***	5 working days	3 working days	5 working days

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

** Note this measure in 2018/19 was the 'Proportion of homes delivered by third parties within agreed timeframes'. It has now been changed to 'under construction' in line with development agreements.

*** During 2017/18 Housing New Zealand received 36,414 KiwiSaver applications and approved 17,699. This compared with 31,731 applications received in 2016/17, of which 16,712 were approved.

Revenue and output expenses

Description	Budget 2018/19 $m	Budget 2019/20 $m	Comment
Revenue Crown	116.1	116.5	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	206.1	
Expenses	196.2	315.4	
Net surplus/(deficit)	**3.6**	**7.3**	

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.

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.

2019/20 Development services provided to the Housing Agency Account priorities

Two of our six organisational priorities are relevant to this output class.

5	6
Strengthen the performance of the housing sector	Be a high-performing organisation

How we assess our service performance

Housing Development Project – Hobsonville					
Ref:	Actual 2017/18	Measure	Standard 2018/19	Forecast 2018/19	Standard 2019/20
5.1	$53 million	Revenue generated from land sales	>$29 million	>$31.2 million	>$20 million
5.2	$21 million	Value of HLC-led capex projects delivered	> $29 million	> $31.5 million	> $2 million
5.3	25%	Units delivered that are long-term rental or affordable housing as a percentage of total units delivered	>20%	>30.8%	>20%
5.4	89%	Percentage of residents satisfied with the overall living experience at Hobsonville Point	>75%	>98.5%	>75%

Revenue and output expenses

Description	Budget 2018/19 $m	Budget 2019/20 $m	Comment
Revenue Crown	0.0	0.0	The revenue and expenses of this output class are in relation to management and development services for Crown-controlled land and property.
Revenue Other	19.8	42.6	
Expenses	19.8	42.6	
Net surplus/(deficit)	**0.0**	**0.0**	

Forecast financial statements

Forecast financial highlights for 2019/20

Housing New Zealand manages a portfolio of approximately 64,400 houses. The value of the owned portion of this portfolio was $26.7 billion at 30 June 2018. This is an increase of $1.5 billion on the portfolio's previous valuation of $25.2 billion as at 30 June 2017. Another portfolio valuation is due to be completed by 30 June 2019.

The 2019/20 forecast operating surplus before tax is $8 million, with no surplus distribution to the Crown.

In 2019/20 we expect to receive $1,750 million in income, comprising:

- $1,392 million in rental income
- $133 million in other operational funding for Crown programmes
- $201 million in affordable housing and land development revenue (included in Other Income)
- $24 million in interest and other income.

In 2019/20 we expect to incur $1,668 million in operating expenses. These expenses are mainly made up of:

- $386 million in repairs and maintenance (compared with $343 million budgeted in 2018/19)
- $291 million in depreciation and amortisation
- $221 million in property leases and rates
- $142 million in interest costs
- $106 million in grant payments, primarily from the KiwiSaver scheme
- $201 million in affordable housing and land development expenses (included in Other Expenses)
- $321 million in personnel and other expenses.

We also expect to incur $74 million of write-offs, driven by redevelopment activity. The accounting treatment of valuation of land for sale is still to be resolved.

In 2019/20 Housing New Zealand expects to spend $1,716 million on rental housing asset purchases and improvements, and expects to receive $43 million from the sale of state housing assets.

In 2019/20 Housing New Zealand expects to make payments to the Crown of up to $169 million consisting of income tax of $91 million and interest costs of $78 million.

Forecast statement of comprehensive revenue and expense

	Group Forecast 2019 $M	Group Budget 2020 $M
Revenue		
Revenue from non-exchange transactions		
Crown appropriation revenue	103	124
Rental income from income related rent subsidy (IRRS)	877	940
Rental income from tenants receiving IRRS	367	397
Rent Relief Fund revenue	4	4
Revenue from exchange transactions		
Rental income from tenants at market rent	51	51
Interest revenue	14	8
Mortgage insurance scheme	10	9
Other revenue	115	217
Total revenue	**1,541**	**1,750**
Expenses		
Repairs and maintenance	369	386
Rates	159	171
Third-party rental leases	50	50
Depreciation - rental properties	264	276
Depreciation and amortisation - infrastructure assets	22	15
Personnel	163	167
Interest expense	108	142
Grants	86	106
Other expenses	230	355
Total expenses	**1,451**	**1,668**
Other gains/(losses)		
Gain/(loss) on disposal of assets	(5)	–
Loss on asset write-offs	(57)	(74)
Total other gains/(losses)	**(62)**	**(74)**
Surplus/(deficit) before tax	**28**	**8**
Current tax expense	94	91
Deferred tax expense/(benefit)	(68)	(68)
Income tax expense/(benefit)	**26**	**23**
Net surplus/(deficit) after tax	**2**	**(15)**
Other comprehensive revenue and expense		
Revaluation reserve gains/(losses)	309	327
Impairment of assets	–	–
Hedging reserve gains/(losses)	–	–
Income tax on items of other comprehensive revenue and expense	(67)	(70)
Other comprehensive revenue and expense net of tax	**242**	**257**
Total comprehensive revenue and expense net of tax	**244**	**242**

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

Forecast statement of financial position

	Group Forecast 2019 $M	Group Budget 2020 $M
Assets		
Current assets		
Cash and cash equivalents	2	2
Mortgage advances	2	1
Receivables and prepayments from exchange transactions	38	38
Receivables from non-exchange transactions	11	11
Short-term investments	14	14
Available-for-sale investments		–
Properties intended for sale	5	5
Total current assets	**72**	**71**
Non-current assets		
Property, plant and equipment[1]	28,337	29,980
Properties under development	55	55
Mortgage advances	33	34
Financial assets at fair value through net surplus/(deficit)	–	–
Interest rate derivatives	1	1
Intangible assets	18	17
Long-term receivable from exchange transactions		
Total non-current assets	**28,444**	**30,087**
Total assets	**28,516**	**30,158**
Liabilities		
Current liabilities		
Rent in advance	35	35
Accounts payable and other liabilities from exchange transactions	136	239
Accounts payable and other liabilities from non-exchange transactions	–	–
Income tax payable	5	5
Crown loans	160	159
Market debt - commercial paper	150	150
Provisions	1	1
Employee entitlements	8	8
Interest rate derivatives	35	35
Total current liabilities	**530**	**632**
Non-current liabilities		
Crown loans	1,826	1,863
Market debt - bonds	1,300	2,560
Deferred tax liability	2,205	2,208
Interest rate derivatives	60	60
Mortgage insurance scheme unearned premium reserve	32	32
Provisions	1	1
Employee entitlements	1	1
Total non-current liabilities	**5,425**	**6,725**
Total liabilities	**5,955**	**7,357**
Net assets	**22,561**	**22,801**

1. The accounting treatment of valuation of land for sale is still to be resolved.

	Group Forecast 2019 $M	Group Budget 2020 $M
Equity		
Equity attributable to the parent	3,553	3,551
Retained earnings	649	702
Revaluation reserve	18,425	18,614
Hedging reserve	(66)	(66)
Total equity	**22,561**	**22,801**

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

Forecast statement of changes in equity

	Group Forecast 2019 $M	Group Budget 2020 $M
Total equity at 1 July	**22,319**	**22,561**
Revaluation of property, plant and equipment		
Revaluation reserve gains/(losses)	309	327
Impairment of assets	–	–
Deferred tax on property, plant and equipment revaluations	(67)	(70)
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	2	(15)
Total comprehensive revenue and expense for the period	**244**	**242**
Contributions from and distributions to the Crown		
Net capital contributions (to)/from the Crown	(2)	(2)
Payment of dividends to the Crown	–	–
Total contributions from and distributions to the Crown	**(2)**	**(2)**
Total changes in equity	**242**	**240**
Total equity at 30 June	**22,561**	**22,801**
Equity attributable to the Crown		
Opening balance	3,555	3,553
Net capital contributions (to)/from the Crown	(2)	(2)
Closing equity attributable to the Crown	**3,553**	**3,551**
Retained earnings		
Opening retained earnings	596	649
Net surplus/(deficit) for the year after tax	2	(15)
Net transfers from asset revaluation reserve on disposal of properties	51	68
Annual distribution	–	–
Closing retained earnings	**649**	**702**
Revaluation reserve		
Opening revaluation reserve	18,234	18,425
Asset revaluations on property, plant and equipment	309	327
Impairment of assets	–	–
Deferred tax on property, plant and equipment	(67)	(70)
Net transfers from asset revaluation reserve on disposal of properties	(51)	(68)
Closing revaluation reserve	**18,425**	**18,614**
Hedging reserve		
Opening hedging reserve	(66)	(66)
Fair value gains/(losses)	–	–
Deferred tax on derivative fair value movement	–	–
Closing hedging reserve	**(66)**	**(66)**
Total equity at 30 June	**22,561**	**22,801**

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

Forecast cash flow statement

	Group Forecast 2019 $M	Group Budget 2020 $M
Cash flows from/(used in) operating activities		
Rent receipts - tenants	415	444
Rent receipts - income-related rent subsidy	876	940
Rent relief fund income	4	4
Other receipts from Crown	126	148
Mortgage insurance scheme income	11	11
Interest received from customers and investments	14	8
Other receipts	112	216
Payments to suppliers and employees	(1,075)	(1,134)
Income tax paid	(94)	(91)
Interest paid	(109)	(143)
Net cash flows from/(used in) operating activities	**280**	**403**
Cash flows from/(used in) investing activities		
Sale of rental properties and management assets	27	43
Mortgage and other lending repayments	–	–
Purchase of rental property assets	(1,728)	(1,716)
Purchase of other property, plant and equipment	(13)	(20)
Purchase of intangible assets	(10)	(8)
Net short-term investments (made)/realised	142	3
Net cash flows from/(used in) investing activities	**(1,582)**	**(1,698)**
Cash flows from/(used in) financing activities		
Net capital contributions (to)/from the Crown	(2)	(2)
Net funds from borrowings	783	1,297
Annual distribution	–	–
Net cash flows from/(used in) financing activities	**781**	**1,295**
Net cash flows	(521)	0
Opening cash and cash equivalents	523	2
Closing cash and cash equivalents	**2**	**2**

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 2019.

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

Forecasting Assumption	Risk	Financial Effect/ Action Taken	Net Level of Uncertainty
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

	2018/19 %	2019/20 %
Financing indices		
Average overall rate	3.6	3.3
Price adjustors		
Rent growth	2.3	3.3
Rates	5.0	5.0
Maintenance (underlying)	2.3	4.0
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	1.9	1.3

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 $30.2 billion at 30 June 2020, funded by liabilities of $7.4 billion and equity of $22.8 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 2019 $M	Equity as at 30 June 2020 $M
22,561	22,801

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.

Housing New Zealand made a $45,000 contribution towards the cost of the new Ōtangarei playground, with the Whangarei District Council providing the balance of the funding.

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 62 to 66. 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 year.

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 their 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 either be held by the same entity and accounted for as rental property or sold, with any relevant work in progress transferred to cost of goods sold.

(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 property.

(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)Statement of comprehensive revenue and expense.

(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*:

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

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.

(ab) 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.

(ac) 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.

Development at Panama Road, Mt Wellington.

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 61,700 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 61,700 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 unrecouped 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).

In Albionvale, West Auckland, they're saying it was a day to remember – like hundreds of people throughout the country they were celebrating Neighbours Day.

Appropriations – output tables

The following tables set out the appropriated funding Housing New Zealand expects to receive from the Crown in 2019/20. This funding is shown by appropriation and programme, and is aligned with Housing New Zealand's output classes.

Output Table: Operating Appropriations 2019/20

Appropriation and programme	$m	Housing New Zealand's Output Classes				
		Sustaining Tenancies and 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	0.091	–	–	–	0.091	–
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	0.001	–	–	–	0.001	–
Total Housing Assistance	**1.172**	**0.000**	**0.000**	**0.000**	**1.172**	**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*	**939.694**	**939.694**	**0.000**	**0.000**	**0.000**	**0.000**
This performance measure is reported by the 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 the information is unlikely to be informative.						
Total Operating Appropriations	**1058.683**	**939.694**	**0.000**	**0.000**	**118.990**	**0.000**

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

Output Table: Multi-Category Appropriations (MCA) 2019/20

Appropriation and programme	$m	Housing New Zealand's Output Classes				
		Sustaining Tenancies and 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	14.791	14.791	–	–	–	–
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	**24.695**	**18.895**	**5.800**	**0.000**	**0.000**	**0.000**

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

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

Output Table: Capital Appropriations 2019/20

Appropriation and programme	$m	Housing New Zealand's Output Classes				
		Sustaining Tenancies and 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	**251.683**	**0.000**	**251.683**	**0.000**	**0.000**	**0.000**
Performance is reported by the Minister of Finance and appended to Treasury's Annual Report.						
Total HNZC Capital Appropriations	**251.683**	**0.000**	**251.683**	**0.000**	**0.000**	**0.000**

Tenant Trish is so happy to have a place to call home in a new development in Wellington.

Housing New Zealand
Housing New Zealand Corporation

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