B13

Annual Report

2016/17

Housing New Zealand
Housing New Zealand Corporation

Contents

Our vision

Building lives and communities by housing New Zealanders.

Foreword: Board Chair and Chief Executive

The past year has been an incredibly busy time for Housing New Zealand, and by working together, we've achieved a lot we can all be proud of.

We successfully scaled up our asset development programme to deliver a total of 1,524 homes across the country. This is a significant increase on our 871 acquisitions in 2015/16, and includes 1,421 social, emergency and transitional homes and 103 affordable and market homes.

At the same time, we carried out over 450,000 responsive repairs to our portfolio – over 10 percent more than the previous year – and responded to well over 800,000 calls from our customers, resolving most queries at the first point of contact and achieving a 91 percent customer satisfaction result. Perhaps most importantly, we were able to house a total of 8,086 families during the year compared with 7,384 in 2015/16. Many of these families have high and complex needs that are best supported from stable, warm and dry housing.

This year also saw the launch of our Auckland Housing Programme, through which we are building a pipeline of projects to deliver 24,300 new homes on our existing land holdings over a 10-year period. This is the largest residential build programme to be undertaken in New Zealand for many decades, and will be fully funded by Housing New Zealand.

Approximately 11,500 of the new homes will be social housing, including around 7,000 homes that will replace mostly older and no longer fit-for-purpose properties. This is driving a modernisation and renewal of our portfolio in Auckland, where the average age of our homes is around 40 years and many are the wrong sizes to meet demand.

The programme is also freeing up land to accommodate around 12,800 new affordable and market homes, contributing much-needed supply for a growing Auckland. To support this, we have expanded the role of our subsidiary, HLC, to leverage its considerable experience of large-scale development at Hobsonville Point and carry out master-planning in key areas of Auckland. This will enable and streamline the delivery of market and affordable homes through the sale of land for redevelopment.

Housing New Zealand isn't concentrating solely on Auckland. We have development projects underway in Wellington, Canterbury and the Waikato, for example, and are expanding our asset pipeline to other parts of New Zealand, in areas where the Ministry of Social Development has identified there is demand.

Throughout the year we have also maintained our focus on providing tenants with quality homes – not just those fortunate to live in newer properties. As a result, we've now upgraded over 25,000 of our homes to our Warm and Dry standard, which includes thermal quality curtains, a fixed heating source in the living area, mechanical ventilation, and carpet where appropriate. We've also created safe outdoor play areas at over 16,000 homes where children are living, and have installed around 275,000 long-life smoke alarms across our portfolio.

In January we initiated a project with our maintenance contractors to carry out repairs and remedial work more quickly. We've also reduced the number of homes unavailable due to methamphetamine contamination, from 525 to 265, by decreasing the time taken to decontaminate and reinstate these properties, and responded to increases in regional demand by returning properties to the letting pool that had been earmarked for sale. This has helped us reduce the average turnaround time between tenancies to 34 days while increasing our portfolio's occupancy rate from 96.0 percent to 97.2 percent, which means we have around 2,000 more people living in our homes than a year ago.

We've achieved these results while maintaining robust oversight of our $25.2 billion housing portfolio, one of the Crown's largest assets. Despite investing $445 million on acquisitions and redevelopments during 2016/17, and $474 million on maintenance and upgrades, returning $169 million to the Crown through tax and interest costs and a further $146 million in rates to local authorities, we were able to achieve a net operating surplus before tax of $81 million against a budget of $14 million. We are reinvesting this surplus in our portfolio to increase the number of fit-for-purpose homes for New Zealanders in need.

The 2016/17 year has also been a time of change for Housing New Zealand, with the Government asking us to take on new roles beyond our core functions of tenancy and asset management.

The first of these new roles is to help increase the supply of emergency and transitional housing, so vulnerable New Zealanders with no other options have somewhere to stay while they are waiting for longer-term social housing. We made a significant contribution to this MSD-led programme in 2016/17 by leveraging our asset programmes to provide 363 new transitional housing places.

We've also been reconfiguring our asset programmes to contribute to our second new role from Government, which is to contribute to the affordability and accessibility of housing for all New Zealanders, not just those in social housing.

This is a new challenge, but as the country's largest residential landowner and landlord, we're well placed to make a real difference. For example, we're freeing up land through our redevelopments to enable affordable housing, we're starting to use our scale to drive down construction costs, and we're looking at a range of innovative new approaches to design and construction.

We also see a clear need to show leadership to the social housing sector. During 2016/17 we partnered with other agencies to ensure the smooth transfer of 1,138 of our Tauranga properties to IHC subsidiary Accessible Properties, and worked with MSD to support other providers to build their capacity by delivering social services at transitional housing facilities we built or purchased.

Across all our roles, we are focused on strengthening and establishing new relationships with community housing providers, community organisations and iwi groups that provide support services to tenants or can help them sustain their tenancies.

A key focus for Housing New Zealand throughout the year has been to transform the way we carry out our business, to ensure we have the capacity to deliver our ambitious asset programmes and fulfil our new roles as an organisation. This has included developing a new organisational strategy that outlines how we will contribute to the outcomes the Government seeks from the social housing sector.

We are extremely proud of Housing New Zealand's achievements over the last year, and we would like to acknowledge the amazing work our staff do every day and their commitment to the wellbeing of our customers. We would also like to thank the Executive Team and Board for their efforts, particularly outgoing member Jeff Meltzer, who left us in April after nearly four years of service.

Adrienne Young-Cooper
BOARD CHAIR

Andrew McKenzie
CHIEF EXECUTIVE

Introduction

This is our 2016/17 Annual Report. It provides a review of our organisational performance for the 2016/17 year against the intentions outlined in our 2016/17 Statement of Performance Expectations. It also provides progress against the medium-term indicators detailed in our 2014-2018 Statement of Intent.

Our role

WHAT WE DO

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

We do this by providing people in need with a safe, secure, warm and dry home and the appropriate services they require to sustain their tenancies, during their time of need.

Building, acquiring and redeveloping homes is a major part of our business. Demand for social housing is high in our main urban areas, particularly Auckland. Our focus is on delivering well-designed homes which are where they are needed, and not only meet our current tenants' needs but are also fit for purpose for future tenants.

We support the growth of housing supply for households with urgent and emergency housing needs. Currently this is through working with the Ministry of Social Development (MSD) in its cross-agency emergency housing response, to increase the number of emergency housing places available across the country.

We also deliver a range of financial products to facilitate home ownership and improve housing affordability.

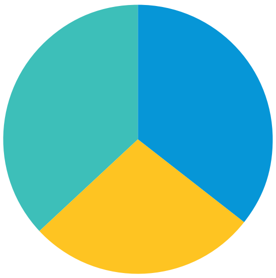
OUR TENANTS

180,000

Approximately 180,000 people live in a Housing New Zealand home

41%

Around 41 percent of our tenants are 55 years or older



Our tenants are diverse

- 35 percent identify as Māori
- 27 percent as Pacific peoples
- 36 percent as European, noting that people may identify with more than one ethnicity

Most of our tenants pay an income-related rent which is determined by MSD based on the tenant's circumstances

The most common household type among our tenants is a single parent with child(ren), with single person households the second most common

OUR HOMES

63,000

We own or manage approximately 63,000 homes

40%

of our homes have three bedrooms

45 years

average age of our homes

$25.2b

The owned portion of our portfolio has increased in value to $25.2 billion, from $22.7 billion in 2015/16

44%

While we have homes spread across the country, almost half (44 percent) of our homes are located in Auckland

1,480

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

BEFORE

1966

Approximately 40% of our stock was constructed before 1966

During 2016/17 we spent $474 million maintaining, upgrading and improving our homes

Government expectations

CROWN SOCIAL OBJECTIVES FOR 2016/17

Our Minister identified the following objectives related to housing and services provided by Housing New Zealand for the 2016/17 year.

1 Providing cost-effective social housing that is of the right size and in the right place, for those most in need, for the duration of their need.

2 Aligning asset and tenancy management decisions with MSD's contracting framework and purchasing intentions.

3 Assisting tenants, where appropriate, to transition into housing independence.

4 Supporting the Social Housing Reform Programme (SHRP) by working with government and the social housing sector to help achieve the SHRP objectives.

5 Providing affordable and other housing, particularly in Auckland, including undertaking urban development and building social amenities and other facilities necessary to support the communities that will live in the housing .

The Minister Responsible for Housing New Zealand clearly set out his expectations for Housing New Zealand for the 2016/17 year. These included:

1. Increasing supply initiatives – significantly increasing the supply of new social housing over the next three years, particularly in Auckland. Where appropriate, we will consider ways Housing New Zealand can increase the supply of affordable and other housing as part of any developments we may pursue.

2. Supporting transfer transactions – supporting the execution of the Tauranga transaction and other transactions that may be identified in the future.

3. Working with the Ministry of Social Development – continuing to work with MSD to consider and develop new contractual arrangements, where appropriate, for the provision of the income-related rent subsidy.

4. Growing the capacity of Housing New Zealand and HLC – delivering an ambitious social housing building programme as well as providing other opportunities for general and affordable housing supply, especially in Auckland.

The Minister responsible for Housing New Zealand changed in December 2016. The new Minister updated these expectations in April to also:

Limit divestment activity – to instances where MSD confirms specific disposals are consistent with its purchasing intentions and to explicitly consider whether the property would be suitable as emergency housing.

The year in review

It has been another year focused on increasing the pace and scale of our housing supply, nearly doubling again the volume of social housing we delivered. At the same time we have continued to focus on investing in our services to tenants to ensure our tenancies are well managed and tenants have the right levels of support available to them.

This year has been notable for needing to adapt our plans in response to changing demand. In particular, we have had to respond to a growing demand for emergency housing that saw the delivery of a range of new emergency housing places over a short space of time, and also to changes in regional demand for social housing.

New targets for BPS

As part of its priority to deliver better public services to New Zealanders and its focus on improving the performance of the social housing sector, the Government introduced a new Better Public Services (BPS) target in May 2017. The new target focuses on improving access to social housing and reducing the time taken to house priority A applicants from the social housing register by 20 percent by 2021.

Our contribution to the achievement of this target includes increasing our housing supply and making our homes available quickly to those in need. We will also work with MSD to support tenants to move out of social housing if this is a feasible and appropriate option for them.

A further result area has been introduced to improve the health of children. A target has been set to reduce avoidable hospitalisations for preventable conditions in children aged 0-12 by 15 percent by 2019 and 25 percent by 2021. This replaces the immunisation and rheumatic fever targets. Children make up a large proportion of our households, with 9 percent of household occupants under five years old, and 40 percent under 18 years old. Considering the role housing plays in supporting health outcomes, we directly contribute to the health of children by keeping our homes healthy and safe.

Crown Building Project announcement

This year also saw the announcement of the Government's Crown Building Project and our significant contribution to this work through the Auckland Housing Programme (AHP). The AHP represents the largest build programme to be undertaken in New Zealand for many decades. It includes a requirement for us to work both now and into the future, to significantly scale up the development of our Auckland property portfolio to build and secure more social housing and affordable/market houses.

Much of this increased scale has been made possible through the Auckland Unitary Plan, which became operative in part in November 2016. The Unitary Plan has introduced new zoning rules across different areas of the city, which determine how land can be used, and this has enabled us to maximise and intensify the use of our existing land in Auckland.

An expanding role for HLC (2017)

We have expanded the role of our subsidiary, HLC, to extend beyond the Hobsonville Point development to a larger role supporting the delivery of our AHP. The scale of the investment we need to make means we have the opportunity to further leverage HLC's experience of large-scale development and we are already undertaking advanced planning and resourcing for Phase 1 of the AHP, which will see the delivery of 4,300 new social homes across the city by 2020.

Development across the country

We are not looking to add properties just in Auckland. We have got development projects underway in Christchurch and Wellington and we are investigating options to expand our pipeline in other parts of New Zealand, in areas where MSD identifies there is demand.

Delivery of houses during 2016/17

In the 2015/16 year we built and secured 871 homes nationwide – the largest number of houses we had delivered for a quarter of a century. By the end of June this year we delivered 1,524 homes, including 1,421 social, emergency and transitional homes and 103 affordable/market homes across the country. As the scale of our activity continues to ramp up over the coming years, around 7,500 new properties will be delivered over the next three years.

Our contribution to emergency housing supply

363

During 2016/17 we delivered 363[1] emergency housing places as part of the Government's cross-agency emergency housing response. This included the sourcing of land, planning, and delivery of new build homes over a period of nine months.

A continued focus on health, safety and security

It is important that we have health and safety systems that support our staff to be safe and well at work. During 2016/17 we developed an incident reporting system which was successfully implemented on 1 July 2017. This will enable us to act quickly to make sure anyone involved in an incident is safe and that we have minimised or eliminated hazards and risks.

We also take the health and safety of our contractors very seriously, particularly given the increasing volume of work being undertaken, as old housing stock has made way for a raft of redevelopment and emergency housing projects. We established a panel of demolition contractors that are subject to a new scope of works for demolition and this has provided a stronger focus on meeting our expected health and safety standards.

Development of our 2017-21 Strategic Plan

In April 2017 we signed off our 2017-21 Strategic Plan. The plan responds to the pressures and challenges Housing New Zealand and the wider housing sector are facing. It outlines the direction we will take over the next four years, the roles we will play and the outcomes we need to achieve, as well as how we will get there.

Organisational capability assessments

A

During 2016/17 we undertook a number of external assessments. The most significant was the Treasury's Investor Confidence Rating review, which assesses how investment-intensive government agencies such as Housing New Zealand manage their investments and assets.

We achieved one of only four 'A' ratings given to assessed agencies. We also had the highest result across the state sector.

1. MSD's expectation for the delivery of emergency housing is defined as 'places': that is the number of households that can be accommodated in each lettable unit. During 2016/17 we delivered 363 emergency housing places within 344 lettable units. The total volume of emergency houses delivered included using existing vacant Housing New Zealand/Community Group Housing properties and leasing these to emergency housing providers.

Our performance at a glance

Supporting our customers

8,086

families into homes – compared with 7,384 during 2015/16

91%

of customers surveyed were satisfied with the service provided by our Customer Support Centre – compared with 93 percent in 2015/16

2.9%

rent debt to income ratio against our target of 5 percent – compared with 4.1 percent in 2015/16

16,712

first home buyers supported to purchase their own home through the KiwiSaver HomeStart grant compared with 15,411 in 2015/16

Reconfiguring our portfolio

1,524

homes delivered, including 1,421 social, emergency and transitional homes and 103 market and affordable homes

308

properties divested that were no longer fit for purpose, including:

79

sold as part of our FirstHome Scheme, and

84

sold through our Tenant Home Ownership Programme

Occupancy and management of our homes

97.2%

of our portfolio occupied against our target of 96.2 percent

34-day

average turnaround time between tenancies, against our target of 35 days

$474m

spent on maintaining, upgrading and improving our properties

Financial stewardship

$81m

Net Operating Surplus Before Tax (NOSBT) delivered, compared with the budget of $14 million

$25.2b

property portfolio value

19%

increase in our operating cost per housing unit ($2,381 per unit against our target of $2,002)[2]

2. This is a measure of organisational efficiency and includes costs associated with running Housing New Zealand services. It excludes direct costs associated with managing our properties, depreciation and interest costs. This shift in performance, which means our Statement of Intent target has not been met, is discussed further in the Our Financial Performance section on page 29.

Our organisational priorities for 2016/17

Considering our challenges, operating environment and ministerial expectations, we identified five priorities for the 2016/17 year. Along with management of our finances and risks, these priorities were the focus of our activity over the last year; they were to:

1. Increase the pace and scale of housing supply
2. Improve the quality of our homes
3. Make best use of our homes
4. Contribute to the Social Housing Reform Programme
5. Continue to invest in our people

The activities and initiatives associated with each of these priorities are detailed in the following sections.

2016/17 priorities

Two of our **five** organisational priorities for 2016/17 are relevant to this contribution area: increasing scale and pace of supply and making best use of our homes.

INCREASING THE PACE AND SCALE OF SUPPLY

Housing affordability issues in Auckland are continuing and this is translating into pressures on individuals and families, as well as on the demand for social housing and government support. The Government has directed us to increase our supply of social housing, and to consider ways we can increase the supply of affordable and general housing through our redevelopments. At the same time we are also responding to a significant asset renewal and realignment requirement for our existing portfolio of houses.

During 2016/17 we began the capability building and industry consultation required to achieve the pace and scale of activity needed for delivery of the AHP. We have made progress with the first phase of the programme by lodging a significant number of resource consent applications, entering into numerous build contracts, building our redevelopment panels, and filling the development pipeline with projects for the next few years.

Progressing the Auckland Housing Programme

The Auckland Housing Programme (AHP) is our plan to increase social, market and affordable housing supply in Auckland.

Our land holdings in Auckland have significant development potential under the Auckland Unitary Plan. Many of our existing dwellings are old and costly to maintain, and their configuration is increasingly misaligned with the characteristics of current and expected social housing demand.

The AHP widens our objectives to include growing the volume of new housing supply through development of our existing land. Affordability pressures in Auckland mean there is a growing need for supply at the affordable end of the market. As the country's largest residential landlord we have a role to play in supporting the development of the affordable market, and improving housing affordability more generally.

We expect to use our scale to achieve lower construction costs through innovative procurement and supply chain initiatives, as well as exploring more standardised design and modular/prefabrication approaches. Many of these initiatives will also support faster delivery.

Phase 1 of the AHP, which runs to June 2020, provides for the delivery of more than 4,300 new and acquired social housing units (a net increase of 1,700 to our Auckland housing portfolio) and the release of land to build an additional 2,380 affordable and market homes.

Where large-scale redevelopments are being undertaken (as part of the AHP), Housing New Zealand Limited and our subsidiary, HLC (2017), have been tasked with delivering these together. This has led to the purpose and functions of HLC being amended to extend beyond the Hobsonville Point development. Housing New Zealand Limited will continue to focus on our core business – delivering fit-for-purpose social homes and leading tenant rehousing and related activity, including mixed-tenure projects. HLC will focus on its strengths – large-scale master-planning and enabling the delivery of market and affordable homes through the sale of land for redevelopment. This change will streamline how we engage with our build partners and stakeholders (such as Auckland Council) to drive the efficiency and innovation we need to deliver the AHP.

We are continuing to work on leveraging our asset base and capability for housing opportunities outside of social housing. We are also looking at ways to use our skills and knowledge to assist with other government agencies' house building plans. During 2017/18 we will be working on the development of the Phase 2 AHP Business Case for the period July 2020 to June 2026.

Delivering our asset programme during 2016/17

We delivered 1,524 social, market, affordable, and transitional homes during the year to 30 June 2017 (against a target of 1,510). We exceeded our social housing target of 1,339 homes by 82 homes (delivering a total of 1,421 social homes). The number of market and affordable homes built did not meet our target, with 103 delivered against a target of 171. However, we released the land to our build partners to enable these additional houses to be built.

We have delivered new and replacement homes throughout New Zealand, with those in Auckland making up approximately 62 percent (943) of these homes. During the year we also undertook preparatory work to ensure we continue delivering homes at pace and scale during 2017/18.

ADDITIONS BY TYPE DURING 2016/17

	Auckland	Christchurch	Wellington	Rest of NZ	Total
New build	230	150	1	85	466
Buy-in	347	30	5	95	477
Lease – resigned/renewed	279	53	9	137	478
Total HNZ	**856**	**233**	**15**	**317**	**1,421**
Non-HNZ (Market/affordable)	**87**	**8**	**4**	**4**	**103**
Total additions	**943**	**241**	**19**	**321**	**1,524**

Building our capacity and capability

To increase the supply of housing, we need to become better at identifying, executing and managing our opportunities to invest in development. During 2016/17 we have focused on increasing our capacity and capability to do this, including reviewing our procurement strategy to support larger-scale, multi-year housing development programmes.

In June 2017 we launched a solution-based procurement initiative that will seek new ideas and proposals from potential suppliers and partners that are not necessarily captured through existing procurement processes.

We are also undertaking a major planning exercise to provide clarity on future staffing and the capabilities required for delivering our build programme. This has included developing a technical competency framework for key roles required for this work.

REDEFINING SOCIAL HOUSING IN AUCKLAND

Te Aorangi Corbett can barely articulate how she felt when she moved into her new home in Waterview's Tōrea Place in Auckland late last year.

"It was unexplainable really. I was so excited. It just perfectly matches our lifestyle. It's not too big, not too small. And you still get a yard."

Te Aorangi's home is one of 17 houses which have replaced three 1940s brick duplexes; houses that were old, cold and damp.

"I love being in this house," Te Aorangi says. "It's easy to keep clean and I've only had to use the heater once since we've been here. And that was only because my mum was over and she feels the cold! In our old house it was freezing come 6pm and you'd have to wrap up in blankets."

Strengthening our relationships with our development partners and other stakeholders

The AHP is based on our ability to quickly transition our approach to building and development from small and annually focused to scaled-up redevelopment over a number of years. To make this transition we need to provide greater certainty to our build partners.

Over the past year we have established four development related panels to help organisations connect with Housing New Zealand. The panels cover the key development disciplines of civil contracting, architecture, construction and demolitions, and modular and prefabricated housing, and will ensure we can identify partners we can work with to build the right type of homes at scale and pace, and at the right price.

In addition, we have been promoting ourselves and our work to the industry more generally through advertising in key building publications and on our Housing New Zealand website. The impact of this work is already being noticed, with a number of panellists contacting us for more information about particular development projects and how to get involved.

During 2016/17 we have made a committed effort to engage with local boards and councillors to discuss our redevelopment activity in their areas. Feedback on our work to date has been positive, particularly in relation to the increased supply of homes we have delivered. We will continue to engage with these stakeholders and have plans to implement a formal schedule for regular visits to local boards during the next financial year.

Addressing additional supply across the rest of New Zealand

Outside of Auckland, we have continued to ensure we are responding to social housing demand across the rest of the country. During the year MSD, as purchaser of social housing places, approached us about additional places it wishes to purchase from us in certain areas across the country. MSD has identified new demand pressures in regional areas not included in the commitments outlined in our current Asset Management Strategy.

We have been investigating how we can respond to MSD's request and further support the growth of the social housing sector. This has included undertaking detailed analysis to determine where and how we could increase supply, and the timeframes required to complete this work. We will engage with MSD and Ministers shortly to discuss our findings and then agree a plan for increasing supply, including the funding and terms of supply. We will also work with MSD on completing a contractual framework by December 2017 which will give effect to the supply agreement.

In the meantime, we have been re-tenanting homes that had previously been identified for sale, accelerating our rest of New Zealand acquisition programme (for both social and emergency housing), and only selling homes that are not needed for social or transitional housing, or that cannot be brought up to a decent standard for our tenants.

Contributing to emergency housing supply

In October 2016 we established a dedicated team to work as part of the cross-agency Emergency Housing Response Team led by MSD. Our role has been to work with our partner agencies, building partners and other key stakeholders to secure a portion of the additional new emergency housing places across New Zealand. Various options have been used, such as making use of surplus Housing New Zealand and Community Group Housing properties, leasing and/or purchasing properties (including motels) or acquiring land and building on it.

As at 30 June 2017 we have contributed 363 new emergency places (within 344[3] individual units), 255 in Auckland and a further 108 places across other selected areas (as determined by MSD) towards the cross-agency team target. In addition, several projects are due to be completed in the first half of the next financial year.

Divesting social housing in low-demand areas

In previous years we have had the opportunity to divest older homes in low-demand areas and allocate the funds from those sales to the building of new, fit-for-purpose homes in areas of high demand. However, in line with increasing demand for social housing across several parts of the country, we have needed to be agile and adjust our asset planning activity, so the level of sales completed this year was lower than anticipated.

Properties sold during 2016/17	Total
Auckland	7
Wellington	32
Christchurch	8
Regional New Zealand*	261
Total	**308**

* Regional New Zealand sales figure excludes stock transfer to community housing provider Accessible Properties.

Of the 308 properties sold, 163 were sold as affordable homes, 79 in the First Home Ownership scheme and 84 in the Tenant Home Ownership programme. This has provided a pathway to home ownership for first home buyers and our tenants.

In addition to the 308 properties sold, a further 1,138 were transferred to community housing provider Accessible Properties, leases resigned were 478, the leases on a further 136 of our properties were not renewed, and 490 homes were demolished. A small number of homes were demolished due to fire or methamphetamine contamination; however the majority were demolished as part of our redevelopment programmes to reconfigure the social housing portfolio. Homes that are cold, damp and no longer meet tenant needs are replaced with new, fit for purpose, housing.

Managed stock	
Opening balance 1 July 2016	**64,408**
Additions 2016/17	1,421
Disposals 2016/17	1,412
Accessible Properties transfer	1,138
Adjustments*	3
Closing balance 20 June 2017	**63,276**

*Various adjustments net of 3.

Working with iwi

As part of our standard divestment activities we also consider how we give effect to iwi interests in our properties, particularly where there is a right of first refusal over Housing New Zealand land.

We have continued to engage positively with iwi during 2016/17. For example, an agreement was reached during the year with Waikato Tainui to develop properties in Hamilton East, to provide a mix of social and private housing, together with affordable home ownership opportunities for iwi.

3. 275 of the 344 units are new build or buy-in properties and are included in our 1,421 social housing count.

Our homes are of good quality, of the right type and in the right place to meet demand

Purpose	Measure	Target	2015/16 Actual	2016/17 Actual
Our homes are maintained to an appropriate standard	The percentage of surveyed lettable properties that meet or exceed the baseline standard rate	New measure under development	85%	82%[1]
We are managing our portfolio effectively to meet demand and optimise financial returns	Rental occupancy	98% by June 2018	96.0%	97.2%[2]

1 The standard for property condition is defined in the property condition assessment section. The baseline target for this measure has been set at 3.5 or less.

2 Occupancy rate is as at 30 June 2017.

2016/17 priorities

One of our **five** organisational priorities for 2016/17 is relevant to this contribution area: improving the quality of our homes.

IMPROVING THE QUALITY OF OUR HOMES

Property Condition Assessment

It is important that we maintain the quality of our homes and to do this successfully it is essential that we have a robust understanding of their current condition. During 2015/16 we developed a new Property Condition Assessment Framework to assess and measure the property condition of the portfolio. The framework is a composite of a desktop assessment of each property based on using records of maintenance and upgrade building activity to identify the age of its critical components and their remaining life, along with undertaking a physical survey by an independent party on a random representative sample of properties, with a 95 percent confidence rating, to confirm the validity of the desktop assumptions.

The desktop model should be considered a conservative view of overall condition as it is fundamentally based on components and assets conforming to life expectancy norms while the physical survey is a visual assessment of the likely age/remaining life of that component. We continue to evolve the desktop model to better reflect actual deterioration rates occurring in our assets based on physical surveys and historical failure rates; however for reporting purposes the desktop model will be used to measure condition performance.

The framework uses the New Zealand Asset Management Support (NAMS) Asset Condition Scale as shown in the following table to assess condition.

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

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

The desktop model assessment for 2016/17 covered 57,983 properties, and recorded an average score of 2.70 compared with 2.68 for the previous year; 82 percent of the portfolio met the baseline standard compared with 85 percent in 2015/16. Not surprisingly, older properties have demonstrably higher condition grades, for example the average condition grade for pre 1950s properties was 3.49. The slight deterioration in condition grade is a result of the combined effect of the continual ageing of the existing portfolio and reduced divestment of ageing stock, balanced with the delivery of new builds and increased levels of investment to upgrade our homes and replace 'end of life' components (eg re-roofing programme).

The annual physical survey was carried out by qualified contractors and covered 1,600 properties randomly chosen (compared with 400 in 2015/16) across Auckland, Dunedin, Hamilton, Wellington and Whangarei. The average condition grade for the properties surveyed in 2016/17 was 1.68, which has degraded slightly on the 1.49 recorded for the properties surveyed in 2015/16. All of the properties that were physically surveyed in 2016/17 met or exceeded the baseline standard, which is the same result as last year.

The difference between the two results is primarily the difference between a visual assessment and the desktop model. A visual assessment (physical survey) can accurately gauge the current age/remaining life of a component particularly for components which are now mid-stream in their lifecycle, whereas the desktop model imputes a condition for each property based on estimating the remaining life from industry lifecycle norms (desktop model). In 2017/18 we will continue to reconcile the two results by mapping historical component failure points to test lifecycle assumptions to enable further refining of the desktop model. We will also be ensuring that properties below the baseline standard are included in current planned programmes to address 'end of life' components.

In 2016/17 a complete physical survey of the Community Group Housing portfolio of 1,477 properties was also completed; with an overall condition result of 1.64, with 99.7 percent of properties above the baseline standard. The five properties below the baseline standard are currently being assessed for repairs.

In 2017/18 we plan to survey another 1,600 properties as we continue to monitor the condition of the portfolio, so we can target investment to improve the overall condition of the portfolio.

Developing a national Asset Management Plan

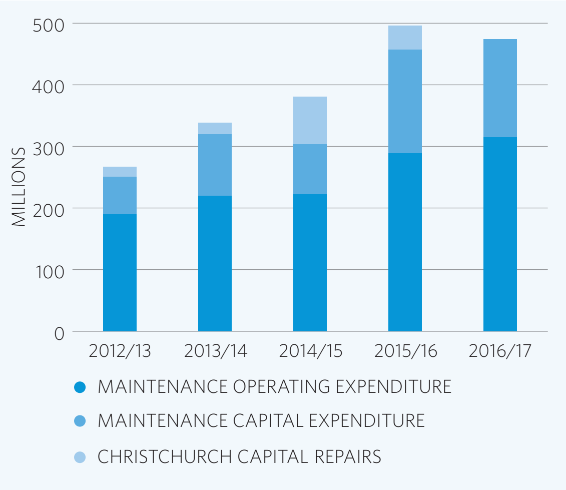
Having clear plans for managing our homes, based on consistent national standards and levels of service, is critical for allowing us to invest more effectively and sustainably in improving our housing stock. Our 2016/17 Statement of Performance Expectations included a commitment to develop a national Asset Management Plan that would support the delivery of our Asset Management Strategy and further define our long-term asset plans.

During the year we prepared a draft Asset Management Plan (AMP) and will continue to work on finalising the plan in 2017/18. Before then we need to confirm our settings through the development of other strategic work including our Long-Term Financial Strategy and Customer Strategy. These planning documents need to be interlinked, so we have deferred the finalisation of the AMP to ensure it is aligned and integrated.

Delivering our planned maintenance programmes of work

We have continued to deliver our comprehensive planned maintenance programmes of work. These included installing and upgrading chattels, remediating significant buildings and replacing critical components in properties that will be held long term. During 2016/17 we spent $315 million of operating expenditure on maintaining our homes and a further $159 million of capital expenditure on maintenance, upgrades and improvements to our properties.

Housing New Zealand annual expenditure on maintenance, upgrades and improvements



Planned programmes of work	2016/17 Actual spend ($m)		
	Operating	Capital	Total
Warm and Dry	5.4	19.6	24.9
Complexes Remediation Programme	4.4	2.7	7.1
Exterior Painting	39.8	-	39.8
Roofing Replacements	0.7	13	13.7
Boundary Fencing	4.8	0.4	5.2
Driveway Safety	0.7	3.3	4.0

Our Warm and Dry programme

In late 2014/15 we began a targeted programme to ensure all properties were able to be warm and dry and since then we have undertaken warm and dry related interventions on over 25,000 properties. This work has included installing a fixed form of heating in living areas; providing triple weave curtains; fitting mechanical extraction systems in bathrooms and kitchens; and carpeting bare floors in bedrooms, and living and dining areas.

We transitioned our Warm and Dry programme to become a business as usual activity in July 2016 and have targeted older properties that had not been addressed through other programmes. We also targeted larger properties where children were most likely to be in the household.

Our warm and dry baseline standard is reviewed periodically and we ensure all work undertaken meets or exceeds this standard. In addition we also educate our tenants on how to heat, ventilate and maintain their homes efficiently.

Improving driveway safety

Our Driveway Safety programme ensures our properties are safe for young children. The programme includes the installation of fences and gates with child-proof latches at Housing New Zealand properties. The programme was initially aimed at completing interventions on 13,000 properties nationwide over the four years to 2016/17.

During 2016/17 we upgraded 2,865 properties as part of this initiative and have now completed upgrades to 16,168 properties since the programme began. It was due to finish in June 2017, but we will continue to carry out this type of work for the 2017/18 year as part of our planned maintenance programmes.

Our complexes remediation programme[4]

We look at the maintenance requirements of our complexes from a whole building perspective, rather than looking only at the individual units within. During 2016/17 we targeted maintenance work on several of our more significant buildings including the completion of work on six multi-unit complexes in Auckland. We also have a further 21 complexes across the country that are currently undergoing remediation work. This programme is scheduled to continue over the next four years with the focus for 2017/18 being to commence remediation works on our significant buildings in the Wellington/Hutt Valley region.

4. For our complexes remediation programme we define a complex as a building consisting of two or more stories with 10 units or more.

Our responsive repair programme

In addition to our planned maintenance programmes, we provide responsive repairs to our homes required as a result of component failure, damage, natural causes and fair wear and tear. Responsive repairs are prioritised and then completed by our seven Performance Based Maintenance contractors across 13 contract regions nationwide. The categories of responsive repair work include:

- urgent health and safety requests
- urgent responsive work orders
- general work orders
- unoccupied repairs completed between tenancies.

The volume of work undertaken over the year across the responsive repair categories is detailed in the following table.

Responsive repairs	2015/16	2016/17
Urgent health and safety requests	122,266	113,963
Urgent responsive work orders	89,136	135,988
General work orders	191,738	199,354
Unoccupied repairs	6,369	6,890

During 2016/17 we undertook more work on our vacant properties than anticipated, as more long-term vacant properties were returned to the letting pool to meet demand in areas previously experiencing low demand. Properties becoming vacant as a result of tenants moving into new developments, such as in Auckland and Christchurch, also contributed to the increased volume of vacant home repair work.

Improving how we manage our methamphetamine-contaminated homes

We are committed to minimising potential and actual health and safety risks presented by methamphetamine to our tenants, staff, and contractors, alongside ensuring properties are quickly remediated to be available to let to those most in need.

Improved detection means we can identify methamphetamine-contaminated properties more quickly, and as a result more properties are coming out of the letting pool to be remediated.

During the year we spent $52 million on chemical testing, decontamination and reinstatement/demolition costs, compared with $21 million spent in 2015/16. In the process we tested over 2,000 of our properties and improved the time taken to test these properties from an average of 28 days in 2016 to 14 days as at 30 June 2017. The overall decrease in time taken to decontaminate and reinstate contaminated properties has enabled us to reduce the number of homes in this category by 260 (reducing the overall number of methamphetamine-related vacant properties from 525 in June 2016 to 265 as at 30 June 2017). Nineteen of our homes had to be demolished because of high levels of contamination.

In June 2017 the Ministry of Business, Innovation and Employment (MBIE) announced the New Zealand Standard for methamphetamine testing and decontamination of methamphetamine-contaminated properties. It addresses the need for guidance on methodologies, procedures, and other supporting material to ensure consistency, reliability and competency in activities including screening, sampling, testing and, where necessary, decontaminating properties. We adopted the Standard immediately.

Working to meet new targets for turnaround time in Auckland

In January 2017 we agreed with MSD a new standard for turning around our vacant properties in Auckland within a target time of 15 days. Since then we have worked with our maintenance contractors to identify and implement process improvements to drive down the time between tenancies.

As a result we have already seen improved turnaround times for the Auckland region. Since the 15-day target was introduced in April 2017 we have achieved an average turnaround time in Auckland of 23 days (compared with Auckland's annual average of 31 days at the end of March 2017). During 2017/18 we will continue to refine our processes and will look to implement these across the rest of the country.

We deliver on our service commitments to our customers

Purpose	Measure	Target	2015/16 Actual	2016/17 Actual
Our services meet the needs of our tenants	The percentage of our customers who are satisfied with the services we provide	85% by June 2018	63%	75%
Our homes meet the needs of our tenants	The percentage of our customers who are satisfied with their Housing New Zealand home	85% by 2021*	68%	82%

*The baseline for this measure was established as part of the development of our 2017-2021 Statement of Intent.

The activities we have undertaken during the year against this contribution statement have focused on the achievement of one of our 2016/17 priorities.

2016/17 priorities

One of our **five** organisational priorities for 2016/17 is relevant to this contribution area: making the best use of our homes.

Our focus is to provide people in need with a safe, secure, warm and dry home. Having this stability is particularly important for some of our tenants who often require thoughtful and considered management to ensure they can sustain their tenancies or, where possible, move to independence.

We are noticing an increase in people who exhibit mental health and wellness issues, drug and alcohol abuse and anti-social behaviour, which contributes to difficulties in holding down the responsibilities of a tenancy. We are addressing these challenges and work with other agencies to ensure people can sustain their tenancies.

Improving customer satisfaction

We randomly survey approximately 2,000 of our tenants during the year, 500 each quarter, and ask them about their experience as a tenant with Housing New Zealand. Many of our tenants have indicated that during 2016/17 their interactions and experiences with Housing New Zealand were positive. This has seen our key customer satisfaction results (as outlined in the table above) improve significantly compared with 2015/16. Over the next year we will work to achieve our target of 85 percent of our customers being satisfied with the services we provide. This will require us to remain focused on providing fit-for-purpose services for our customers.

Supporting our tenants to sustain their tenancies

Our efforts to help our tenants sustain their tenancies have been supported by a Sustaining Tenancies pilot initiative launched in partnership with MSD in January 2017. This initiative is intended to enrich the services we provide to our tenants and connect households in need to support services available from within their own communities. Around 1,000 of our tenants will participate in the trial over the next two years and we expect them to have better outcomes and achieve increased independence over this time. The insights we gain will help us to develop future initiatives so that all our customers receive effective social support when they need it.

During 2016/17 we worked with MSD to determine the tenant cohorts that would be supported by this initiative. We also worked with MSD and other key sector representatives to establish a model for the trial. This informed a request for proposals from social service providers and resulted in service contracts with eight providers who will provide ongoing wraparound services to the identified tenants. The initiative will be jointly evaluated during 2017/18 and will include confirmation of performance indicators for measuring the impacts of the initiative.

Building our relationships with our tenants and their communities

During 2016/17 we participated in community events throughout the country. This included holding a variety of events that promoted tenant safety and wellbeing, informed communities about redevelopment plans, or provided a forum for tenants to provide feedback to Housing New Zealand.

We have also expanded the use of some of our multi-complex buildings to enable our tenants to interact more easily with each other and with their communities. For example, in Wellington we now have three community centres operating within our complexes and a weekly café in our Dixon Street building.

Our *Close to Home* and *Rooftops* newsletters have kept tenants updated with advice and information designed to help them sustain their tenancies and stay safe and well. Our regional and area managers have attended regular meetings throughout the year with mayors, councillors, Members of Parliament, social support agencies and community groups to discuss issues relating to their communities.

We will carry out a range of similar engagement activities in 2017/18, with an increased focus on building relationships with other social sector agencies.

Relocating tenants and those eligible for social housing from Auckland

In July 2016 the Government released a package to help current social housing tenants in Auckland, as well as households in Auckland eligible for social housing, to relocate to a different part of the country. The scheme, led by MSD, is voluntary and aimed at providing practical assistance to enable people to expand their employment and housing options.

We assisted 404 social housing tenants to successfully exit their Auckland tenancy and start a new one either with us or with a private landlord, and exceeded the 2016/17 target of relocating 400 households. Of the households relocated, 260 were applicants on the social housing register at the time and have now moved off the register.

Regularly touching base with our tenants in their homes

We operate a two-fold inspection programme that ensures all properties are visited twice a year, six months apart, once by a tenancy manager and once by a health and safety inspector, to check the tenancy and welfare of the household.

During 2016/17 our tenancy managers undertook 60,655 annual inspections to check on tenant welfare and help them with debt, property or other issues. Our health and safety inspection contractor carried out 64,131 inspections, carefully checking that a number of safety features were operating correctly and that no hazards were found. If there were hazards, they were promptly reported and corrected. We will review the features we inspect during 2017/18 to ensure we are making best use of our inspection programme.

CENTENNIAL FLATS COMMUNITY CENTRE

When Housing New Zealand announced a $7 million refurbishment of the iconic Centennial Flats in Wellington, our tenants told us they were keen to see the old community centre restored to its former glory.

We asked tenants and community members for ideas on how the centre should be used, and invited tenant and community representatives to sit on the centre's management committee. We then worked in partnership with Berhampore School and Wellington City Council to re-establish the centre.

Our tenants have been making the most of the centre since it re-opened in March 2016, and it's helping change attitudes toward those who live in our homes. It's also become a focal point for the community, inspiring us to look for other opportunities to bring our tenants and the community together.

Offering services through our Customer Support Centre

Our Customer Support Centre (CSC) is often the first point of contact for our customers. Staff at our contact centres in Manukau and Porirua provide our tenants with a freephone service for tenancy, repairs and maintenance, and account queries. Our CSC staff also answer questions and provide advice to customers enquiring about a broad range of Housing New Zealand programmes.

During 2016/17 our CSC received 835,400 calls, of which 79 percent were answered within our target time of four minutes. We surveyed a random number of these customers to find out their level of satisfaction with the service they had received over the phone. Ninety-one percent of the customers surveyed said they were satisfied with the service provided.

Working to keep our debt to targeted levels

This year the CSC expanded to take on a more active role in establishing debt and payment plans, including recording voice permissions for redirection of benefit payments. This has improved our ability to resolve issues with tenants at the first point of contact.

As at 30 June 2017 our national rent debt to rental income ratio was 2.9 percent, outperforming our target of 5 percent, and we established arrangements with tenants to repay debt worth over $2.6 million. The expansion of the role of the CSC helped achieve this, as did a sustained focus by our tenancy managers and leaders. This year we have also focused on recovering damage debt from our current tenants, and now have working payment arrangements in place for 67 percent of our current tenants who have damage debt owing.

Managing debt is in the best interests of both Housing New Zealand and tenants so that they can successfully sustain their tenancies. Our efforts to address tenant debt levels resulted in a decline in the volume of Housing New Zealand applications to the Tenancy Tribunal compared with 2015/16. During the year there were 2,347 applications to the Tenancy Tribunal for rent or damage debt for either current or vacated tenants. From December 2016 we began recording our applications for mediation and in the seven months to 30 June 2017 we made 4,234 applications for mediation for rent arrears. Debt establishment and recovery continues to be the primary reason for mediation and Tribunal applications.

Our organisational capability improves and we optimise our return to the Crown

Purpose	Measure	Target	2015/16 Actual	2016/17 Actual
Operating efficiency and cost control are maintained	Organisational running costs per housing unit	Improve (reduce) by 1.5% on 2013/14 result 2016/17 Target: $2,002	Improved by 2.1% ($2,032) per unit	Increased by 19% $2,381*
Sound financial oversight and stewardship of the Crown's assets are maintained	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)	$353 million	$477 million	$397 million
Housing New Zealand provides a safe working environment	Total Recordable Injury Frequency Rate – number of injuries per one million hours worked	1.54**	1.34	1.21
Housing New Zealand has an engaged workforce, and the impact of change is monitored	Annual employment engagement survey	4.30 by June 2018	4.06	4.09

* This shift in performance is discussed further on page 29.

** The measurement methodology used to calculate this measure changed during the year and, accordingly, a new target was set. The 1.54 target is the restated figure using the revised methodology and is equivalent to the 7.7 target outlined in our 2016/17 Statement of Performance Expectations.

2016/17 priorities

One of our **five** organisational priorities for 2016/17 is relevant to this contribution area: continue to invest in our people.

CONTINUING TO INVEST IN OUR PEOPLE

In late 2016/17 we signed off our 2017-21 Strategic Plan. The plan signals some new and expanded roles and direction for Housing New Zealand and outlines the outcomes we need to achieve against those roles as well as how we will get there. The four roles outlined in our Strategic Plan include:

- Providing social housing
- A leadership role in the social housing sector
- Affordable housing
- Emergency and transitional housing.

A new Strategy Group was established during 2016/17 to support our strategic direction and lead the work of orienting Housing New Zealand to be driven by strategy. It will ensure we understand and respond to strategic challenges, opportunities and the changing dynamics of the market we are operating in.

Undertaking organisational capability assessments

During 2016/17 we undertook several external assessments that reviewed our organisational capability and identified areas where we can improve and change.

One of these assessments was the Treasury's Investor Confidence Rating review, which is completed every two years and assesses how investment-intensive government agencies such as Housing New Zealand manage their investments and assets. We achieved one of only four 'A' ratings given to assessed agencies. This high rating is a result of a well-performing portfolio and reflects our improved capability and performance in recent years.

It is also important that we have a clear picture from our staff about what we do well and where we can improve. This year we achieved an employee engagement score of 4.09 out of 5 (compared with 4.06 achieved in 2015/16) using Gallup's engagement survey. The latest result shows we have sustained the gains made over the last three years and places us at the 65th percentile for all New Zealand workplaces participating in the Gallup survey.

In late 2016 we also undertook a broader organisational health survey that involved a more in-depth assessment of our culture and the way we work, from the perspective of our staff. We have used the survey results, along with our Gallup results, to help inform the development of the framework we will be using for our four-year strategic change programme.

Recruiting, selecting and inducting staff

The growing complexity of our customer base and the demand for skilled and resilient frontline tenancy management staff led to the approval of an additional 56 full-time equivalent new tenancy managers during 2016/17. Almost half (26) of these roles were placed in Auckland, with the remainder allocated across the rest of the country. New recruitment and induction methods were trialled for these roles which involved setting up Assessment Centres and the development of a Tenancy Management Induction Programme. This helped to ensure candidates were best matched to the roles available and were well supported once on board.

We have also developed workforce plans to support our ambitious building programme. These identified a growing requirement for specialised property development staff as well as staff in key support roles. As the largest residential builder in a New Zealand market where these skills are in short supply we have required a multi-channel recruitment strategy to address the shortage. This has included recruiting overseas for senior specialists and developing partnerships with educational institutions within New Zealand to improve entry-level skills.

During 2016/17 our careers website was also substantially revamped to clearly articulate the benefits of a career with Housing New Zealand.

Improving our tools, training and coaching

In partnership with Work Skills we have developed a professional qualifications framework for our tenancy managers and customer support advisors. The first cohorts are currently undertaking the assessment on a self-paced basis and participating tenancy managers are expected to graduate with the New Zealand Certificate in Residential Property Management by the end of 2017. During the year a comprehensive new blended learning programme to support managers and leaders in their development was also designed and will be piloted early in 2017/18.

Rolling out our Learning Management System

During 2015/16 we developed a new Learning Management System and this was rolled out across the business in 2016/17. It provides all managers and staff with a platform on which to plan, manage and record their own training. Core learning modules have been developed and provided to staff and these have included a strong health, safety and security focus.

Completing succession planning and progressing talent development

Succession plans for Tier 2 and Tier 3 roles were completed to identify and support staff to grow and reach their full performance potential and promote internal succession for senior leadership roles within the organisation. A new talent programme is currently being developed for implementation in the first half of 2017/18 to support succession plans.

Continuing to focus on health and safety

We have increased the capacity and capability of our Health, Safety and Security team to provide specialist support and advice across all three disciplines of Health, Safety and Security. This has also ensured we can support the requirements of the Health and Safety at Work Act 2015.

A focus for 2016/17 has been the provision of a national Incident Reporting System, which has improved the way we capture and report on health, safety and security data.

Work in the area of health and wellbeing has also been a priority. During 2016/17 we focused on mental wellbeing with the introduction of a three-stage employee training programme to enable staff to manage and support their own safety as well as identify signs of mental ill-health. We also looked at the occupational health issues associated with asbestos, methamphetamine, lead-based paint and silica and what mitigations should be taken to protect our workers.

We increased site and personal security for our frontline staff. This included updating the process requirements for site safety visits and improving our understanding of the physical security and operating interventions required of our neighbourhood units. We also undertook a Protective Security Requirements self-assessment to establish our current and desired level of physical, information and personnel security.

LEADING BY EXAMPLE

In just a few years, Alice Daniel-Kirk has worked her way up from the Customer Support Centre to becoming area manager for Wellington. Alice is now responsible for nearly 3,400 people, living at more than 1,500 properties.

Since starting in her current role in September 2014, Alice has inspired her team and those around her to go the extra mile. Her leadership style is to remove barriers and lead by example. She inspires her staff, tenants and the wider community by rolling up her sleeves and mucking in.

Ongoing challenges at the Dixon Street flats in Wellington last year saw Alice bring 100 tenants together by opening up a communal café where tenants can drop in for a cup of tea and a chat. Support services also attend the weekly café so that people can get the support they need in the comfort of their own home. Alice even attended over the Christmas period to make sure people could continue connecting with their neighbours.

As well as staff health, safety and security, we have worked on initiatives that support our contractors to ensure our programmes consider their health, safety and wellbeing at all times. This included developing a programme of work for best practice contractor management and assurance using MBIE's guide on contractor management.

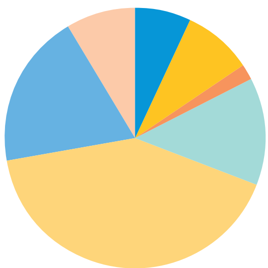
Being a good employer

We meet our obligations as set out in section 118 of the Crown Entities Act 2014 to be a good employer. We ensure our policies, practices and processes are fair and equitable for all job applicants and all of our employees. We provide equal employment opportunities, recognising our obligations under the Treaty of Waitangi, and the aspirations of Māori and ethnic and minority groups and people with disabilities, and reflecting the communities we serve.

We also aim to provide an employment environment where our people develop their potential, and contribute to the best of their ability to achieve our goals. We are committed to providing a safe workplace free of harassment and workplace bullying. Our flexible work practices ensure that our people can achieve acceptable work-life balance where their requirements fit within the needs of the business. We operate a remuneration policy that is aligned with the market and rewards staff performance.

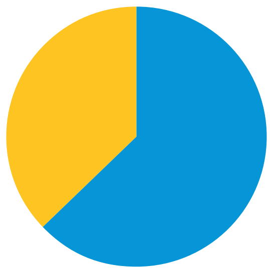
Policy content is reviewed regularly to ensure it remains relevant and appropriate and the Public Service Association is consulted on all important organisational changes or establishment of policy.

Ethnicity profile of Housing New Zealand staff



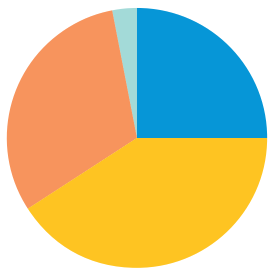
Asian	7.2%
European	8.6%
Middle Eastern, Latin American, African	1.8%
Maori	13.3%
NZ European	41.5%
Pacific People	19.2%
Unknown	8.4%

Gender profile of Housing New Zealand staff



Female	63%
Male	37%

Age profile of Housing New Zealand staff



20 - 34	25%
35 - 49	41%
50 - 64	31%
65+	3%

Gender profile of Housing New Zealand management

Female	49%
Male	51%

Managing our risks

We are committed to being a place where effective risk management is a day-to-day part of all business activities. To manage risks effectively at all levels of our business, we have established 'three lines of defence':

- Putting controls in place to manage day-to-day business and to give assurance that risks are being managed at the front line
- Overseeing support functions that set direction and policy and monitor activities undertaken at the front line
- Establishing independent functions that provide assurance to the Chief Executive and the Board that risk is being appropriately managed in the first and second lines.

Over the past year we have enhanced the quarterly reporting of key operational and strategic risks to our Executive Team and Board. We have also looked to improve our risk management practices in key operational and functional compliance areas such as Health, Safety and Security, ICT operations, protective security requirements, and privacy management.

OUR FINANCIAL PERFORMANCE

We have one of the largest asset holdings in the private or public sector in New Zealand. In delivering the Crown's social objectives of providing housing and services related to housing, we must operate in a financially responsible manner and optimise our return to the Crown. We do this by regularly reviewing our financial performance and cost structures.

At 30 June 2017 our total property portfolio was valued at $25.2 billion and we collected over $1.1 billion in revenue from rents and rental subsidies this year. The value of the portfolio increased by $2.5 billion between 2015/16 and 2016/17.

Key financial highlights for the year include:

- continuing to invest in new social and emergency housing stock – spending a total of $382 million on new additions and redevelopments, and $63 million on emergency housing
- continuing to invest in our current housing stock by spending $315 million on ongoing repairs and maintenance and $159 million on capital maintenance, upgrades and improvements
- achieving an improved earnings before interest, taxes, depreciation and amortisation (EBITDA) of $397 million compared to our target of $353 million. This improvement is largely due to higher rental income growth than budgetted in the Wellington and central region, combined with an improved occupancy rate. This contributes to our financial reserves available for future development opportunities
- increasing our organisational running cost per housing unit by 19 percent. This shift in performance, which means our Statement of Intent target has not been met, was due to a conscious management action to further invest in our staff in order to respond to increasing tenant complexities and to help increase our capacity to deliver on build programmes. In addition, stock transfers reduced the number of properties we manage
- paying $82 million in tax, $87 million in interest costs on Crown debt, and paying $146 million in local authority rates.

Capital management

During 2016/17 we spent $610 million on capital expenditure (including $63 million on Emergency Housing). The following table highlights property spending during 2016/17 that is part of our long-term Asset Management Strategy.

Capital additions	2015/16 $m	2016/17 $m
Buy-in	37	161
Land	57	114
Redevelopments	192	107
Emergency Housing		63
Maintenance, Upgrades, and Improvements	207	159
Infrastructure	3	6
Total	**496**	**610**

The following table shows the surplus distribution we have made to the government over the last three financial years. No distribution was paid in 2016/17.

	2014/15	2015/16	2016/17
Surplus distribution to the Crown	$107 million	$30 million	0

We contribute to a viable social housing sector

The activities we have undertaken during the year against this contribution statement have focused on the achievement of one of our 2016/17 priorities.

2016/17 priorities

One of our **five** organisational priorities for 2016/17 is relevant to this contribution area: contributing to the Social Housing Reform Programme.

CONTRIBUTING TO THE SOCIAL HOUSING REFORM PROGRAMME

The Social Housing Reform Programme continues to be a focus for the Government. The reforms aim to drive more diverse ownership of social housing, engage providers who can support tenants with additional social services, and redevelop social housing to better match tenants' needs.

Strengthening our relationships with agencies operating in the social housing sector

As reforms progress, it is important that we strengthen the working relationships we have established across related agencies, in particular our relationships with the Treasury, MBIE and MSD. Having good relationships with the widening range of community, iwi and private entities operating in the increasingly diversified social housing sector is also critical for our success.

Most significant for us is the social housing policy role undertaken by MSD, which is responsible for managing the demand for social housing. This involves forecasting changes to future demand for social housing through the development and publishing of purchasing intentions. We engaged with MSD in the development of the 2016 social housing purchasing strategy, and this is now being used to guide our investment planning and decision-making.

We have also continued to work closely with MSD to consider the opportunities provided by the new flexible contracting arrangements established under the recent amendments to the Housing Restructuring and Tenancy Matters Act 1992. These changes provide for payments that differ from the income-related rent subsidy. In January 2017 we signed with MSD the first of these amendments to the current agreement, which is designed to improve the turnaround time for short-term vacancies in Auckland. It allows us to be paid the market rent for vacancies of up to 15 calendar days and then pay compensation to MSD for every vacancy unfilled after that time. We are also working with MSD on wider changes to contract settings.

As the community housing sector is diversifying, so too are our relationships with the sector, and in particular the body that represents those providers – Community Housing Aotearoa (CHA). We have begun to strengthen these relationships; for example, we were well represented at this year's CHA conference, with a number of staff involved and presenting.

Sustaining Tenancies trial

As part of the package of initiatives Cabinet agreed to in July 2016 to improve the supply of housing for vulnerable people, we partnered with MSD to trial an investment approach to supporting around 1,000 at-risk social housing tenants in Auckland, Wellington and Christchurch to sustain their tenancies. The objective of the trial was to improve people's lives and reduce the social and financial impact of adverse exits from social housing (eg moving schools repeatedly, poor mental health and family violence). Further information on the activity we have undertaken to support this initiative during 2016/17 can be found on page 22.

A focus on social investment

Despite receiving a range of government support, many people are not seeing improvements in their life outcomes. There are now growing expectations on social service agencies, including Housing New Zealand, to improve the way we invest to help those in need. Part of this is broadening the use of social investment in the design of social services. Through better access to and use of information, government can identify triggers that lead to poor social outcomes and can intervene at the right time and in the right way to make significant improvements to people's lives.

A key focus for us during 2016/17 was Cabinet's agreement to progress three place-based initiatives – in South Auckland, Te Tai Tokerau (Northland) and Tairāwhiti (Gisborne). Each initiative targets different 'at-risk' group(s) and comprises distinct local leadership models, interventions and key stakeholders. We are represented on the South Auckland Social Investment Board, alongside other government agencies, and have contributed directly to the South Auckland initiative by leading an intervention to provide more stable housing for vulnerable tenancies. We have also contributed via a staff secondment to the office supporting the three place-based initiatives.

Transferring stock to community housing providers

We have continued to make significant contributions to the development of the social housing sector by actively supporting the transfer of Housing New Zealand social housing to community housing providers. On 31 March 2017 we transferred 1,138 homes and tenancies in Tauranga to community housing provider Accessible Properties. The transfer and the associated requirements to enable Accessible Properties to successfully operate the portfolio from day one of the transfer were completed on time and within budget. The transfer of properties in Tauranga resulted in a greater than 60 percent write-down in asset value (applied in the 2015/16 year) as a result of encumbrances placed on those properties. These required the purchaser to maintain the properties for social housing under contract with MSD.

We are continuing to support the Government's plans for further transfers and sales to community housing providers across the country. This includes the work alongside the Treasury and MSD on further proposed transfers in Christchurch (around 2,500 Housing New Zealand homes) with investigation into other proposed transfers also at the early stages of planning.

In addition to the Treasury-led transactions, we are also working to support the capacity and capability of community housing providers through small-scale transactions of up to 100 properties. This work is occurring outside of the pipeline of transfers currently being worked on within the Transactions Unit.

APL Chair Paul Adams and Social Housing Minister Amy Adams at the APL Tauranga office opening event.

DIVERSIFYING THE SECTOR

One of our major contributions to the programme this year was the transfer of homes and tenancies in Tauranga to Accessible Properties Ltd.

A subsidiary of IHC, Accessible Properties has been providing housing for 50 years and owns over 1,000 properties around New Zealand.

"The Tauranga transfer was a great example of government agencies working together with the community housing sector to help bring a fresh approach to housing for families," says Housing New Zealand Director Business Transition Programme Charlie Mitchell.

Ensuring these transfers run smoothly is critical to making them a success for us, the community housing provider, and, most importantly, for the tenants themselves.

"Housing New Zealand has a duty of care for the families we house and we worked hard to make sure the people living in the properties being transferred were informed and taken care of along the way," Charlie says.

The proceeds from the Tauranga transfer will be used to help build more social housing in areas of demand.

We deliver programmes and initiatives on behalf of the Crown

Purpose	Measure	Target	2015/16 Actual	2016/17 Actual
Deliver financial products (KiwiSaver Homestart Grant) in a timely fashion	Average number of days taken to assess a complete KiwiSaver application	7 working days by June 2018	4.1 working days	3.9 days
Deliver financial products (First Home Ownership) in a timely fashion	Average number of days taken to assess a complete First Home Ownership application	7 working days by June 2018	2.8 working days	1 day

We deliver a range of Crown products to facilitate home ownership and improve housing affordability. During 2016/17 over 15,000 people were assisted into home ownership through these products. We also offer our own housing affordability products, including the FirstHome grant, tenant home ownership and the Axis Series homes scheme at Hobsonville Point.

During 2017/18 we will be looking at ways we can further develop these product offerings, including how we can better integrate housing affordability products into our new housing developments and delivering new products where market need exists.

Crown products we administer

Welcome Home Loans

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

During 2016/17 we processed 1,381 loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme, compared with 993 during 2015/16. Demand for Welcome Home Loans increased steadily as the 2016/17 year progressed, with an annual increase of 40 percent compared with the 2015/16 year.

Kāinga Whenua loans

We also work with Kiwibank to help Māori to achieve home ownership on multiple-owned land, by providing lenders' mortgage insurance through the Kāinga Whenua loan scheme. To date we have settled 17 Kāinga Whenua loans, a further nine are in the process of being drawn down and another 17 have received preapproval.

KiwiSaver HomeStart

The KiwiSaver HomeStart grant was introduced by the Government in April 2015 and replaced the KiwiSaver Deposit Subsidy. During 2016/17 we received 31,731 KiwiSaver applications and approved 16,712, compared with 26,544 KiwiSaver applications received and 15,411 approved during 2015/16. We paid out $75.3 million in KiwiSaver HomeStart grant payments, compared with $66.2 million in 2015/16.

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

Housing New Zealand affordability products

First Home Ownership Scheme

Our First Home Ownership Scheme provides an incentive, mainly for people in provincial or rural areas, to enter into affordable home ownership. The scheme gives eligible first home owners access to surplus Housing New Zealand properties as well as financial assistance and other lending packages. During 2015/16 we sold 134 homes to first home owners in areas where the demand for social housing is low. However, due to increased demand for social housing across some of our regions and lower than anticipated divestments, we have had limited opportunities to offer the product during 2016/17, with only 79 homes sold under the FirstHome scheme. As long as demand for social housing continues to be high across provincial and rural areas, our ability to offer our homes to first home buyers will remain limited.

Tenant Home Ownership

We also offer some of our tenants the option of buying the house they are living in. The programme offers eligible tenants in certain areas a grant of 10 percent of the purchase price of selected Housing New Zealand houses up to a maximum of $20,000. This grant is available in places where there is low demand for social housing and excludes areas such as Auckland, Wellington, Christchurch, Hamilton and Tauranga. The number of tenants buying their Housing New Zealand homes has more than doubled compared with previous years to 84 in 2016/17, as the introduction of the grant from 2015 increased tenants' ability to sustain home ownership.

During 2016/17 we also actively promoted the scheme to tenants paying a market rent for their properties. In recent months, with the tightening of bank lending criteria, some eligible tenants have struggled to get a home loan approved by the bank. If these lending restrictions remain, this could limit the number of tenants able to successfully buy their Housing New Zealand home.

Community Group Housing

We rent some of our homes to government-funded community groups that provide a variety of services such as long-term residential care, and transitional and emergency housing. We have 1,480 homes that are part of the Community Group Housing programme, providing 4,777 bedrooms across 203 groups. We also currently provide rent support to 625 of these providers through the Community Housing Rent Support appropriation.

During 2016/17 the programme added 27 properties to the Community Group Housing portfolio through either new builds (1 property), buy-ins (11), redevelopments (8) or renewed/resigned leases (7). These homes were provided to 13 different community groups across the country.

HLC (2017)

HLC is a subsidiary of Housing New Zealand, set up to undertake a large-scale development at Hobsonville Point on the Waitemata Harbour and acts as Housing New Zealand's agent to manage this development. The development is on Crown land and will see the construction of more than 4,000 new homes,

HOME OWNERSHIP BRINGS JOY TO WHANGANUI TENANT

Stephanie Battersby is over the moon she's been able to buy her three-bedroom Housing New Zealand home under the Tenant Home Ownership scheme in Whanganui.

Stephanie, who had lived in her property for 26 years, says the process worked really well and she encourages other Housing New Zealand tenants to also think hard about it.

"When I contacted Housing New Zealand, it was able to be done easily over the phone. The process was so simple anyone could really do it," Stephanie says.

Stephanie says for the first time she enjoyed a great family Christmas in her own home and even has future plans for the property. Stephanie says she also sees her new home as a legacy for her kids and grandkids.

"All I can say to other Housing New Zealand tenants in places like Whanganui is to have a good look into the Tenant Home Ownership scheme to see whether they can also turn their dreams into reality. I did it so maybe they can too," Stephanie says.

New housing in Hobsonville.

with 20 percent in the affordable price bracket. To 30 June 2017, 1,562 homes and sections have been sold, including 379 during 2016/17, and 428 affordable homes have been sold, including 124 during 2016/17.

Work undertaken during 2016/17 included:

- supporting the sale and marketing of 379 homes – the Hobsonville Point builder partners are now consistently selling an average of one house every working day with the important 1,000 house completion target milestone reached
- achieving the contracted revenue target of $43.04 million for market land sales
- successfully negotiating and contracting new land sales contracts worth $44.62 million.

In May 2016 it was announced that HLC would lead a redevelopment project in the Auckland suburb of Northcote. The project will involve a mix of some 400-435 new Housing New Zealand properties and over 600 properties to be owned by private owners. The redevelopment involves working closely with the community, stakeholders and the Auckland Council. Stage 1 began in September 2016 and has involved replacing 20 older homes with 59 new homes. These will be a mix of one-, two-, three- and four-bedroom homes and will include some terraced housing, some standalone houses and some apartments.

HLC has also been engaged during 2016/17 to develop business cases for areas of land owned by Housing New Zealand in Avondale, Roskill South, Mangere and wider Mt Roskill to assist in delivering a mix of new Housing New Zealand social housing and Housing New Zealand private housing on those sites. Several of these business cases are now approved and underway.

HLC has now firmly established itself as a large-scale redevelopment agency that is partnering with us to deliver builder-ready land for social, affordable and market housing in Auckland.

Legislation and functions

Business structure

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

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

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

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

The financial statements for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the Board Members on 26 September 2017.

How we work

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

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

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

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

Responsible Ministers

We have two responsible Ministers:

- Hon Amy Adams: Minister Responsible for Housing New Zealand and Minister for Social Housing
- Hon Alfred Ngaro: Associate Minister for Social Housing

The Minister Responsible for Housing New Zealand conveys the government's expectations to Housing New Zealand and has direct responsibility for Housing New Zealand. As Minister for Social Housing she also has responsibility for the government's social housing functions and its relationship with the social housing sector.

The Associate Minister for Social Housing is responsible for operational issues in respect of emergency housing supply, management of the social housing register, and income-related rent subsidies. As Associate Minister for Social Housing he also has responsibility for advice on policy and operational issues from Housing New Zealand in respect of individual tenancies.

The primary relationship between the government and Housing New Zealand is between the Minister Responsible for Housing New Zealand and the Minister for Social Housing, and Housing New Zealand's Board.

Legislation

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

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

The Housing New Zealand Board

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

At 30 June 2017 the Board was made up of seven non-executive members, who are appointed for a fixed term, with the possibility of further reappointment. They included:

- Adrienne Young-Cooper (Chair)
- John Duncan (Deputy Chair)
- Peter Dow
- Sandra Alofivae
- Alick Shaw
- Michael Schur
- Tau Henare

Board meetings for 2016/17

Name	Meetings attended (out of 10)
Adrienne Young-Cooper	10
John Duncan	10
Jeff Meltzer (resigned 30 April 2017)	7
Peter Dow	10
Sandra Alofivae	10
Alick Shaw	10
Tau Henare	9
Michael Schur	9

Accountability

The Minister Responsible for Housing New Zealand provides us with an annual letter outlining their expectations. This guides the development of our Statement of Intent, which is tabled in Parliament.

The Statement of Intent and the annual Statement of Performance Expectations set out what we intend to deliver and are the primary sources from which Parliament and Ministers are able to hold us to account.

The Ministers' formal line of accountability with Housing New Zealand is through the Board. The Board selects, appoints and monitors the performance of the Chief Executive, Andrew McKenzie. The Chief Executive is responsible to the Board for the efficient and effective running of Housing New Zealand.

Executive Team

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

Delegations

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

Conflicts of interest

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

Remuneration

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

Induction and development

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

Risk management

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

Internal audit

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

Consultation and reporting to the Minister

As a Crown entity with $25.2 billion in state rental assets, we regularly engage with the Minister Responsible for Housing New Zealand and the Minister for Social Housing, the Minister for Building and Construction, Housing New Zealand's monitoring agencies, the Treasury and the government's purchaser of social housing, MSD.

During 2016/17 we reported quarterly to the Minister Responsible for Housing New Zealand on:

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

Annual information

Annual information

HOUSING NEW ZEALAND CORPORATION

Statement of Responsibility for the year ended 30 June 2017

The Board is pleased to present the financial statements and statement of performance of the Housing New Zealand Corporation for the year ended 30 June 2017.

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

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

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

In the opinion of the Board, the financial statements and statement of performance for the year ended 30 June 2017 fairly reflect the financial position and operations of Housing New Zealand Corporation at that date.

For and on behalf of the Board.

Adrienne Young-Cooper
Chair

26 September 2017

John Duncan
Director

OUTPUT CLASS 1:

Tenancy and property management

DESCRIPTION

Scope

The scope of this Output Class is limited to the allocation and management of tenancies and maintenance of properties, including Community Group Housing. The Output Class relates only to properties owned by Housing New Zealand, or where Housing New Zealand holds a lease for privately-owned properties or to third party social housing providers.

Activities

The activities undertaken in this Output Class include:

- working with MSD to place eligible applicants into Housing New Zealand homes and manage tenant exits
- managing existing tenancies
- undertaking planned maintenance programmes and improving amenities
- ensuring urgent repairs and maintenance are undertaken in response to tenants' requests
- undertaking debt collection activities for overdue rent, property damage, and residual income-related rent arrears
- setting and reviewing market rents
- responding to Government health and safety objectives.

What we are seeking to achieve

We aim to:

- match applicants with the most appropriate available properties
- work closely with tenants to help them sustain their tenancies during their time of housing need
- manage tenants who experience issues with tenancy debt
- ensure tenants' property and repair needs are responded to in a timely manner
- maintain our properties to a good standard and ensure a high occupancy rate.

SUMMARY OF PERFORMANCE

MEASURE	ACTUAL 2015/16	STANDARD 2016/17	ACTUAL 2016/17
Rental debt older than 7 days as a percentage of monthly rental income[1]	4.1%	5%	2.9%
Percentage of properties that are let[2]	96.0%	96.2%	97.2%
Average number of days a property remains vacant between tenancies	38 days	35 days	34 days
Percentage of customers satisfied with repairs and maintenance	74%	70%	70%
Percentage of Customer Support Centre calls answered within four minutes	79%	80%	79%
Customer satisfaction with Customer Support Centre	93%	80%	91%
Percentage of properties inspected at least annually[3]	98%	95%	98%
Average time to respond to urgent health and safety queries	2.9 hours	8 hours	3.5 hours
Percentage of repairs and maintenance spend on planned activity	67%	60%	71%

1. This excludes debt associated with tenant damage.
2. Occupancy rate is as at 30 June.
3. These inspections are undertaken by our tenancy managers.

PERFORMANCE COMMENTARY

Performance highlights

- The SPE target of reducing and maintaining rental debt to monthly rental income below 5 percent was achieved, with the 2.9 percent result an improvement from last year's result of 4.1 percent.
- Our improved occupancy rate (97.2 percent) was the result of reduced vacant properties and an increase in the number of tenancies started. The latter also contributed to a reduction in average turnaround time between tenancies.
- We have improved our processes for handling methamphetamine-contaminated properties which reduced the number of vacancies and duration of time these properties were empty.
- We employed additional staff in Auckland to help improve our turnaround time and continue to work with our maintenance contractors to reduce vacancy length.
- Our Customer Support Centre (CSC) received 835,400 calls and achieved a customer satisfaction rating of 91 percent against our SPE target 80 percent.

Not achieved: The percentage of Customer Support Centre calls answered within four minutes

The CSC narrowly missed our SPE target of answering 80 percent of calls within four minutes. In November 2016 the CSC transitioned the role of housing advisors to become customer support advisors, and this meant assuming wider responsibilities including managing high volume dollar debt and maintenance complaints. During the transition period our ability to answer some calls within the SPE timeframe was impacted.

REVENUE AND OUTPUT EXPENSES

	2015/16 ACTUAL ($M)	2016/17 BUDGET ($M)	2016/17 ACTUAL ($M)	COMMENT
Revenue Crown	752	735	771	All rental revenue from standard HNZ houses and Community Group Housing is recognised as part of this Output Class. The expenses include the costs of administering state house tenancies, maintaining and upgrading state houses (including Community Group Houses) and other tenancy services.
Revenue Other	426	391	405	
Expenses	934	1,014	1,002	
Net surplus/(deficit)	**244**	**112**	**174**	

OUTPUT CLASS 2:

Housing supply

DESCRIPTION

Scope

The scope of this Output Class is limited to activities associated with asset development and reconfiguration programmes aimed at increasing the supply of housing owned or leased by Housing New Zealand in high-demand areas and reducing supply in low-demand areas. This also includes new supply provided to Community Group Housing providers and assisting first home ownership through our Housing New Zealand's Tenant Home Ownership and First Home Ownership schemes.

Activities

The activities undertaken in this Output Class include:

- purchasing existing houses, building new houses, leasing privately-owned houses, and purchasing land for building houses that meet the current and forecasted demand
- delivering housing redevelopments on greenfields and brownfields sites
- increasing land available for housing supply in areas of high demand
- proactive management of Housing New Zealand's Tenant Home Ownership and First Home Ownership schemes.

What we are seeking to achieve

We aim to:

- reconfigure our property portfolio to meet demand, ensuring properties are in the right place and are of the right size
- maintain the value of our portfolio
- improve the quality of our houses and amenities to a suitable level for both current and future tenants
- process Tenant Home Ownership and First Home applications in a timely and efficient manner, in compliance with the scheme rules.

SUMMARY OF PERFORMANCE

MEASURE	ACTUAL 2015/16	STANDARD 2016/17	ACTUAL 2016/17
Number of additional new build or existing homes for social housing*	N/A	1,339	1,421
Number of new homes provided by Housing New Zealand for affordable and general housing	N/A	171	103
Percentage of properties delivered in high-priority areas**	92%	85%	78%
Average number of days taken to assess a complete First Home Ownership application	2.8	7 working days	1.0

*This figure is gross additions of managed stock properties during the year. The figure includes eight Tauranga properties that were acquired in November 2016 and were subsequently transferred to Accessible Properties in April 2017 and are now not part of HNZ stock.

**High-priority areas are defined as Auckland, Wellington and Christchurch.

PERFORMANCE COMMENTARY

Performance highlights

This year, in response to changing demand we delivered a range of social and emergency housing across urban and regional New Zealand. We exceeded our target for 1,339 additional new build or existing homes for social housing by adding 1,421 homes during the period.

Not achieved: Number of new homes provided by Housing New Zealand for affordable and general housing.

The number of market and affordable homes built did not meet our target, with 103 delivered against a target of 171. However, we released the land to our build partners to enable these additional houses to be provided. We were reliant on third parties to build the properties and signalled early on in the year that a number of properties anticipated to be delivered in 2016/17 would instead be delivered during 2017/18.

Not achieved: Percentage of properties delivered in high-priority areas.

During the year we responded to an increase in demand for social housing outside of the high-priority target areas (Auckland, Wellington and Christchurch). The 78 percent result is due to a conscious management decision to acquire properties across other regional areas as well as in high-priority areas.

REVENUE AND OUTPUT EXPENSES

	2015/16 ACTUAL ($M)	2016/17 BUDGET ($M)	2016/17 ACTUAL ($M)	COMMENT
Revenue Crown	–	–	–	Rental revenues are recognised under Output Class 1. Expenses include all costs related to new housing supply or divestment.
Revenue Other	18	33	45	
Expenses	78	116	126	
Net surplus/(deficit)	**(60)**	**(83)**	**(81)**	

OUTPUT CLASS 3:

Governance and public accountability

DESCRIPTION

Scope

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

Activities

The activities undertaken in this Output Class include:

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

SUMMARY OF PERFORMANCE

MEASURE	ACTUAL 2015/16	STANDARD 2016/17	ACTUAL 2016/17
Ministerial correspondence, parliamentary questions, and Official Information Act requests delivered meet the agreed deadline	New measure for 2016/17	95%	99%
Ministerial services delivered meet the quality criteria	New measure for 2016/17	95%	100%
Delivery of Social Housing Reform Programme transfers to other social housing providers within the agreed timeframe as set out by the Treasury	New measure for 2016/17	Milestones achieved	Milestones achieved

REVENUE AND OUTPUT EXPENSES

	2015/16 ACTUAL ($M)	2016/17 BUDGET ($M)	2016/17 ACTUAL ($M)	COMMENT
Revenue Crown				Expenses include all costs associated with Ministerial Services, including supporting the Government's Social Housing Reform Programme, Board and Executive support, and government accountability functions.
Revenue Other				
Expenses	17	20	26	
Net surplus/(deficit)	**(17)**	**(20)**	**(26)**	

OUTPUT CLASS 4:

Crown products

DESCRIPTION

Scope

The scope of this Output Class is limited to the management of Crown financial products that assist individuals and households to purchase their first home.

Activities

The activities undertaken in this Output Class include:

- managing financial products that assist individuals and households to purchase their first home, including administering the following programmes on behalf of the Crown:
  - Welcome Home Loans and Kāinga Whenua loans (Crown appropriated)
  - KiwiSaver HomeStart grant (Crown appropriated).

What we are seeking to achieve

We aim to:

- process applications for financial products in a timely and efficient manner, in compliance with the scheme rules
- increase the awareness of home ownership assistance products
- improve the accessibility of home ownership products.

SUMMARY OF PERFORMANCE

MEASURE	ACTUAL 2015/16	STANDARD 2016/17	ACTUAL 2016/17
Average number of days taken to assess a completed KiwiSaver application	4.1 working days	7 working days	3.9 working days
Number of new loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme	993	2,500	1,381

PERFORMANCE COMMENTARY

Performance highlights

This year we received 31,731 KiwiSaver applications and approved 16,712, compared with 26,544 received and 15,411 approved during 2015/16. The approved applications count only includes those that applicants that go on to buy a house. Of the remainder, about 15 percent were declined or the application was preapproved but did not result in a house purchase. We paid out over $75 million in KiwiSaver HomeStart grant payments, compared with over $66 million in 2015/16.

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

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

During 2016/17 we processed 1,381 loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme, compared with 993 during 2015/16. The available appropriation allows a maximum of 2,500 loans that can be insured in a fiscal year; however, this is not a target.

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

Demand for Welcome Home Loans steadily increased as the year progressed, with an annual increase of 40 percent.

REVENUE AND OUTPUT EXPENSES

	2015/16 ACTUAL ($M)	2016/17 BUDGET ($M)	2016/17 ACTUAL ($M)	COMMENT
Revenue Crown	73	99	85	This Output Class delivers products that are managed on the Crown's behalf. Note: This Output Class no longer includes expenses associated with our Community Group Housing portfolio. These expenses are now accounted for in Output Class 1.
Revenue Other	8	11	8	
Net transfer to unearned premium provision	3	(10)	0	
Expenses	72	95	81	
Net surplus/(deficit)	12	5	12	

OUTPUT CLASS 5:

Development services provided to the Housing Agency Account

DESCRIPTION

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 New Zealand and the Minister Responsible for Housing New Zealand Corporation.

Activities

The management and development services for properties that have been transferred to Crown control.

What we are seeking to achieve

We aim to deliver efficient and effective property management and development services on behalf of the Crown in relation to land and buildings that have been transferred to direct Crown control.

Hobsonville Point Project

The Hobsonville Point Project, as the major component of the HAA, is a large-scale, integrated urban development project in northwest Auckland on the land formerly used by the New Zealand Defence Force and known as the Hobsonville Airbase. The Hobsonville Land Company (HLC) was established in 2005 as a wholly-owned subsidiary of Housing New Zealand Corporation to develop the land for state housing purposes under the Housing Act 1955.[5] The company changed its name in February 2017 to HLC (2017). The operating expenditure of HLC for the project is fully recovered by a management fee charged to HAA. The vision for Hobsonville Point is to build a strong, vibrant community that sets new benchmarks for a quality and accessible urban development with an environmentally responsible focus.

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

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

SUMMARY OF PERFORMANCE

MEASURE	2016/17 TARGET	2016/17 ACTUAL	COMMENTS
Key milestones as set out in the HLC (2017) work programme			
Overall revenue milestones	Achieve milestones	Achieved 3 out of 4 milestones	The sale of Bomb Point and Buckley BB2b were not concluded and both are under negotiation with the sales outcome expected 2017/18.
Overall sales and marketing milestones	Achieve milestones	Achieved 3 out of 3 milestones	
Development milestones			
Buckley B Development and Planning milestone	Achieve milestones	Achieved 3 out of 3 milestones	All met but additional costs for earthworks required to meet contractual requirements of the sale of parts of the Stage 1 site due to geotechnical requirements.
Sunderland, Hudson and Launch Bay Development and Planning milestones	Achieve milestones	Achieved 6 out of 6 milestones	
Catalina Bay Development and Planning milestones	Achieve milestones	Achieved 6 out of 6 milestones	
Catalina Development and Planning milestones	Achieve milestones	Achieved 1 out of 1 milestones	

PERFORMANCE COMMENTARY

Performance highlights

To 30 June 2017, 1,562 homes and sections at Hobsonville Point have been sold, including 379 during 2016/17. To date, 428 affordable homes have been sold, including 124 during 2016/17.

Performance has been solid during 2016/17. Our achievements include:

- supporting the sales and marketing of 379 homes – the Hobsonville Point builder partners are now consistently selling an average of one house every working day with the important 1,000 house completion target milestone reached
- achieving the market land sales contracted revenue target of $43.04 million
- successfully negotiating and contracting new land sales contracts worth $44.62 million
- settling the sale of Catalina Bay (formerly known as The Landing) in partnership with Willis Bond
- finalising the design of dredging and seawall for the Catalina Bay development
- delivering infrastructure and heritage enabling works at Catalina Bay development
- completing the construction of all the major roads and associated infrastructure, including completion of Hobsonville Point Road and Launch Road
- overseeing the construction of boundary roads adjacent to the Council-owned Airfields site
- progressing construction of the core Coastal Walkway, with completion expected December 2017
- completing the superlotting of the Buckley B Stage 1 precinct which will enable the progress of housing innovation projects
- completing the former rifle range public amenity
- supporting the masterplan for Launch Bay Precinct
- completing the civil design and works for the Hudson Precinct.

REVENUE AND OUTPUT EXPENSES

	2015/16 ACTUAL ($M)	2016/17 BUDGET ($M)	2016/17 ACTUAL ($M)	COMMENTS
Revenue Crown	–	–	–	Housing New Zealand provides services to the Crown, for which it earns a management fee.
Revenue Other	4	4	4	
Expenses	4	4	4	
Net surplus/(deficit)	**–**	**–**	**–**	

Operating appropriations 2016/17

We deliver programmes on behalf of the Crown. The Crown obtains appropriations for Housing New Zealand to fund the delivery of these programmes. These are administered through Vote Housing, which is appropriated to, and administered by, MBIE. The exception is the Purchase of Housing and Related Services for Tenants Paying Income-Related Rent which is appropriated to, and administered by, MSD. The income-related rent subsidy amounts noted below are Housing New Zealand's portion of a wider appropriation that includes appropriated funds for community housing.

The following table details the funding initially budgeted as reported in our 2016/17 Statement of Performance Expectations and compares this with the actual funding provided.

APPROPRIATION AND PROGRAMME	SPE EXPENDITURE ($M)	HOUSING NEW ZEALAND'S OUTPUT CLASSES			
		TENANCY MANAGEMENT	ASSET MANAGEMENT	CROWN PRODUCTS	PROPERTY MANAGEMENT
HNZC Housing Support Services					
Mortgage Insurance Scheme (Welcome Home Loan)	9.000			5.985	
KiwiSaver Housing Deposit Subsidy – Administration	2.544			3.044	
Total HNZC Support Services	**11.544**			**9.029**	
Housing Services					
Community Owned Rural Rental Housing Loans Interest Subsidy	0.390			0.078	
Housing Innovation Fund Interest Subsidy	0.400			0.245	
Other Legacy Loan Costs	0.700			0.700	
Sold Loans Interest Subsidy*	0.010			(0.003)	
Special Housing Action Zone Bridging Finance	0.007			0.008	
Total Housing Assistance	**1.507**			**1.028**	
Purchase of Housing and Related Services for Tenants Paying Income-Related Rent	721.337	757.510			
KiwiSaver Deposit Subsidy	85.863			74.806	
Total Operating Appropriations	**820.251**	**757.510**		**84.863**	

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

MULTI-CATEGORY APPROPRIATIONS 2016/17

APPROPRIATION AND PROGRAMME	SPE EXPENDITURE ($M)	HOUSING NEW ZEALAND'S OUTPUT CLASSES			
		TENANCY MANAGEMENT	ASSET MANAGEMENT	CROWN PRODUCTS	PROPERTY MANAGEMENT
Community Group Housing Multi-Category Appropriation ($m)					
Community Group Housing Market Rent Top-Up	9.764			9.764	
Community Housing Rent Relief Programme	4.104			4.071	
Acquisition and Improvement of Community Group Housing Properties	5.800			5.414	
Total Multi-Category Expenses and Capital Expenditure	**19.668**			**19.249**	

CAPITAL APPROPRIATIONS 2016/17

APPROPRIATION AND PROGRAMME	SOI EXPENDITURE ($M)	HOUSING NEW ZEALAND'S OUTPUT CLASSES			
		TENANCY MANAGEMENT	ASSET MANAGEMENT	CROWN PRODUCTS	PROPERTY MANAGEMENT
Refinancing of HNZC and HNZL Debt	275.777			275.777	
Total HNZC Capital Appropriations	**275.777**			**275.777**	

Housing New Zealand Corporation

Financial Statements

Housing New Zealand Corporation

Statement of Financial Position

As at 30 June 2017

	NOTES	GROUP ACTUAL 2017 $M	GROUP ACTUAL 2016 $M	BUDGET UNAUDITED 2017 $M
Assets				
Current assets				
Cash and cash equivalents	18	56	29	–
Mortgage advances	5(a)	4	4	4
Receivables from non-exchange transactions	6(a)	8	9	35
Receivables from exchange transactions	6(b)	57	30	31
Prepayments		8	7	7
Short-term investments	7	472	491	32
Properties held for sale	8	302	150	17
Total current assets		**907**	**720**	**126**
Non-current assets				
Property, plant and equipment	9	24,911	22,557	22,951
Properties under development	10	11	24	30
Mortgage advances	5(a)	37	42	51
Financial assets at fair value through net surplus/(deficit)		–	1	1
Interest rate derivatives	19	3	–	–
Software	11	38	56	48
Total non-current assets		**25,000**	**22,680**	**23,081**
Total assets		**25,907**	**23,400**	**23,207**
Liabilities				
Current liabilities				
Rent received in advance from non-exchange transactions		36	37	16
Accounts payable and other liabilities from exchange transactions	12	98	82	86
Income tax payable	15(b)	27	40	1
Loans	20	336	276	142
Provisions	13	10	1	1
Employee entitlements	14	7	6	6
Interest rate derivatives	19	41	44	52
Total current liabilities		**555**	**486**	**304**

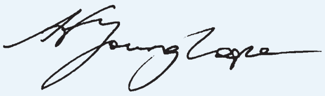
Housing New Zealand Corporation

Statement of Financial Position (continued)

As at 30 June 2017

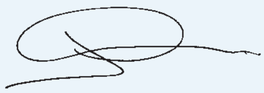
	NOTES	GROUP ACTUAL 2017 $M	GROUP ACTUAL 2016 $M	BUDGET UNAUDITED 2017 $M
Non-current liabilities				
Loans	20	1,617	1,583	1,731
Deferred tax liability	15(c)	2,044	2,013	2,178
Interest rate derivatives	19	63	119	65
Mortgage Insurance Scheme unearned premium reserve	16(a)	28	29	32
Provisions	13	1	2	2
Employee entitlements	14	1	1	1
Total non-current liabilities		**3,754**	**3,747**	**4,009**
Total liabilities		**4,309**	**4,233**	**4,313**
Net assets		**21,598**	**19,167**	**18,894**
Equity				
Equity attributable to the Crown		3,557	3,562	3,585
Retained earnings		536	287	304
Revaluation reserve		17,577	15,435	15,090
Hedging reserve	19	(72)	(117)	(85)
Total equity		**21,598**	**19,167**	**18,894**

For and on behalf of the Board, who authorised the issue of the financial statements on 26 September 2017.



Adrienne Young-Cooper
Chair

26 September 2017



John Duncan
Director

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

Housing New Zealand Corporation

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2017

	NOTES	GROUP ACTUAL 2017 $M	GROUP ACTUAL 2016 $M	BUDGET UNAUDITED 2017 $M
Revenue from non-exchange transactions				
Crown appropriation revenue	21(b)	88	80	100
Rental revenue from income-related rent subsidy		758	739	721
Rental revenue from tenants receiving IRRS		338	337	335
Rent Relief Fund revenue		4	4	4
Revenue from exchange transactions				
Rental revenue from tenants at market rent		51	66	51
Interest revenue	21(a)	17	25	7
Mortgage Insurance Scheme	21(c)	10	9	6
Other revenue	21(d)	52	24	39
Total operating revenue		**1,318**	**1,284**	**1,263**
Expenses				
Repairs and maintenance		315	289	323
Rates on properties		113	115	116
Water rates		33	34	34
Third-party rental leases		59	61	60
Depreciation on rental properties	22(a)	224	206	235
Depreciation and amortisation on infrastructure assets	22(a)	22	25	22
Personnel	22(b)	104	94	98
Interest expense	21(a)	87	93	90
Grants	22(d)	77	68	91
Other expenses	22(c)	163	113	134
Total expenses		**1,197**	**1,098**	**1,203**
Other gains/(losses)				
Gain/(loss) on disposal of assets	22(f)	8	12	(2)
(Loss) on asset write-offs	22(f)	(48)	(20)	(44)
Total other (losses)/gains		**(40)**	**(8)**	**(46)**
Operating surplus before tax		**81**	**178**	**14**
Current tax expense		82	145	66
Deferred tax expense/(benefit)		(66)	(101)	(60)
Income tax expense/(benefit)	15(a)	**16**	**44**	**6**
Net surplus after tax		**65**	**134**	**8**
Other comprehensive revenue and expense				
Revaluation of property, plant and equipment				
Revaluation reserve gains	9	2,400	3,205	1,694
Financial assets at fair value through equity				
Hedging reserve gains/(losses)	19	62	(45)	–
Income tax (expense) on items of other comprehensive revenue and expense	15(a)	(91)	(89)	(162)
Other comprehensive revenue and expense net of tax		**2,371**	**3,071**	**1,532**
Total comprehensive revenue and expense net of tax		**2,436**	**3,205**	**1,540**

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

Housing New Zealand Corporation

Statement of Changes in Equity

For the year ended 30 June 2017

	NOTES	GROUP ACTUAL 2017 $M	GROUP ACTUAL 2016 $M	BUDGET UNAUDITED 2017 $M
Total equity at 1 July		**19,167**	**17,622**	**17,564**
Revaluation of property, plant and equipment				
Revaluation reserve gains/(losses)		2,400	3,205	1,694
Deferred tax (expense) on property, plant and equipment revaluations		(74)	(102)	(162)
Financial assets at fair value through other comprehensive revenue and expense				
Hedging reserve gains/(losses)		62	(45)	-
Deferred tax (expense)/benefit on hedging reserve gains/(losses)		(17)	13	-
Net surplus for the year		65	134	8
Total comprehensive revenue and expense for the period		**2,436**	**3,205**	**1,540**
Contributions from and distributions to the Crown				
Net capital contributions (to)/from the Crown		(5)	2	4
Withdrawal of capital relating to the transfer of properties from social housing reform		-	(1,632)	(160)
Annual distribution to the Crown		-	(30)	(54)
Total net contributions from/(distributions to) the Crown		**(5)**	**(1,660)**	**(210)**
Total changes in equity		**2,431**	**1,545**	**1,330**
Total equity at 30 June		**21,598**	**19,167**	**18,894**
Equity attributable to the Crown				
Equity attributable to the Crown at 1 July		3,562	3,792	3,581
Net capital contributions (to)/from the Crown		(5)	2	4
Withdrawal of capital relating to the transfer of properties from social housing reform		-	(232)	-
Equity attributable to the Crown at 30 June		**3,557**	**3,562**	**3,585**
Retained earnings				
Retained earnings at 1 July		287	67	267
Net surplus/(deficit) for the year		65	134	8
Net transfers from asset revaluation reserve on disposal of properties		184	1,516	243
Withdrawal of capital relating to the transfer of properties from social housing reform		-	(1,400)	(160)
Annual distribution to the Crown	23	-	(30)	(54)
Retained earnings at 30 June		**536**	**287**	**304**
Revaluation reserve				
Revaluation reserve at 1 July		15,435	13,848	13,801
Asset revaluations on property, plant and equipment	9	2,400	3,205	1,694
Deferred tax on property, plant and equipment	15(c)	(74)	(102)	(162)
Net transfers to retained earnings on disposal of properties		(184)	(1,516)	(243)
Revaluation reserve at 30 June		**17,577**	**15,435**	**15,090**
Hedging reserve				
Hedging reserve at 1 July		(117)	(85)	(85)
Fair value gains/(losses)	19	62	(45)	-
Deferred tax on derivative fair value movement	15(a)	(17)	13	-
Hedging reserve at 30 June		**(72)**	**(117)**	**(85)**
Total equity at 30 June		**21,598**	**19,167**	**18,894**

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

Housing New Zealand Corporation

Cash Flow Statement

For the year ended 30 June 2017

	NOTES	GROUP ACTUAL 2017 $M	GROUP ACTUAL 2016 $M	BUDGET UNAUDITED 2017 $M
Cash flows from/(used in) operating activities				
Rent receipts - tenants		383	403	382
Rent receipts - income-related rent subsidy		756	760	721
Rent relief fund income		4	–	4
Other receipts from the Crown		88	81	99
Mortgage Insurance Scheme (MIS) income		10	6	16
Interest received from customers and investments		20	31	7
Other receipts		16	11	37
Payments to suppliers and employees		(814)	(748)	(861)
Income tax paid		(89)	(127)	(94)
Interest paid		(90)	(96)	(89)
Net cash flows from/(used in) operating activities	24	**284**	**321**	**222**
Cash flows from/(used in) investing activities				
Sale of rental properties and property, plant and equipment		209	89	123
Mortgage and other lending repayments		7	14	–
Net short-term and long-term investments (made)/realised		19	113	322
Purchase of rental property assets		(579)	(483)	(721)
Purchase of management assets		(5)	(4)	–
Purchase of intangible assets		(2)	(5)	(7)
Repayments to/(advances from) Housing Agency Account		5	(4)	–
Net cash flows from/(used in) investing activities		**(346)**	**(280)**	**(283)**
Cash flows from/(used in) financing activities				
Net capital contributions (to)/from the Crown		(5)	2	4
Loans drawn down from the New Zealand Debt Management Office		94	1	15
Annual distribution to the Crown	23	–	(30)	(54)
Net cash flows from/(used in) financing activities		**89**	**(27)**	**(35)**
Net cash flows		27	14	(96)
Opening cash and cash equivalents		29	15	96
Closing cash and cash equivalents	18	**56**	**29**	**–**

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

Housing New Zealand Corporation

Notes to the Financial Statements

For the year ended 30 June 2017

1. Reporting entity

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

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

In order to achieve its core objective of facilitating housing solutions for those most in need, the HNZC Group operates a network of approximately 63,276 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 suitable and affordable homes to those with the greatest housing needs, including acquiring, maintaining, upgrading and divesting state homes.

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

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

The financial statements for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the members on 26 September 2017.

2. Summary of significant accounting policies

(a) Basis of preparation

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

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

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

(b) Statement of compliance

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

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

(c) New accounting standards and interpretations

(i) Changes in accounting policies and disclosures

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

In July 2015 the External Reporting Board (XRB) issued Disclosure Initiative, 2015 Omnibus Amendments to PBE Standards, and Amendments to PBE Standards and Authoritative Notice as a consequence of XRB A1 and other amendments. These amendments clarify existing standards and applied to PBEs with reporting periods beginning after 1 January 2016. Those PBE Standards that are applicable to HNZC Group are commented on below:

- PBE IPSAS 1 requirements that relate to materiality, order of the notes, subtotals, accounting policies and disaggregation.
- PBE IPSAS 17 clarifies the treatment of the carrying amount and accumulated depreciation when an item of property, plant and equipment is revalued. It also clarified acceptable methods of depreciating assets.
- PBE IPSAS 20 deems an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity (management entity) is a related party of the reporting entity. It also requires disclosure of the amounts paid or payable to the management entity for the provision of key management personnel services.

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

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

The 2016 Omnibus Amendments to PBE Standards stated other changes that are effective for reporting periods beginning on or after 1 January 2017 and later dates. The HNZC Group will apply these amendments in preparing its 30 June 2018 financial statements; however it is expected that there will be no significant impact on the financial statements from applying this amendment. Also, the following standards and amendments have been issued but are not yet effective:

- PBE IFRS 9 relating to financial instruments, which introduces a new classification model for financial assets; a new, more forward-looking impairment model based on expected credit losses; a more flexible hedge accounting model that allows hedge accounting to apply to a wider range of risk management strategies; and additional disclosure requirements around impairment and hedge accounting. The impact of this standard on the financial statements of HNZC Group is yet to be fully assessed. HNZC Group will apply this standard in the year ended 30 June 2019.
- Amendment to PBE IPSASs 21 and 26, which makes revalued plant, property and equipment subject to the impairment assessment requirements of PBE IPSASs 21 and 26. HNZC Group will apply this amendment in the year ended 30 June 2020. It is expected that there will be no significant impact on the financial statements from applying this amendment.
- PBE IPSAS 34-38 relating to interests held in other entities, which are effective for the year ending 30 June 2020. It is expected that there will be no significant impact on the financial statements from applying these standards.
- PBE IPSAS 39 relating to employee benefits, which is effective for the year ending 30 June 2020. It is expected that there will be no significant impact on the financial statements from applying this standard.

(d) Basis of the HNZC Group

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

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

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

(e) Rental property land and buildings

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

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

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

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

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

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

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

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

Rental properties	10 - 60 years

(f) Work in progress

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

(g) Properties held for sale

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

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

(h) Properties under development

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

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

(i) Property, plant and equipment

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

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

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

(j) Intangible assets

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

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

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

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

(k) Impairment of plant and equipment and intangible assets

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

Non-cash-generating plant and equipment and intangible assets

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

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

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

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

(l) Mortgages and housing-related lending

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

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

(m) Investments and other financial assets

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

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

Recognition and derecognition

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

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

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

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

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

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

(n) Trade and other receivables

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

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

(o) Long-term receivables

Long-term receivables represent the present value of debts that are expected to be settled beyond the next 12 months and are 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) Mortgage insurance liabilities

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

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

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

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

(r) Interest-bearing borrowings

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

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

(s) Derivative financial instruments

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

(i) Fair value

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

(ii) Hedge accounting

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

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

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

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

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

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

(t) Financial guarantees

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

(u) Employee benefits

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

(v) Provisions

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

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

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

(w) Accounts payable and other liabilities

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

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

(x) Leases

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

(i) Group as a lessee

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

(ii) Group as a lessor

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

(y) Revenue

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

(i) Revenue from non-exchange transactions

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

Revenue generated from non-exchange transactions is represented below:

Income-related rental from tenants and income-related rent subsidies (IRRS)

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

Crown operating appropriations

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

(ii) Revenue from exchange transactions

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

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

Rental revenue from tenants at market rent

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

Mortgage Insurance Scheme revenue

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

Interest revenue

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

Management fees

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

(z) Borrowing costs

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

(aa) Income tax

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

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 the HNZC Group's buildings is nil; therefore the tax and accounting bases differ for buildings and the IRE applies. The IRE applies to the acquisition of buildings and to some additions to buildings post 1 July 2010.

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Notes to the Financial Statements (continued)

For the year ended 30 June 2017

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

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

(ab) Other taxes

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

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

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

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

(ac) Contingent assets

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

3. Financial risk management objectives and policies

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

The HNZC Group's mortgage portfolio is managed by Westpac Banking Corporation in accordance with a management agreement. Their processes of mitigating losses to the portfolio are monitored via monthly reports.

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

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

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

(a) Interest rate risk

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

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

Management monitors interest rate levels on an ongoing basis and, when appropriate, will lock in fixed rates within Board-approved interest rate risk policy. Forward rate agreements, interest rate swaps and interest rate

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

options are instruments available for use. During 2017, interest rate swaps designated to hedge underlying debt obligations were the primary financial instrument used.

At 30 June 2017, after taking into account the effect of interest rate swaps, approximately 73 percent of borrowings were at a fixed rate of interest (2016: 87 percent).

(b) Interest rate sensitivity

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

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

	2017 ($M)	2016 ($M)
Net surplus higher/(lower)		
Interest rates + 1%	(3)	(2)
Interest rates - 1%	3	2
Equity higher/(lower)		
Interest rates + 1%	43	46
Interest rates - 1%	(46)	(48)

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

(c) Foreign currency risk

The HNZC Group had no foreign currency borrowings during the year. Foreign currency trade invoices were settled on demand.

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

(d) Credit risk

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

Further, the HNZC Group has made commitments to advance new Housing Innovation Fund loans (that are yet to be disbursed) to third parties of $2.2 million (2016: $2.2 million). This commitment extends the potential maximum credit exposure. Concentration of credit risk exists in relation to money market investments, but this risk is mitigated by the fact that the counterparties are Board-approved and have a high credit rating (note 3(f)). Other than this, no exposure to any material concentration of credit risk exists as the HNZC Group has only a small number of credit customers and has Treasury exposure only with the Crown and Board-approved counterparties with specified Standard & Poor's credit ratings.

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

Credit quality of financial assets not impaired or not yet due

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

(e) Liquidity risk

Liquidity risk is the risk that the HNZC Group may encounter difficulty in raising funds at short notice to meet its financial commitments as they fall due. The Borrowing Protocol with the Crown allows the HNZC Group to borrow a principal amount up to $150 million for working capital purposes from sources other than the Crown at its own discretion. All the HNZC Group's term debt is sourced from the Crown.

The HNZC Group has a $150 million (2016: $150 million) uncommitted note issuance facility with a group of banks, available to meet short-term liquidity requirements.

The HNZC Group has an unsecured bank overdraft facility of $1 million (2016: $1 million) with an interest rate of 6 percent (2016: 6 percent).

The HNZC Group's policy is that not more than 25 percent of borrowings should mature in any 12-month period. As at 30 June 2017, 17 percent of the HNZC Group's debt will mature in less than one year (2016: 15 percent).

As at 30 June 2017 the contractual maturity (undiscounted cash flow) of the HNZC Group's financial liabilities was as follows:

	0-1 YEAR ($M)	1-2 YEARS ($M)	2-3 YEARS ($M)	3-5 YEARS ($M)	5+ YEARS ($M)	TOTAL ($M)
At 30 June 2017						
Crown loans floating interest rate	375	168	296	532	852	2,223
Accounts payable and other liabilities	98	–	–	–	–	98
Financial guarantees – sold loans	–	–	–	–	1	1
Interest rate derivatives – net settled	41	29	18	16	5	109
Total	**514**	**197**	**314**	**548**	**858**	**2,431**
At 30 June 2016						
Crown loans floating interest rate	314	369	154	446	762	2,045
Accounts payable and other liabilities	82	–	–	–	–	82
Financial guarantees – sold loans	–	–	–	1	1	2
Interest rate derivatives – net settled	44	40	31	38	21	174
Total	**440**	**409**	**185**	**485**	**784**	**2,303**

(f) Concentration of risk

The HNZC Group has substantial deposits in excess of $528 million with five different banks, of which more than $175 million each is maintained with ANZ Bank New Zealand Limited and Westpac New Zealand Limited. These are reputable banks and have a Standard & Poor's long-term credit rating of AA–.

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Notes to the Financial Statements (continued)

For the year ended 30 June 2017

(g) Ageing of receivables and loans

(i) Ageing analysis of receivables

	NEITHER PAST DUE NOR IMPAIRED $(M)	PAST DUE BUT NOT IMPAIRED 0-30 DAYS $(M)	IMPAIRED 30 DAYS PLUS $(M)	TOTAL $(M)
At 30 June 2017				
Rent	1	1	–	2
Damages	–	–	5	5
Other receivables	63	–	–	63
Total	**64**	**1**	**5**	**70**
At 30 June 2016				
Rent	1	2	–	3
Damages	–	–	4	4
Other receivables	32	–	–	32
Total	**33**	**2**	**4**	**39**

(ii) Ageing analysis of mortgage advances

	NEITHER PAST DUE NOR IMPAIRED $(M)	PAST DUE BUT NOT IMPAIRED 0-60 DAYS $(M)	PAST DUE BUT NOT IMPAIRED 60-90 DAYS $(M)	90 DAYS PLUS* $(M)	TOTAL $(M)
At 30 June 2017					
Mortgage advances past due not impaired	–	2	–	2	4
Other mortgage advances	37	–	–	–	37
Total	**37**	**2**	**-**	**2**	**41**
At 30 June 2016					
Mortgage advances past due not impaired	–	4	–	1	5
Other mortgage advances	41	–	–	–	41
Total	**41**	**4**	**-**	**1**	**46**

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

(h) Fair value hierarchy

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

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

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

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

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

The fair value of the financial instruments, as well as the methods used to estimate the fair value, are summarised in the table below. No Level 1 or 3 financial instruments are held at 30 June 2017 (2016: nil).

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Notes to the Financial Statements (continued)

For the year ended 30 June 2017

	30 JUNE 2017 VALUATION TECHNIQUE - MARKET OBSERVABLE INPUTS (LEVEL 2) $(M)	30 JUNE 2016 VALUATION TECHNIQUE - MARKET OBSERVABLE INPUTS (LEVEL 2) $(M)
Financial assets		
Interest rate derivatives	3	–
Available-for-sale investments	–	–
Financial assets at fair value through net surplus/(deficit)	–	1
Total	**3**	**1**
Financial liabilities		
Interest rate derivatives	104	163
Financial guarantees – sold loans	1	2
Total	**105**	**165**

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

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

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

(i) Capital management

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

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

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

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

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

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

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Notes to the Financial Statements (continued)

For the year ended 30 June 2017

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

(a) Judgements

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

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

The HNZC Group owns approximately 63,276 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 social housing, and as such, according to PBE IPSAS 16 *Investment Property*, they are to be accounted for under PBE IPSAS 17 *Property, Plant and Equipment*.

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

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

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

Management reclassifies assets, or any group of assets, as held for sale or held for distribution to the owner, upon determining that it is has become highly probable that the carrying amount of those assets, or group of assets, will, in their present condition, be recovered through a respective sale or distribution transaction within the next 12 months. For a sale or distribution transaction to be highly probable, the assets, or group of assets, must be available for immediate sale or distribution and the HNZC Group committed to the impending sale or distribution transaction (refer note 9).

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

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

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

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

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

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the HNZC Group. Judgement on various aspects is required including, but not limited to, fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset will be recognised in the Statement of Financial Position as property, plant and equipment, whereas no such asset is recognised for an operating lease.

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

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

(i) Fair value of rental properties

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

The HNZC Group owns approximately 63,276 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 properties within the portfolio due to the homogeneous nature of the portfolio. Properties are valued based inherently on their 'highest and best use' (refer note 9).

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

Social housing transfers

Properties subject to social housing sale/transfer transactions may require the application of a social housing covenant registered against each individual computer freehold register. The methodology adopted to determine the individual encumbered values within the relevant asset portfolio requires key assumptions and estimates which are inherently subjective and are supplied by the Treasury, designated valuer of that asset portfolio and management.

The relevant asset portfolio is assessed based on an estimate of what a potential purchaser would pay for that asset considering all the income and expenditure streams over a fixed period of time as stipulated within the capacity contract. A discounted cash flow model is used to calculate the discounted net returns estimated for the portfolio by applying an appropriate discount rate provided by the Treasury and converting it to present value. This produces a difference between the unencumbered value of the combined asset portfolio and the encumbered net present value. This is the percentage discount applied to each individual computer freehold register.

(ii) Fair value of derivative financial instruments

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

(iii) Mortgage guarantee provision

As part of the agreement to sell mortgages to the Westpac Banking Corporation, the HNZC Group guaranteed a number of those mortgages. The mortgage guarantee provision is an actuarially assessed amount, likely to be payable under that guarantee. The value of the provision depends on various factors, some of which are the value of the loans expected to default, the number of active mortgages, and the average loan balance (refer note 13).

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

(iv) Impairment of non-financial assets

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

(v) Taxation

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

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

(vi) Estimation of useful lives of assets

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

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

Buildings	40-60 years
Improvements	25 years
Chattels	10 years

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

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

(vii) Recoverability of loans and receivables

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

5. Mortgages

(a) Mortgage advances

	2017 ($M)	2016 ($M)
Non-current mortgage advances	38	43
Provision for doubtful debts	(1)	(1)
Net non-current mortgage advances	**37**	**42**
Current mortgage advances	**4**	**4**
Total net mortgage advances	**41**	**46**

These loans consist of Housing Innovation Fund loans of $26 million (2016: $28 million) and historical loan products such as general and residual lending of $15 million (2016: $18 million). Maturity periods of the mortgages range from 1 to 23 years. Borrowers may settle loans at any time; however, expected cash flows, based on contractual maturity dates, are as follows:

	WEIGHTED AVERAGE INTEREST RATE (ALL LOANS) 2017 (%)	WEIGHTED AVERAGE INTEREST RATE (EXCL 0% LOANS) 2017 (%)	2017 ($M)	WEIGHTED AVERAGE INTEREST RATE (ALL LOANS) 2016 (%)	WEIGHTED AVERAGE INTEREST RATE (EXCL 0% LOANS) 2016 (%)	2016 ($M)
Up to 1 year	5.49	5.49	4	0.28	5.93	4
1 to 5 years	0.20	6.77	16	0.27	6.79	17
Over 5 years	2.52	5.77	21	2.42	6.23	25
Total weighted average	**2.41**	**5.78**	**41**	**2.32**	**6.23**	**46**

Interest rates on mortgages range from 0 to 7.95 percent (2016: 0 to 7.95 percent).

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

Housing Innovation Fund mortgage advances

At 30 June 2017 the Housing Innovation Fund (HIF) mortgage advances are recognised at fair value upon inception. The fair value is calculated as the present value of the estimated future cash flows discounted at the effective interest rate. In subsequent years the discount unwind for each loan is recognised in the net surplus/(deficit).

At the end of the financial year, the total fair value of HIF mortgage advances was $26 million (2016: $28 million).

(b) Movements in provision for doubtful debts

	2017 ($M)	2016 ($M)
Balance at 1 July	1	1
Written off	–	–
Balance at 30 June	**1**	**1**

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

6. Receivables

(a) Receivables from non-exchange transactions

	2017 ($M)	2016 ($M)
Rental debtors	7	7
Provision for doubtful debts	(5)	(4)
Sub-total	**2**	**3**
Other receivables	6	6
Total receivables from non-exchange transactions	**8**	**9**

An impairment loss of $4 million (2016: $4 million) relating to the credit risk associated with rental debtors and the recovery of the cost of damages has been recognised in the current year and included in net surplus/(deficit).

(b) Receivables from exchange transactions

	2017 ($M)	2016 ($M)
Current receivables from exchange transactions		
Interest receivable	5	7
Receivable from related parties	–	5
Other receivables	52	18
Sub-total - receivables from exchange transactions	**57**	**30**
Non-current receivables from exchange transactions		
Long-term receivables from exchange transactions	–	–
Total receivables from exchange transactions	**57**	**30**

(c) Movements in provision for doubtful debts

	2017 ($M)	2016 ($M)
Balance at 1 July	4	4
Bad debts expense	7	4
Bad debts written off	(6)	(4)
Balance at 30 June	**5**	**4**

7. Investments

	2017 ($M)	2016 ($M)
Loans and receivables		
Short-term investment on money market	472	491

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

8. Properties held for sale

	2017 ($M)	2016 ($M)
Properties held for sale	**302**	**150**

In cases where, at balance date, it is highly probable that certain properties will be sold in their present condition within the next 12 months, such properties are reclassified from property, plant and equipment to properties held for sale. Properties held for sale are valued under PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. At 30 June 2017 the total fair value of properties held for sale, less selling and other costs, was $302 million (2016: $150 million). The revaluation reserve relating to properties held for sale assets was $93 million (2016: $43 million).

Properties subject to social housing sale or transfer transactions

(a) Tauranga rental properties

In accordance with the Government's Social Housing Reform Programme, 1,138 properties in Tauranga, along with related tenancy and property management services, were transferred to Accessible Properties Limited on 1 April 2017. The total value of the assets transferred was $146 million, and was treated as a cash sale with the proceeds retained by HNZC Group with a gain on sale of $1 million upon disposal. The associated revaluation reserve relating to that asset portfolio has been transferred to retained earnings accordingly.

The contractual agreement for the sale of these properties allowed for a warranty provision to the purchaser. This provision covers those properties that have structural damage or had been adversely affected by methamphetamine identified by the purchaser subsequent to the sale. The purchaser is entitled to make a claim for structural damage and methamphetamine contamination by 30 June 2017 and 31 March 2018, respectively.

To date no claims have been paid. Based on the HNZC Group's experience in dealing with these matters, a calculation of the cost associated with the possible claims exposure has been provisioned at $9.5 million at the end of this financial year.

(b) Invercargill rental properties

On 17 August 2015 the Treasury's Transaction Unit announced the Government's intention to dispose of HNZC Group rental properties in Invercargill. By March 2016 an Expression of Interest process had identified one prospective purchaser for the Invercargill properties. Based on this level of interest, encumbrances were then placed on the titles of the Invercargill properties in order to ensure its purpose for social housing would be maintained for at least 25 years into the future. The effective date of the encumbrances was 4 March 2016.

The placing of encumbrances on the property titles prompted the need to recognise both a revaluation of the properties (to take account of the rise in market values from 1 July 2015 to 4 March 2016), and the reduction in book value arising from the encumbrances themselves. The effect of the revaluation on the carrying amount of these properties was a decrease of $0.4 million for Invercargill properties. The impact of the encumbrances on the carrying amount of these properties was a decrease of $21 million for Invercargill. This reduction was recognised through the revaluation reserve at 30 June 2016.

Following encumbrances being recorded on the property titles, the Government initiated a closed Request for Proposal process with a single prospective purchaser which resulted in reclassifying the properties from non-current property, plant and equipment to assets to current assets held for sale in February 2017.

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

(c) Christchurch rental properties

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

The placing of encumbrances on the property titles prompted the need to recognise the reduction in book value arising from the encumbrances. The impact of the encumbrances on the carrying amount of these properties was a decrease of $504 million. This reduction was recognised through the revaluation reserve.

Following encumbrances being recorded on the property titles, the Government initiated a Request for Proposal process on 26 June 2017 with the prospective purchasers which resulted in reclassifying the properties from non-current property, plant and equipment to assets to current assets held for sale.

Valuation Sensitivity Analysis

The fair value of the properties has been determined using a discounted cash flow model (DCF). The model uses a number of inputs in relation to the forecast income and expenditure streams associated with operating the Christchurch asset portfolio in accordance with the restrictions imposed by the encumbrance and capacity contract. The inputs to the model are based on HNZC Group's existing knowledge and experience using historical information available.

The DCF has been calculated over a term of 25 years discounted to present value using a rate of 6 percent.

Management is required to make judgements, estimates and assumptions that affects the overall valuation. Uncertainty about these assumptions and estimates could result in outcomes that are materially different to the carrying amount in the financial statements. The following describes the assumptions used within each key input and the sensitivities to these inputs:

KEY INPUTS	BASELINE ASSUMPTIONS	SENSITIVITY	IMPACT ON FAIR VALUE
Rental income	2.36% annual growth based on actual rental income for encumbered properties at 30 June 2017	+1%	+$48m
		-1%	-$43m
Maintenance expenditure	2.5% annual growth based on approximately $1,830 per property	+$400 per property	-$13m
		-$400 per property	+$13m
Property Rates	5% annual growth based on actual rates paid on encumbered properties at 30 June 2017	+1%	-$9m
		-1%	+$8m
Insurance	5% annual growth based on $10 per square metre per property	+1%	-$5m
		-1%	+$4m
Management fee	8% of rental income of encumbered properties	+1%	-$5m
		-1%	+$5m

The impact on the fair value of the encumbered properties from renewing the encumbrance for a further 25 years (without changing the baseline assumptions) is an increase of $73 million.

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

9. Property, plant and equipment

	FREEHOLD LAND ($M)	RENTAL PROPERTIES ($M)	CAPITAL WORK IN PROGRESS* ($M)	LEASEHOLD IMPROVEMENTS ($M)	FURNITURE AND FITTINGS ($M)	COMPUTER EQUIPMENT ($M)	TOTAL PROPERTY, PLANT AND EQUIPMENT ($M)
Year ended 30 June 2017							
At 1 July 2016, net of accumulated depreciation	**14,222**	**8,205**	**120**	**5**	**2**	**3**	**22,557**
Additions	114	405	64	2	1	2	588
Disposals	(33)	(73)	–	–	–	–	(106)
Revaluation for encumbrances	(265)	(239)	–	–	–	–	(504)
Other revaluations	2,419	485	–	–	–	–	2,904
Classified as held for sale	(154)	(148)	–	–	–	–	(302)
Depreciation charge for the year	–	(224)	–	(1)	–	(1)	(226)
At 30 June 2017, net of accumulated depreciation	**16,303**	**8,411**	**184**	**6**	**3**	**4**	**24,911**
Year ended 30 June 2016							
At 1 July 2015, net of accumulated depreciation	**12,976**	**7,828**	**105**	**5**	**2**	**3**	**20,919**
Additions	57	399	28	1	–	2	487
Disposals - Tamaki properties transfer	(1,233)	(367)	(13)	–	–	–	(1,613)
Disposals	(38)	(44)	–	–	–	–	(82)
Revaluation for encumbrances	(124)	(121)	–	–	–	–	(245)
Other revaluations	2,664	786	–	–	–	–	3,450
Classified as held for sale	(80)	(70)	–	–	–	–	(150)
Depreciation charge for the year	–	(206)	–	(1)	–	(2)	(209)
At 30 June 2016, net of accumulated depreciation	**14,222**	**8,205**	**120**	**5**	**2**	**3**	**22,557**

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

Valuation

Freehold land and rental properties in the portfolio were revalued as at 30 June 2017 at fair value in accordance with PBE IPSAS 17 *Property, Plant and Equipment*. The valuation was performed by Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being Andrew F Parkyn (B Com (VPM), PG Dip Com, SPINZ, ANZIV).

The total gross amount of the valuation, excluding properties held for sale, and excluding selling and other costs, was $24,714 million (2016: $22,427 million).

Rights of First Refusal for sale of surplus HNZC land

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

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Notes to the Financial Statements (continued)

For the year ended 30 June 2017

The following Acts grant RFR over various HNZC Group properties:

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

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

- Ngati Ranginui (Tauranga)
- Te Tira Whakaemi (Wairoa)
- Ngāti Rangi (Ohakune)
- Ngāti Hinerangi (Matamata)
- Hauraki Collective (Thames, Coromandel)
- Ngati Maru (Taranaki)

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

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

10. Properties under development

	2017 ($M)	2016 ($M)
Properties under development	**11**	**24**

Properties under development held by HNZL are recognised as inventory. The net realisable value of the land and improvements, as per the annual market valuation as at 30 June 2017 was $66 million (2016: $32 million) compared with the incurred cost of $11 million (2016: $24 million).

Properties under development recognised as inventory are recorded under PBE IPSAS 12 Inventories. The net realisable valuation was performed by Quotable Value New Zealand, a company employing registered and qualified valuers, with the registered valuers for the valuation being Hugh Robson (Dip Val, SPINZ, ANZIV), and Jan O'Donoghue (MPINZ).

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Notes to the Financial Statements (continued)

For the year ended 30 June 2017

11. Software

	SOFTWARE EXTERNAL ($M)	SOFTWARE INTERNAL ($M)	PROJECTS WORK IN PROGRESS ($M)	TOTAL ($M)
Year ended 30 June 2017				
At 1 July 2016, net of accumulated amortisation	**1**	**54**	**1**	**56**
Additions	–	1	–	1
Capitalised from projects work in progress	–	–	–	–
Amortisation for the year	(1)	(18)	–	(19)
At 30 June 2017, net of accumulated amortisation	**–**	**37**	**1**	**38**
Year ended 30 June 2016				
At 1 July 2015, net of accumulated amortisation	**1**	**66**	**5**	**72**
Additions	1	5	–	6
Capitalised from projects work in progress	–	4	(4)	–
Amortisation for the year	(1)	(21)	–	(22)
At 30 June 2016, net of accumulated amortisation	**1**	**54**	**1**	**56**

These assets are tested for impairment where an indicator of impairment arises. There was no impairment write-down charged to the net surplus/(deficit) for the year (2016: nil).

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

12. Accounts payable and other liabilities

	2017 ($M)	2016 ($M)
Accounts payable	50	37
Maintenance accrual	3	2
Interest payable	16	18
Due to the Crown	–	1
Other payables and accruals	29	24
Total accounts payable and other liabilities	**98**	**82**

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Notes to the Financial Statements (continued)

For the year ended 30 June 2017

13. Provisions

	SOLD MORTGAGE PROVISIONS ($M)	HOUSING INNOVATION FUND PROVISIONS ($M)	WARRANTY STOCK TRANSFER ($M)	TOTAL ($M)
At 1 July 2016	2	1	–	3
Release of unused amounts	(1)	–	–	(1)
New provision recognised	–	–	9	9
At 30 June 2017	**1**	**1**	**9**	**11**
Current	–	1	9	10
Non-current	1	–	–	1
At 30 June 2017	**1**	**1**	**9**	**11**
At 1 July 2015	2	1	–	3
Release of unused amounts	–	–	–	–
At 30 June 2016	**2**	**1**	**–**	**3**
Current	–	1	–	1
Non-current	2	–	–	2
At 30 June 2016	**2**	**1**	**–**	**3**

(a) Mortgage guarantee provision

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

The mortgage guarantee provision is an actuarially assessed amount, likely to be payable under that guarantee. The actuarial assessment was made, as at 30 June 2017, by Andrea Gluyas of PricewaterhouseCoopers, a Fellow of the New Zealand Society of Actuaries and of the Institute of Actuaries of Australia. The value of the provision depends on various factors, some of which are the value of loans expected to default, the number of active mortgages, and the average loan balance. Liability exposure under this guarantee is currently estimated to continue until 2026 (being the latest repayment date of the guaranteed mortgages). The maximum combined liability under the insurance scheme at 30 June was $10.0 million (2016: $14.4 million), being the outstanding amount owed under the guaranteed mortgages. The actuaries have expressed their satisfaction as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims provision.

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

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

SOLD MORTGAGES	ORIGINAL SOLD AMOUNT ($000)	CORPORATION'S EXPOSURE ($000)	PROVISION MADE ($000)	SUFFICIENCY MARGIN (%)	
				2017	2016
September 1998	196,000	560	20	80	80
December 1998	98,000	6,691	579	90	90
November 1999	34,500	1,194	87	75	75
1996 portfolio	250,000	1,517	30	75	75
	578,500	**9,962**	**716**		

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Notes to the Financial Statements (continued)

For the year ended 30 June 2017

To minimise its guarantee obligations under the 1998 sale to Westpac Banking Corporation, the HNZC Group obtained an indemnity on losses of more than $23.3 million from Raukura Whare Limited (a wholly-owned subsidiary of Waikato Raupatu Lands Trust). The Raukura Whare Limited indemnity does not, however, relieve the HNZC Group from its primary liability to Westpac Banking Corporation under the guarantee. The Trustee of the Waikato Raupatu Lands Trust has guaranteed (capped at $20 million) Raukura Whare Limited's liability to the HNZC Group. The HNZC Group's maximum liability under the above guarantee as at 30 June was $6.7 million (2016: $9.5 million), being the amount owed under the 556 guaranteed mortgages as at 30 June.

(b) Lease commitment provisions

The HNZC Group has 35 (2016: 26) office leases to meet current office accommodation requirements of its neighbourhood units and service offices.

A make-good provision of $257,000 (2016: $369,000) has therefore been recorded to meet any liability in respect of these leases for neighbourhood units and national offices.

(c) Housing Innovation Fund commitment provisions

The HNZC Group has commitments to advance a number of Housing Innovation Fund loans and operating grants to various third parties over the next financial year. The loans have a 25-year term and are advanced on the basis of an interest-free period for the first 10 years. As each of these loans is disbursed, an impairment is immediately recognised by way of fair value adjustment, given that their present value will then be lower than their face value. In addition, a number of operating grants to various third parties have been committed to as at 30 June 2017, which have been recognised in the Statement of Financial Position.

(d) Warranty stock transfer provisions

The contractual agreement for the sale of Tauranga properties allowed for a warranty provision to the purchaser. This provision covers those properties that have structural damage or had been adversely affected by methamphetamine identified by the purchaser subsequent to the sale. The purchaser is entitled to make a claim for structural damage and methamphetamine contamination by 30 June 2017 and 31 March 2018, respectively.

To date no claims have been paid. Based on the HNZC Group's experience in dealing with these matters, a calculation of the cost associated with the possible claims exposure has been provisioned at $9.5 million at the end of this financial year.

14. Employee entitlements

	2017 ($M)	2016 ($M)
Current accumulated leave provisions	7	6
Non-current long-service leave provision	1	1
Total employee entitlements	**8**	**7**

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

15. Income tax

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

(a) Income tax expense/(benefit)

	2017 ($M)	2016 ($M)
Net surplus/(deficit)		
Current income tax	97	143
Prior period adjustments	(15)	2
Deferred income tax relating to temporary differences	(66)	(101)
Income tax expense/(benefit) reported in net surplus/(deficit)	**16**	**44**
Statement of changes in equity		
Deferred income tax		
Net change in deferred tax due to revaluation of buildings	78	182
Reduction in deferred tax due to the transfer of properties	(4)	(80)
Net change in deferred tax due to hedged financial derivatives from the NZDMO	17	(13)
Income tax expense/(benefit) reported in other comprehensive revenue and expense	**91**	**89**

The reconciliation between the tax expense recognised in the net surplus/(deficit) for the year and tax expense calculated on pre-tax accounting profit at the statutory rate is:

	2017 ($M)	2016 ($M)
Accounting profit/(loss) before tax from continuing operations	**81**	**178**
Taxation at the statutory income tax rate of 28%	23	50
Plus tax effect of:		
Permanent/temporary differences		
Non-deductible expenses	32	6
Deferred tax adjustments in relation to disposal of rental properties	(22)	(11)
Non-deductible losses on disposal of rental properties	(2)	(3)
Prior period adjustments	(15)	2
Income tax expense/(benefit) reported in net surplus/(deficit)	**16**	**44**

(b) Current income tax liability

	2017 ($M)	2016 ($M)
Net current tax liability/(asset) at 1 July	40	25
Current year tax charge to net surplus/(deficit)	97	143
Prior period adjustment	(21)	(1)
Income tax paid	(108)	(136)
Income tax credits sold through pooling account	19	9
Net current tax liability/(asset) at 30 June	**27**	**40**

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

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

	2017 ($M)	2016 ($M)
Deferred tax liabilities		
Rental property building revaluations	1,959	1,963
Management assets	7	9
Earthquake insurance proceeds	55	48
Permanent differences relating to other property improvements	54	41
Gross deferred tax liabilities	**2,075**	**2,061**
Deferred tax assets		
Provisions – employee entitlements	(2)	(2)
Provisions – other	(2)	(2)
Financial derivatives	(27)	(44)
Gross deferred tax assets	**(31)**	**(48)**
Net deferred tax liability	**2,044**	**2,013**

The deferred tax liability movements were:

	2017 ($M)	2016 ($M)
Net deferred tax liability/(asset) at 1 July	2,013	2,023
Rental property building revaluations	74	102
Financial derivatives	17	(13)
Temporary differences relating to properties disposals	(29)	(30)
Temporary differences relating to Christchurch properties transferred to held for sale	2	–
Temporary differences relating to Tamaki properties disposal	–	(29)
Other temporary differences	(39)	(43)
Prior period adjustment	6	3
Net deferred tax liability/(asset) at 30 June	**2,044**	**2,013**

(d) Imputation credits

	2017 ($M)	2016 ($M)
Imputation credits available for use in subsequent reporting periods	**995**	**920**

16. Mortgage Insurance Scheme unearned premium reserve

The HNZC Group provides mortgage insurance to 11 (2016: 11) commercial lenders for loans issued under the Welcome Home Loan scheme. The insurance premium is 2.2 percent of the loan value, of which 1 percent is paid by the borrower and 1.2 percent by the Government. The total value of amounts originally lent, and which remained insured under the scheme at 30 June, was $1,472 million (2016: $1,431 million).

The Mortgage Insurance Scheme (MIS) was assessed last December, March and June by an independent actuary to ensure that the mortgage insurance liability is sufficient to cover any future claims. The outstanding claims liability is determined at that point and is factored into determining the total insurance liability.

The actuarial assessment of the MIS insurance liability was made as at 30 June 2017 by Jeremy Holmes of Melville Jessup Weaver, Fellow of the New Zealand Society of Actuaries.

The assessment reports comply with professional standards applicable to actuarial reports on technical liabilities for general insurance operation and requirements of PBE IFRS 4 *Insurance Contracts*. The actuaries have expressed their satisfaction as to the nature, sufficiency and accuracy of the data used to perform the actuarial valuation of the scheme.

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Notes to the Financial Statements (continued)

For the year ended 30 June 2017

The insured underlying loans have a maturity period of between 8 and 30 years. The cash flows relating to the claims are expected to fall mainly in the first 7 years of the insured loans; however, there is a degree of uncertainty as to the exact timing (see note 16(b) for estimated timing of future cash outflows).

(a) Reconciliation of MIS unearned premium reserve

	2017 ($M)	2016 ($M)
MIS unearned premium reserve at 1 July	29	32
Insurance premium receipts	10	6
Insurance claims	–	(1)
Insurance premium income deferred/(recognised) for the year	–	(3)
Actuarially assessed increase/(decrease) in premium reserve	(11)	(5)
MIS unearned premium reserve at 30 June	**28**	**29**

(b) Estimated timing of net cash outflows

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

	2017 ($M)	2016 ($M)
0 – 1 year	–	2
1 – 2 years	4	5
2 – 3 years	4	4
3 – 4 years	4	4
4 – 6 years	6	5
6+ years	10	9
Total estimated liability	**28**	**29**

(c) Mortgage insurance risk

The principal risk under insurance contracts is that the actual timing of claims and claims payment differs from expectations. This is influenced by the frequency of claims, severity of claims, actual claims paid and subsequent development of long-term claims. Claims frequencies and sizes could be significantly impacted by any of the following:

- A downturn in the New Zealand housing market
- An increase in interest rates
- An increase in unemployment

The objective of the HNZC Group is to ensure that sufficient reserves are available to cover these liabilities and it has set aside funds specifically to support its insurance liability obligations (refer to note 7). The present value of the estimated future claims is invested in short-term bank securities in accordance with Board-approved HNZC Treasury Policies.

The HNZC Group does not reinsure its risk through third parties. The risk exposure is mitigated by the insured lending agencies establishing and actively maintaining prudent lending standards through their credit policies and procedures established for the product. Claims analysis allows periodic adjustments to the credit policy to lower the risk. The HNZC Group is working closely with the lending organisations to pro-actively manage mortgage holders with the intention to minimise mortgage failure and subsequent insurance claims from the lending institutions. Cases that are under management are reviewed closely and regularly by both the lender and the Housing New Zealand Corporation Financial Products Unit team.

Although approximately 41 percent of the original value of settled loans as at 30 June (2016: 40 percent) is with one bank, Kiwibank, there is no material concentration of risk at individual mortgage holder level.

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

(d) Sensitivity analysis

The actuarial assessment of the MIS also included a summary of the sensitivity of the valuation results to changes in the valuation assumptions.

	PROBABILITY OF ADEQUACY (%)	DISCOUNTED CENTRAL ESTIMATE ($000)	RISK MARGIN ($000)	OUTSTANDING CLAIMS LIABILITIES ($000)
Baseline	75%	5,901	2,057	7,958
Risk margin				
85% Probability of adequacy	85%	5,901	3,162	9,063
95% Probability of adequacy	95%	5,901	5,024	10,925
Claim probability assumptions				
+0.2 percentage point	75%	9,985	3,432	13,417
-0.2 percentage point	75%	2,131	788	2,919
Claim size assumptions				
+5% of loan amount	75%	6,950	2,415	9,365
-5% of loan amount	75%	4,856	1,692	6,548
Repayment probability assumptions				
+1 percentage point	75%	5,557	1,943	7,500
-1 percentage point	75%	6,219	2,158	8,377

(e) Liability Adequacy Test

At each reporting date, an assessment is made of whether the recognised insurance liabilities are adequate by using an existing Liability Adequacy Test (LAT) as laid out under PBE IFRS 4 *Insurance Contracts*. The liability value is adjusted to the extent that it is insufficient to meet future claims and expenses. In performing the adequacy test, current best estimates of expected future contractual cash flows, relating to future claims arising from the rights and obligations under the MIS contract, are assessed.

The discount rates used were risk-free rates determined based on spot rates provided by the New Zealand Treasury with an average of 3.15 percent (2016: 2.43 percent).

The probability of sufficiency associated with the risk margin used is 75 percent. Under Reserve Bank insurance regulations, provisions are required to be at a 75 percent probability adequacy level. The HNZC Group has deemed that MIS has a similar risk profile and that this adequacy level is appropriate.

The actuarial assessment of the Liability Adequacy Test for MIS as at 30 June 2017 was $7.9 million (2016: $11.7 million). This is the present value of the amount that will be sufficient for future claims arising from the rights and obligations under the MIS insurance contracts plus an additional risk margin.

The risk margin used in calculating the present value of the expected future payments for claims incurred as at 30 June was 34.9 percent (2016: 34.2 percent) to allow for the inherent uncertainty in the central estimate. The risk margin determination included uncertainty or risks which are a combination of the random or process risk and the systemic risk.

The process risk is estimated by using stochastic models to estimate future claims costs involving a number of simulations for each of the outstanding claims and premium liabilities. Estimating systemic risk is a subjective process. The estimate for systemic risk has been expressed as an additional coefficient of variation (CoV), which is the ratio of standard deviation of a distribution to the average of the distribution.

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

The table below shows the details of the LAT performed:

	2017 ($M)	2016 ($M)
Central estimate claims (undiscounted)	7	10
Discounting	(1)	(1)
Central estimate claims (discounted)	**6**	**9**
Risk margin at 75% probability of sufficiency	2	3
Premium liabilities based on LAT	**8**	**12**

(f) Outstanding Claims Liability

Outstanding Claims Liability (OCL) is measured at the present value of expected future payments or claims incurred, including a risk margin. This includes a liability for claims handling costs and a liability for incurred but not yet reported (IBNR) claims.

The table below sets out the components of the outstanding claims liabilities as at 30 June 2017:

	2017 ($M)	2016 ($M)
Approved claims incurred	-*	-*
Central estimate IBNR claims (undiscounted)	1	2
Discounting	-*	-*
Central estimate claims (discounted)	1	2
Risk margin at 75% probability of sufficiency	-*	-*
Claims handling expenses	-*	-*
OCL at 75% PoA	2	2

* below $500K.

When determining the risk margin, the risk components included in the assumption were the random or process risk and the systemic risk. In determining the random or process and the systemic risks, the same methodology was adopted as when the LAT was performed. The only difference was that the additional CoV used for systemic risk in calculating the OCL was lower than that used for the LAT. This is due to the fact that the OCL represents a much shorter-term obligation than the premium liabilities in the LAT.

The discount rate used was a series of interest rates dependent upon term to payment. The rates used were risk-free rates determined based on spot rates provided by the New Zealand Treasury. The weighted average rate used in determining the OCL at 30 June was 1.91 percent (2016: 2.19 percent).

(g) Claims history and asset backing

Actual claims under the Mortgage Insurance Scheme are lower than those projected by the actuarial assessment at the 75 percent level (2016: lower than those projected by the actuarial assessment at the 75 percent level).

PROJECTED CLAIM LIABILITIES 2017 ($M)	ACTUAL CLAIMS 2017 ($M)	PROJECTED CLAIM LIABILITIES 2016 ($M)	ACTUAL CLAIMS 2016 ($M)
1.80	0.25	2.13	0.68

The date on which a bank first advises that a loan is in arrears is treated as the date for determining when a claim has been incurred.

The total of claims paid out under the MIS from the start of the scheme to 30 June 2017 was $12.6 million (to 30 June 2016: $12 million).

(h) Credit rating

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

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

17. Categories and fair value of financial assets and liabilities

At 30 June the carrying amounts of financial assets and liabilities in each of the categories of financial instruments were as follows:

	2017 ($M)	2016 ($M)
Financial assets		
Loans and receivables		
Cash and cash equivalents	56	29
Receivables (current and non-current)	65	39
Money market investments (current and non-current)	472	491
Mortgages	41	46
Total loans and receivables	**634**	**605**
Financial assets at fair value through net surplus/(deficit)		
Financial assets designated at fair value through net surplus/(deficit)		
Shared equity loans	–	1
Total financial assets at fair value through net surplus/(deficit)	**-**	**1**
Financial assets at fair value through other comprehensive revenue and expense		
Financial assets – cash flow hedge relationships		
Interest rate swaps – cash flow hedges	3	–
Total financial assets – cash flow hedge relationships	**3**	**-**
Total financial assets at fair value through other comprehensive revenue and expense	**3**	**-**
Financial liabilities		
Financial liabilities – cash flow hedge relationships		
Interest rate swaps – cash flow hedges	104	163
Financial liabilities – financial guarantees		
Financial guarantees – sold loans	1	2
Total financial liabilities at fair value through other comprehensive revenue and expense	**105**	**165**
Financial liabilities measured at amortised cost		
Crown loans – floating interest rate	1,953	1,859
Accounts payable and other liabilities	98	82
Total financial liabilities measured at amortised cost	**2,051**	**1,941**

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

	CARRYING AMOUNT		FAIR VALUE	
	2017 ($M)	2016 ($M)	2017 ($M)	2016 ($M)
Financial assets				
Mortgage advances	41	46	38	42
Total	**41**	**46**	**38**	**42**

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

18. Cash and cash equivalents

	2017 ($M)	2016 ($M)
Overnight investments	38	12
Term deposits	18	17
Total cash and cash equivalents	**56**	**29**

Cash and cash equivalents, other than term deposits, represent cash available for working capital purposes. Term deposits are deposits with original maturities of three months or less and include funds restricted for payments of HIF loans, grants and MIS claims.

Overnight investments earn interest at floating rates based on daily bank deposit rates. The weighted average effective interest rate for overnight money market investments at 30 June was 1.95 percent (2016: 2.45 percent).

The weighted average effective interest rate for term deposits at 30 June was 2.56 percent (2016: 2.66 percent) with a term of up to three months.

19. Interest rate derivatives

The HNZC Group has interest-bearing borrowings that incur a floating rate of interest, and uses interest rate swaps to hedge its exposure to changes in the floating interest rate applying to its Crown borrowings. All derivatives are entered into with the Crown and have been designated as hedging instruments.

At 30 June 2017 there were 113 interest rate swap agreements that had commenced (2016: 136), with a notional amount of $1,428 million (2016: $1,623 million), paying a weighted average fixed rate of interest of 5.18 percent (2016: 5.21 percent) and receiving a variable rate equal to the 90-day bank bill rate.

After taking into account the effect of interest rate swaps, approximately 73 percent of borrowings at 30 June were at a fixed rate of interest (2016: 87 percent).

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

	2017 ($M)	2016 ($M)
Interest rate derivatives – assets		
Interest rate derivatives – current assets	–	–
Interest rate derivatives – non-current assets	3	–
Interest rate derivatives – total assets	**3**	**–**
Interest rate derivatives – liabilities		
Interest rate derivatives – current liabilities	41	44
Interest rate derivatives – non-current liabilities	63	119
Interest rate derivatives – total liabilities	**104**	**163**

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

The table below shows the maturity analysis of interest rate derivative assets and liabilities at 30 June:

	0-1 YEAR ($M)	1-2 YEARS ($M)	2-3 YEARS ($M)	3-5 YEARS ($M)	5+ YEARS ($M)	TOTAL ($M)
Year ended 30 June 2017						
Interest rate derivatives – net settled						
Liabilities	(41)	(27)	(17)	(15)	(1)	(101)
Net assets/(liabilities)	**(41)**	**(27)**	**(17)**	**(15)**	**(1)**	**(101)**
Year ended 30 June 2016						
Interest rate derivatives – net settled						
Liabilities	(44)	(38)	(29)	(35)	(17)	(163)
Net assets/(liabilities)	**(44)**	**(38)**	**(29)**	**(35)**	**(17)**	**(163)**

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

	2017 ($M)	2016 ($M)
0 – 1 year	201	406
1 – 2 years	203	201
2 – 3 years	249	181
3 – 5 years	328	330
5+ years	447	505
Total notional principal	**1,428**	**1,623**

The interest rate swaps require settlement of net interest receivable or payable every 90 days. The settlement date coincides with the dates on which interest is payable on the underlying debt. All swaps are matched directly against the appropriate loans and interest expense and measured for effectiveness. They are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk (other than any ineffective portion) are recognised in other comprehensive revenue and expense.

Movement in interest rate swaps contract cash flow hedge reserve

	2017 ($M)	2016 ($M)
Balance at 1 July	**(117)**	**(85)**
Fair value movement of interest rate swaps	15	(86)
Interest expense charged to net surplus/(deficit)	47	41
Amount included in other comprehensive revenue and expense	**62**	**(45)**
Hedging reserve deferred tax	(17)	13
Balance at 30 June	**(72)**	**(117)**

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

20. Loans

Interest-bearing borrowings

	CARRYING AMOUNT 2017 ($M)	CARRYING AMOUNT 2016 ($M)
Loans – current		
Crown loans – floating interest rate	336	276
Total loans – current	**336**	**276**
Loans – non-current		
Crown loans – floating interest rate	1,617	1,583
Total loans – non-current	**1,617**	**1,583**
Total loans	**1,953**	**1,859**

Commercial paper

The HNZC Group has a Note Issuance Facility Agreement dated 20 June 2017. At 30 June 2017 there was no commercial paper outstanding (2016: nil). The aggregate principal amount of commercial paper outstanding will not exceed $150 million at any time. The HNZC Group has given a negative pledge that, while any commercial paper issued under the note issuance facility remains outstanding, it will not, subject to certain exceptions, create or permit any charge or lien over any of its assets.

Crown funding

As at 30 June 2017 the HNZC Group had borrowed $1,953 million from the Crown, with maturity dates ranging from 2017 to 2027 (2016: $1,859 million maturing from 2016 to 2026). The current portion of loans represents those maturing within the next 12 months.

The HNZC Group has given a negative pledge that, while any Crown borrowing remains outstanding, it will not, subject to certain exceptions, create or permit any charge or lien over any of its assets.

Bank overdraft facility

As at 30 June 2017 the HNZC Group had an unsecured bank overdraft facility of $1 million (2016: $1 million) at an interest rate of 6 percent (2016: 6 percent).

The HNZC Group's policy is that not more than 25 percent of borrowings should mature in any 12-month period. As at 30 June 2017, 17 percent of the HNZC Group's debt will mature in less than one year (2016: 15 percent).

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

21. Revenue

(a) Interest income and expense

	2017 ($M)	2016 ($M)
Interest income		
Interest on temporary investments and bank accounts	15	23
Interest on mortgage advances	2	2
Total interest income	**17**	**25**
Interest expense		
Interest on long-term borrowing	39	52
Interest on derivatives	48	41
Total interest expense	**87**	**93**

(b) Crown appropriation income

	2017 ($M)	2016 ($M)
KiwiSaver deposit subsidy/HomeStart	75	66
Other housing related appropriations	13	14
Total Crown appropriation income	**88**	**80**

Total Crown appropriations were $94 million (2016: $83 million); however $6 million (2016: $3 million) has been classified as 'Crown appropriation premium receipts' in note 21(c) below.

(c) MIS revenue

	2017 ($M)	2016 ($M)
Third-party premium receipts	4	3
Crown appropriation premium receipts	6	3
Premium revenue deferred and actuarial (increase)/decrease in premium reserve	–	3
Recognised insurance premium revenue	**10**	**9**
Claims expense	–	(1)
Net surplus/(deficit) for MIS	**10**	**8**

(d) Other revenue

	2017 ($M)	2016 ($M)
Management fees from related parties	4	3
Release of HIF impairment	1	3
Other revenue	47	18
Total other revenue	**52**	**24**

22. Expenses

(a) Depreciation and amortisation

	2017 ($M)	2016 ($M)
Depreciation – rental properties	224	206
Depreciation – management assets	3	3
Amortisation of intangible assets	19	22
Total depreciation and amortisation	**246**	**231**

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

(b) Personnel

	2017 ($M)	2016 ($M)
Wages and salaries	95	85
Employee benefits	6	6
Other personnel costs	3	3
Total personnel	**104**	**94**

(c) Other expenses

	2017 ($M)	2016 ($M)
Professional services	26	24
Insurance	13	15
Communication	3	3
Computer costs and software maintenance fees	8	9
Accommodation, travel and allowances	4	4
Bad debts	7	4
Selling costs	2	3
MIS claims expenses	-	1
Stationery and publications	1	1
Vehicle costs	3	2
Demolition costs	13	7
Property acquisition and development costs	41	23
Other	42	17
Total other expenses	**163**	**113**

(d) Grants

	2017 ($M)	2016 ($M)
KiwiSaver deposit/First Home Ownership subsidies	77	68
Total grant expenses	**77**	**68**

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

	2017 ($M)	2016 ($M)
(i) Amount paid or payable to Ernst & Young (acting on behalf of the Auditor-General) for:		
– Auditing the financial report of the entity and any other entity in the HNZC Group	0.52	0.60
(ii) Other assurance services		
- Review of market rent setting	–	0.04
- Other professional services relating to provision of remuneration and available market data	0.02	0.02
Total amounts paid or payable to the auditors	**0.54**	**0.66**

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

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

	2017 ($M)	2016 ($M)
Assets impairment, write-off/demolition	(48)	(20)
Gain/(loss) on asset sales	8	12
Total realised gains/(losses) on sales, write-off and impairment of assets	**(40)**	**(8)**

23. Annual distribution

	2017 ($M)	2016 ($M)
Annual distribution	**–**	**(30)**

Under section 40 of the Housing Corporation Act 1974 (the Act), as amended, the HNZC Group is required to pay its annual surplus (operating and capital) to the Crown, unless the Minister of Finance and the Minister Responsible for Housing New Zealand Corporation agree otherwise.

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

	2017 ($M)	2016 ($M)
Net surplus/(deficit) after tax	**65**	**134**
Adjustments for:		
Depreciation and amortisation	246	231
Asset impairments and write-offs	48	20
(Gains)/losses on asset disposals	(8)	(12)
Bad debts expense	7	4
Deferred tax recognised	(66)	(101)
Accumulated interest and fair value (gains)/losses on mortgage advances	(2)	(5)
Other non-cash items and non-operating items	6	(8)
Total non-cash and non-operating items	**231**	**129**
Increase/(decrease) in provisions	8	–
Increase/(decrease) in income tax payable/(receivable)	(13)	15
Increase/(decrease) in employee entitlements	1	1
Increase/(decrease) in MIS unearned premium reserve	(1)	(3)
Increase/(decrease) in rent in advance	(1)	(2)
Increase/(decrease) in accounts payable and other liabilities	16	(9)
(Increase)/decrease in net advances to subsidiaries or related parties	5	(4)
(Increase)/decrease in receivables and prepayments	(27)	60
Total working capital movements	**(12)**	**58**
Net cash from operating activities	**284**	**321**

25. Commitments and contingencies

Operating lease commitments – HNZC Group as lessee

The HNZC Group enters into various operating leases for premises it occupies, motor vehicles and office equipment.

These leases have an average term of between three and six years with renewal options included in the contracts. Renewals are at the option of the specific entity that holds the lease.

There are no restrictions placed upon the lessee by entering into these leases.

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

Future minimum rentals payable under non-cancellable operating leases as at 30 June were as follows:

	2017 ($M)	2016 ($M)
Within 1 year	48	53
After 1 year but not more than 5 years	85	86
More than 5 years	14	13
Total	**147**	**152**

(a) Sub-lease receivables

The HNZC Group had no sub-leases as at 30 June (2016: nil).

(b) Operating lease commitments – HNZC Group as lessor

The HNZC Group has entered into property leases for its property portfolio. These properties held under operating leases, are measured under the fair value model in accordance with PBE IPSAS 17 *Property, Plant and Equipment* as their primary purpose is to provide a social benefit rather than being held solely to provide rental income.

There are no non-cancellable leases executed by the HNZC Group.

(c) Capital commitments

At 30 June 2017 capital commitments amounted to $203 million (2016: $120 million) for property projects.

(d) Lending commitments

At 30 June 2017 the HNZC Group had lending commitments (HIF) approved but not yet paid amounting to $2.2 million (2016: $2.9 million).

(e) Contingencies

Home Equity Scheme

At 30 June 2017 a contingent liability for up to $0.6 million (2016: $0.8 million) existed in relation to properties underwritten for the Home Equity Scheme, a community-based home ownership programme to assist more people into their first home. In the event of any part of this amount translating to an actual liability in future, the amount in the property acquisition budget is expected to be sufficient to fund settlement of the liability without material effect on the financial position.

Housing New Zealand Limited

The Crown has provided a warranty in respect of title to the assets transferred to HNZL. HNZL was incorporated into the HNZC Group as a subsidiary in 2001 as part of the legislated consolidation of government housing functions.

The Crown has indemnified HNZL against any breach of this warranty. In addition, the Crown has indemnified HNZL against third-party claims that are a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of HNZL against any liability arising from the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

26. Related party disclosure

The HNZC Group financial statements include the financial statements of Housing New Zealand Corporation and the subsidiaries listed in the following table:

(a) Subsidiaries

NAME	COUNTRY OF INCORPORATION	2017	2016	INVESTMENT 2017 ($M)	INVESTMENT 2016 ($M)
Housing New Zealand Limited	New Zealand	100%	100%	3,415	3,415
HLC (2017) Limited	New Zealand	100%	100%	–	–
				3,415	**3,415**

(b) Terms and conditions of transactions with related parties

- Sales to and purchases from related parties are made in arm's length transactions at normal market prices and at normal commercial terms.
- Outstanding balances as at both 30 June 2017 and 30 June 2016 were unsecured with settlement being in cash.
- There have been no guarantees provided or received for any related party receivables.
- Based on their excellent payment history, no provision for doubtful debts relating to amounts owed by related parties has been necessary at 30 June 2017 (2016: nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

(c) Key management personnel

Key management personnel are defined as senior management of the HNZC Group and all directors. During the year ended 30 June 2017, 10 employees were key management personnel (2016: 7 employees), and no employee was acting in a temporary position (2016: 1 employee).

Key management personnel compensation

	2017 FTES	2016 FTES	2017 ($000)	2016 ($000)
Board members				
Remuneration			534	491
Full-time equivalent members	10.08	11.87		
Leadership team				
Remuneration			3,579	2,956
Full-time equivalent members	9.96	7.29		
Total key management personnel remuneration			**4,113**	**3,447**
Total full-time equivalent personnel	**20.04**	**19.16**		

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

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

	2017 ($)	2016 ($)
Both HNZC and HLC Directors		
Adrienne Young-Cooper	115,637	114,468
John Duncan	96,006	42,556
Ian Kearney	–	12,282
HNZC Directors		
Sandra Alofivae	49,188	41,165
Peter Dow	49,189	42,204
Tau Henare	49,188	28,358
Michael Schur	49,000	49,608
Alick Shaw	49,188	44,165
Jeff Meltzer	44,600	45,204
Whaimutu Dewes	–	1,706
Allan Freeth	–	9,231
Susan Paterson	–	8,192
HLC Directors		
Peter Alexander	6,668	–
Richard Didsbury	8,720	17,308
Matthew Harker	6,668	–
Carlie Eve	4,350	17,308
Kerry Stotter	5,542	17,308
Total Board members' remuneration	**533,944**	**491,063**

Peter Alexander and Matthew Harker were appointed in February 2017.
Richard Didsbury resigned in December 2016.
Kerry Stotter resigned in October 2016.
Whaimutu Dewes resigned in July 2015.
Allan Freeth and Ian Kearney resigned in August 2015.
Carlie Eve and Susan Paterson resigned in September 2015.
Kerry Stotter resigned in October 2016.
Greg Groufsky was appointed to the HLC board in May 2016 and resigned in September 2016.
Andrew McKenzie was appointed to the HLC board in June 2016.

The above table includes all remuneration paid or payable to each director during the year. Neither Andrew McKenzie nor Greg Groufsky received remuneration in relation to their role as HLC directors.

A finance and assurance committee member, Graeme Mitchell, has been appointed during this financial year, and is not on the Board of Directors. HNZC has paid $7,050 to this committee member at 30 June 2017.

Directors' insurance

HNZC acquired directors' and officers' liability and professional indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees.

The total annual premium for the directors' and officers' liability insurance was $63,250 (2016: $63,250).

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

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

	2017	2016
$100,000 - $110,000	76	65
$110,001 - $120,000	52	47
$120,001 - $130,000	29	29
$130,001 - $140,000	23	25
$140,001 - $150,000	24	19
$150,001 - $160,000	13	10
$160,001 - $170,000	3	5
$170,001 - $180,000	6	3
$180,001 - $190,000	10	7
$190,001 - $200,000	8	7
$200,001 - $210,000	2	1
$210,001 - $220,000	5	3
$220,001 - $230,000	1	2
$230,001 - $240,000	–	1
$250,001 - $260,000	–	2
$260,001 - $270,000	1	–
$270,001 - $280,000	3	3
$300,001 - $310,000	2	–
$320,001 - $330,000	–	1
$330,001 - $340,000	–	1
$340,001 - $350,000	1	–
$350,001 - $360,000	1	1
$370,001 - $380,000	–	1
$400,001 - $410,000	1	–
$410,001 - $420,000	1	–
$430,001 - $440,000	2	–
$440,001 - $450,000	1	–
$460,001 - $470,000	–	1
$490,001 - $500,000	–	1
Total employees with remuneration of $100,000 and over	**265**	**235**

During the year ended 30 June 2017, 52 employees (2016: 59) received benefits in relation to cessation, totalling $1,058,397 (2016: $1,076,315).

28. Events subsequent to balance date

There were no material events subsequent to balance date.

Housing New Zealand Corporation

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

29. Budgeted figures

(a) 2017 significant variations from budget

The unaudited budget figures reported in these financial statements are the financial performance targets that were included in the HNZC Group's 2016/17 Statement of Performance Expectations (SPE).

(b) Net surplus/(deficit)

Operating revenue

- Rental revenue from income related rent subsidy and tenants was $37 million higher than budget, reflecting higher rent growth in Wellington and the Central Region combined with an improved rate of occupancy.
- Crown appropriation revenue was $12 million lower than budget, largely due to a lower uptake of HomeStart deposit subsidies being provided to first home buyers than had been anticipated when the budget was established.
- Interest revenue was $10 million higher than budget, due to reduced capital expenditure and better use of cash funds allowing higher levels of investment for longer periods throughout the year.

Operating expenses

- Repairs and maintenance were $8 million lower than budget due largely to lower spend on planned programmes.
- Depreciation on rental properties, were $11 million lower than budget as the actual 2015/16 revaluation resulted in lower than budgeted increases in building values.
- Grants were $14 million lower than budget, largely due to a lower uptake of HomeStart deposit subsidies being provided to first home buyers than had been anticipated when the budget was established.
- Other expenses were $29 million higher than budget, due largely to higher project expenses and recognising the provision for the Tauranga Warranty claims.

(c) Statement of Financial Position

- Overall net assets of $21.6 billion were $2.7 billion above the budget level. This was due to a higher than expected revaluation increase in the property portfolio.
- Current assets were $781 million above budget due to a combination of more than anticipated cash, short-term investments and properties held for sale.
- Property, plant and equipment was $2 billion above budget, due to a higher than expected property portfolio revaluation.
- The lower than expected net movement in the value of buildings resulted in a net decrease of $134 million in the deferred tax liability.

(d) Statement of Changes in Equity

Total equity was $2.7 billion above budget due to the revaluation reserve. The opening reserve position was $1.6 billion higher than budget due to larger revaluation gains in prior years than anticipated. The annual property valuation of $2.4 billion was also $0.7 billion more than that expected in the budget.

(e) Cash Flow Statement

The purchases of rental property assets being $142 million lower than budgeted and the sale of rental properties and management assets being $86 million more than budgeted, in turn contributed significantly to cash flows from relinquishing investments being $303 million below budget. Net cash flow received from financing activities are $124 million better than budgeted due to no dividend payout and additional funding received for emergency housing.

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF HOUSING NEW ZEALAND CORPORATION'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of Housing New Zealand Corporation (the Group). The Auditor-General has appointed me, Grant Taylor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information of the Group on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 54 to 101, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expense, statement of changes in equity and cash flow statement for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Group on pages 18 to 34 and 41 to 52.

In our opinion:

- the financial statements of the Group on pages 54 to 101:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information on pages 18 to 34 and 41 to 52:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2017, including: for each class of reportable outputs:
    - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 26 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board Members and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Uncertainty associated with estimating the fair value of encumbered properties.

Without modifying our opinion, we draw attention to note 8(b) and 8(c) to the financial statements which describes the manner in which the Group has estimated the fair value of properties where an encumbrance is recorded on the property title. The encumbrance constrains the future use of these properties in the event they are disposed of by the Group to other Community Housing Providers.

The assessment of the impact of the encumbrance on the fair value of the properties involves the application of significant subjective judgements and therefore involves uncertainty. Note 8(b) illustrates the impact on the carrying value of these properties that would arise if different assumptions were made regarding the key judgements.

Responsibilities of the Board Members for the financial statements and the performance information

The Board Members are responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board Members are responsible for such internal control as they determine is necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board Members are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board Members are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board Members' responsibilities arise from the Crown Entities Act 2004 and the Housing Corporation Act 1974.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of th Group's internal control.

Chartered Accountants

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board Members and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board Members are responsible for the other information. The other information comprises the information included on pages 2 to 17, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have provided market remuneration data, which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the Group.

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

Housing Agency Account

Financial Statements

Housing Agency Account

Statement of Responsibility

The Housing Agency Account is administered by Housing New Zealand Corporation on behalf of the Crown. It does not form part of the Housing New Zealand Corporation Group.

The Board of Housing New Zealand Corporation is pleased to present the financial statements of the Housing Agency Account for the year ended 30 June 2017.

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

b) The Board is responsible for establishing and maintaining a system of internal control to provide reasonable assurance as to the integrity and reliability of financial reporting.

c) In the opinion of the Board, the financial statements for the year ended 30 June 2017 fairly reflect the financial position and financial performance of the Housing Agency Account at that date.

For and on behalf of the Board of Housing New Zealand Corporation.

Adrienne Young-Cooper
Chair
Housing New Zealand Corporation
26 September 2017

John Duncan
Director
Housing New Zealand Corporation
26 September 2017

Housing Agency Account

Statement of Financial Position

As at 30 June 2017

	NOTES	2017 $000	2016 $000
ASSETS			
Current assets			
Cash at bank		74,528	60,355
Receivables from exchange transactions	8	59,693	56,811
Prepayments		21	65
Advances to related parties	10	492	–
GST receivable		206	1,151
Properties intended for sale	7	21,135	28,097
Total current assets		**156,075**	**146,479**
Non-current assets			
Long-term receivables from exchange transactions	8	35,279	49,422
Mortgage advances	12	836	1,201
Land under development	3	7,392	17,428
Work in progress	4	3,913	3,631
Rental properties	5	13,873	11,592
Plant and equipment	6	446	510
Total non-current assets		**61,739**	**83,784**
Total assets		**217,814**	**230,263**
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	9	1,958	9,418
Advances from related parties	10	–	4,664
Provision for future development costs	11	32,220	20,770
Total current liabilities		**34,178**	**34,852**
Non-current liabilities			
Provision for future development costs	11	4,415	6,032
Total non-current liabilities		**4,415**	**6,032**
Total liabilities		**38,593**	**40,884**
Net assets		**179,221**	**189,379**
EQUITY			
Crown funds		179,349	179,349
Retained earnings		(5,638)	6,972
Revaluation reserve		5,510	3,058
Total equity		**179,221**	**189,379**

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

Housing Agency Account

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2017

	NOTES	2017 $000	2016 $000
REVENUE			
Revenue from non-exchange transactions			
Rental income from tenants		216	211
Rental income from income-related rent subsidy		385	382
Crown appropriation income	10	8	8
Total revenue from non-exchange transactions		**609**	**601**
Revenue from exchange transactions			
Rental income from tenants		1,646	2,766
Interest income		1,096	1,487
Recovery from impairment on work in progress	4	289	116
Recovery from impairment on mortgage advance	12	152	513
Gain on sale of properties		–	10,339
Other income		92	87
Total revenue from exchange transactions		**3,275**	**15,308**
Total revenue		**3,884**	**15,909**
EXPENSES			
Losses on sale of properties		10,781	–
Operating expenses	2	5,701	7,496
Total expenses		**16,482**	**7,496**
Net operating surplus/(deficit)		**(12,598)**	**8,413**
Other comprehensive revenue and expense			
Revaluation reserve gains/(losses) on properties	5	2,440	2,023
Total comprehensive revenue and expense		**(10,158)**	**10,436**

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

Housing Agency Account

Statement of Changes in Equity

For the year ended 30 June 2017

	2017 $000	2016 $000
Total equity at 1 July	**189,379**	**178,943**
Net surplus/(deficit) for the year	(12,598)	8,413
Revaluation reserve gains/(losses)	2,440	2,023
Total comprehensive revenue and expense for the period	**(10,158)**	**10,436**
Contributions from/(distributions) to the Crown		
Contributions from the Crown	–	–
Return of capital to the Crown	–	–
Total contributions from/(distributions) to the Crown	**–**	**–**
Total changes in equity	**(10,158)**	**10,436**
Total equity at 30 June	**179,221**	**189,379**
Equity attributable to the Crown		
Opening balance	179,349	179,349
Closing equity attributable to the Crown	**179,349**	**179,349**
Retained earnings		
Opening retained earnings	6,972	(1,441)
Net surplus/(deficit) for the year	(12,598)	8,413
Net transfers from asset revaluation reserve on disposal	(12)	–
Closing retained earnings	**(5,638)**	**6,972**
Revaluation reserve		
Opening revaluation reserve	3,058	1,035
Asset revaluations on properties	2,440	2,023
Net transfers from asset revaluation reserve on disposal	12	–
Closing revaluation reserve	**5,510**	**3,058**
Total equity at 30 June	**179,221**	**189,379**

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

Housing Agency Account

Statement of Cash Flows

For the year ended 30 June 2017

	2017 $000	2016 $000
Cash flows from operating activities		
Rent receipts – tenants	215	214
Rent receipts – income-related rent subsidy	384	377
Rent receipts – other rental properties	1,646	2,766
Crown operating appropriation receipts	8	8
Receipts from sale of developed assets	54,568	93,065
Contract deposits received	5	–
Interest received	1,096	1,487
Development costs paid	(26,217)	(25,247)
Other payments to suppliers	(20,136)	(64,543)
Management fee paid to related party	(3,854)	(3,322)
Net cash flows from operating activities	**7,715**	**4,805**
Cash flows from investing activities		
Sale of assets	6,006	11,588
Purchases of assets	(82)	(138)
Mortgage advances received	534	299
Net cash flows from investing activities	**6,458**	**11,749**
Net cash flows	14,173	16,554
Opening cash and cash equivalents	60,355	43,801
Closing cash and cash equivalents	**74,528**	**60,355**

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

Housing Agency Account

Notes to the Financial Statements

For the year ended 30 June 2017

1. Statement of accounting policies

Reporting entity

The Housing Agency Account (HAA) is administered as an agency of the Crown by Housing New Zealand Corporation (the Corporation) under the Housing Act 1955 (Housing Act). Under the Housing Act, the Corporation is empowered to act as an agent of the Crown in carrying out the Crown's decisions in relation to the acquisition, setting apart, development of land, and the acquisition of assets for state housing purposes.

HAA does not form part of the Corporation's Group Financial Statements.

HAA has designated itself as a public benefit entity (PBE) for financial reporting purposes. PBEs are defined as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view of supporting that primary objective rather than for a financial return to equity holders. HAA applies New Zealand PBE Standards Reduced Disclosure Regime (RDR). These standards are similar to International Public Sector Accounting Standards, with amendments for the New Zealand environment.

Basis of preparation

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

The financial statements comprise Statement of Financial Position, Statement of Comprehensive Revenue and Expense, Statement of Changes in Equity, Statement of Cash Flows, accounting policies and explanatory notes. They have been prepared on a historical cost basis, except where otherwise stated in the relevant accounting policy, and are presented in New Zealand dollars with all values rounded to the nearest thousand dollars ($000) unless otherwise stated.

Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice.

HAA qualifies for PBE Standards RDR as it is not publicly accountable and non-large. The financial statements have been prepared in accordance with PBE Standards RDR and disclosure concessions have been applied. These financial statements comply with PBE Accounting Standards.

Cash at bank

Cash comprises cash at bank and short-term liquid investments with original maturities up to 90 days held specifically for working capital purposes.

Accounts receivable

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

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

Receivables are recorded as current, except for those expected to be received beyond the next 12 months which have been recorded as non-current.

Properties intended for sale

Properties intended for sale:

- superlots from Hobsonville development;
- land that is regarded as surplus to the Crown and is no longer required.

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

A property is classified as intended for sale when its carrying amount will be recovered principally through sale, it is available for immediate sale in its present condition and the sale is highly probable.

Properties intended for sale are recorded at the lower of the carrying amount and fair value less costs to sell. Any write-downs to net realisable value are charged to net surplus/(deficit) for the year.

Mortgage advances

Mortgage advances are designated at fair value through net surplus/(deficit).

Fair value is determined by reference to market-based evidence. Independent valuations are performed annually to ensure the carrying amount does not differ materially from the asset's fair value at balance date. Movements in fair value are recognised in the net surplus/(deficit) during the year.

Mortgage advances are included in non-current assets as their maturities are greater than 12 months after balance date.

Land under development

Land and related developments that are held for further development and sale in the ordinary course of business are classified as inventory.

Land under development is recorded at the lower of cost or net realisable value (selling price less cost to complete and sales cost). Any write-downs to net realisable value are charged to net surplus/(deficit) for the year.

Work in progress

Land and related developments for eventual use as state housing stock are classified as work in progress. Work in progress is held at cost, which is defined as all costs incurred that are directly related to the development of these assets, and are annually reviewed for any impairment.

Provision for future development costs

HAA estimates future development costs expected to be incurred by each precinct within Hobsonville Point. A provision for future development costs is recognised in the Statement of Financial Position for those costs estimated as required to complete the development process associated with properties sold at the time a sale is recognised. The net movement in the provision for the year is recognised as net gains or losses on the sale of properties in the Statement of Comprehensive Revenue and Expense.

Those costs within the provision expected to be incurred within 12 months after the balance date are classified as current liabilities with the remaining balance of the provision classified as non-current liabilities.

Rental property

Rental properties are initially recorded at historical cost and subsequently measured to fair value on an annual basis. Where an asset is acquired for nominal or zero consideration, the asset is recognised at fair value as at the date of acquisition, with a corresponding recognition of revenue in net surplus/(deficit).

Fair value is determined by reference to market-based evidence and is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Independent valuations are performed annually to ensure that the carrying amount does not materially differ from the asset's fair value at the balance date.

Unrealised gains and losses arising from changes in the fair value of rental property are recognised at balance date. Where a gain reverses a loss previously charged to net surplus/(deficit) for the same asset class, the gain is credited to net surplus/(deficit). Otherwise gains are credited to an asset revaluation reserve in other comprehensive income for that asset class.

An item of property is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of this asset. Upon disposal any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Any gain or loss arising on de-recognition of an asset is included in net

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

surplus/(deficit) in the year the item is derecognised. Gain or loss on derecognition is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

Depreciation is calculated on a straight-line basis over the estimated useful life of rental properties as follows:

Buildings	60 years
Improvements	25 years
Chattels	10 years

Property, plant and equipment

Office equipment and furniture and fittings are measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

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

An item of property, plant or equipment is derecognised upon disposal or when future economic benefits are not expected to arise from its use. Any gain or loss is included in net surplus/(deficit) for the year in which the item is derecognised. Gain or loss on sale is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortised cost. Due to their short-term nature they are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

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

Accounts payable and other liabilities are recorded as current, except for those expected to be settled beyond the next 12 months, which have been recorded as non-current.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to HAA and the revenue can be reliably measured.

(i) Revenue from non-exchange transactions

Revenue from non-exchange transactions is when HAA receives resources for which it provides either no, or nominal consideration, directly in return. Revenue from non-exchange transactions is recognised when initial control over the resources is gained as a result of a past event, receipt of future economic benefits or service potential from those resources is expected, and the fair value of the assets can be measured reliably.

Revenue generated from non-exchange transactions is income-related rental revenue received from tenants, income-related rent subsidies received from the Crown, and Crown operating appropriation.

(ii) Revenue from exchange transactions

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

Revenue shown in net surplus/(deficit) for the year comprises the amounts received and receivable by HAA for providing rental properties to tenants at market value, gains on sale of land and buildings, and interest on bank balances. Any non-cash gains in the fair value of investment properties and reversal of previous impairment of assets are recognised in net surplus/(deficit) for the year.

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

Financial instruments

HAA is party to a number of financial instruments including cash at bank, accounts receivable, Crown debtors, mortgage advances, contract deposits, accounts payable and other liabilities plus advances to/(from) related parties.

Gains or losses on financial instruments are recognised in net surplus/(deficit) in the period in which they occur.

Taxation

HAA is not liable for income tax by virtue of section CW 38(2) of the Income Tax Act 2007. However, HAA is subject to Goods and Services Tax (GST).

All amounts within the financial statements are stated exclusive of GST, except for accounts receivable and accounts payable, which are GST inclusive.

Capital management

HAA's capital is in equity, which comprises accumulated funds generated from its operating and investment activities, Crown appropriation and other reserves. These funds will be held by HAA in order to meet its state housing objectives, and will only be held for the purposes for which they were originally appropriated. Any residual accumulated funds that are not utilised by HAA will be returned to the Crown.

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

Contract deposits

Contract deposits arising from Hobsonville development sale transactions reflect contractual consideration paid by prospective purchasers prior to settlement. These deposits are recognised as income as land settlement occurs or title transfers.

Significant judgements and estimates

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

Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and reasonable current assumptions, the results of which form the basis of the carrying values for assets and liabilities that are not readily apparent from other sources.

Rental properties

HAA revalues rental properties on an annual basis. Fair value is determined by reference to market-based evidence from independent valuers Quotable Value New Zealand.

In performing the valuation, the entire portfolio has not been individually inspected. A market indexation approach has been adopted for the remaining uninspected portfolio due to the homogeneous nature of the portfolio. 'Highest and Best Use' scenario was used in the property valuation.

Impairment of plant and equipment, work in progress and land under development

HAA's primary objective from its non-financial assets is to develop land for housing rather than to generate a commercial return.

Plant and equipment, work in progress and land under development are held at the lower of cost or net realisable value and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be fully recoverable. An impairment loss is recognised for the amount by which the asset's

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

carrying amount exceeds its recoverable service amount. If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit.

Reversal of an impairment loss is recognised in the surplus or deficit.

Provision for future development costs

Management makes significant judgements when estimating the amount of the provision for future development costs. As a prerequisite for establishing a provision in relation to each development, management needs to determine whether that development site has been sold. All relevant factors are assessed in ascertaining whether or not the significant risks and rewards of ownership have transferred to the purchaser, when determining whether a sale has occurred.

Management estimates future development costs using a model that includes both development specific costs as well as a share of Hobsonville site-wide costs. Those costs specific to a particular development are those that provide a direct benefit to that development and typically include construction, landscape design and engineering costs. Site-wide costs are those that are incurred on a total site-wide basis that benefit all developments in the Hobsonville site area, and typically include site-wide amenity assets, site-wide remediation, and coastal walkway costs.

An apportionment of site-wide costs is allocated to each individual development based on the proportion of that development's area to the total Hobsonville site area.

At each balance date, the estimate of future development costs is revised by updating the underlying assumptions and taking account of latest available information in the future development cost model. This includes consideration of development costs incurred to date, internal business planning strategies, and external experts' assessments as to the likely cost of work required to complete both the particular development and the entire Hobsonville site development.

Mortgage advances

HAA designates its mortgage advances at fair value through net surplus/(deficit). An embedded derivative was identified from this financial instrument due to the existence of a prepayment option and the interest rate cap within the mortgage agreements.

Mortgage advances are independently valued at the end of the year by reference to market-based evidence by PricewaterhouseCoopers.

There is no active market currently available for this type of loan. To determine an appropriate discount rate at which to value the loans, the standard bank mortgage and personal lending rates were used as the starting point. These were then adjusted to reflect the average quality and security for the loans. A cap valuation model within Bloomberg was used to estimate the value of the embedded derivative.

Estimation of useful lives of assets

HAA reviews the useful lives and residual values of its property, plant and equipment annually.

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

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

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

2. Operating expenses

	2017 ($000)	2016 ($000)
Management fee	3,854	3,322
Consultants	–	3
Depreciation on rental property	144	115
Depreciation on property, plant and equipment	66	65
Premises security	118	132
Property maintenance	1,000	1,344
Insurance	136	144
Land rates	550	650
Water rates*	56	(340)
Communal property cost	8	12
Audit fees	40	41
Legal fees	6	–
Land management costs	3	32
Commission on rent	50	134
Net discount on deferred settlement debtors and future development costs**	(552)	1,784
Other expenses	222	58
Operating expenses	**5,701**	**7,496**

* Resolved outstanding wastewater charges with Watercare Services Limited for 2014 to 2017 financial years inclusive.

** Future cash flows associated with deferred settlement debtors and future development costs have been discounted to their net present values accordingly.

3. Land under development

	2017 ($000)	2016 ($000)
Land under development for resale	**7,392**	**17,428**

Land under development is measured at the lower of cost or net realisable value. This relates to purchases of land at the former Hobsonville Airbase from the New Zealand Defence Force, Ministry of Education and Auckland Council, and those costs associated with the development of the Hobsonville site.

For the purposes of assessing the realisable value of this property, land under development for resale has been valued as at 30 June 2017 as part of the overall Hobsonville site valuation.

The valuation was carried out by Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being Jan O'Donoghue (MPINZ). The fair value less cost to sell is $10.98 million (2016: $39.52 million).

Movements in land under development

	2017 ($000)	2016 ($000)
Land under development for resale at 1 July	17,428	86,907
Transferred to properties intended for sale	(16,137)	(86,770)
Development costs incurred during the year	6,101	17,291
Land under development for resale at 30 June	**7,392**	**17,428**

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

4. Work in progress

	2017 ($000)	2016 ($000)
Work in progress at 1 July	3,631	3,490
Transfers (to)/from rental properties	(7)	25
Recovery of prior year impairment	289	116
Work in progress at 30 June	**3,913**	**3,631**

Work in progress (land under development for purposes of the state) is held at cost and is tested annually for impairment. Land value comprises properties transferred from various sections of the Crown under the Public Works Act 1981.

5. Rental properties

	2017 ($000)	2016 ($000)
Land	6,962	6,052
Buildings	6,911	5,540
Rental properties at 30 June	**13,873**	**11,592**

	MOVEMENTS			
	2017		2016	
	LAND ($000)	BUILDINGS ($000)	LAND ($000)	BUILDINGS ($000)
Rental properties at 1 July	6,052	5,540	5,173	4,465
Additions during the year	–	79	–	71
Disposals	–	(101)	–	–
Revaluation	910	1,530	879	1,144
Depreciation for the year	–	(144)	–	(115)
Transfers from/(to) work in progress	–	7	–	(25)
Rental properties at 30 June	**6,962**	**6,911**	**6,052**	**5,540**

Rental properties comprising land and buildings were revalued to fair value as at 30 June 2017.

The valuation was carried out by an independent valuer, Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being Andrew F Parkyn (B Com (VPM), PG Dip Com, SPINZ, ANZIV).

The revaluation effect relating to rental properties was an increase of $2.44 million (2016: an increase of $2.02 million). This increase has been recognised in the revaluation reserve.

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

6. Plant and equipment

	EQUIPMENT ($000)	FURNITURE ($000)	LEASEHOLD IMPROVEMENTS ($000)	TOTAL ($000)
2017				
COST				
Balance at 1 July	74	151	359	584
Additions	1	1	–	2
Disposals	–	–	–	–
Balance at 30 June	**75**	**152**	**359**	**586**
LESS:				
ACCUMULATED DEPRECIATION				
Balance at 1 July	(14)	(18)	(42)	(74)
Reversal of disposals	–	–	–	–
Depreciation charged for the year	(15)	(15)	(36)	(66)
Balance at 30 June	**(29)**	**(33)**	**(78)**	**(140)**
2017 Net carrying amount	**46**	**119**	**281**	**446**
2016				
COST				
Balance at 1 July	42	140	348	530
Additions	45	11	11	67
Disposals	(13)	–	–	(13)
Balance at 30 June	**74**	**151**	**359**	**584**
LESS:				
ACCUMULATED DEPRECIATION				
Balance at 1 July	(1)	(3)	(6)	(10)
Reversal of disposals	–	–	–	–
Depreciation charged for the year	(13)	(15)	(36)	(64)
Balance at 30 June	**(14)**	**(18)**	**(42)**	**(74)**
2016 Net carrying amount	**60**	**133**	**317**	**510**

7. Properties intended for sale

	2017 ($000)	2016 ($000)
Properties intended for sale at 1 July	28,097	24,670
Disposals during the year	(23,099)	(86,909)
Transfers from land under development	16,137	86,770
Transfers from investment properties	–	3,566
Properties intended for sale at 30 June	**21,135**	**28,097**

For the purposes of testing whether an impairment has occurred to the properties intended for sale as at 30 June 2017, a valuation was carried out by Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being Jan O'Donoghue (MPINZ).

As at 30 June 2017 the fair value less cost to sell is $75.35 million (2016: $32.73 million).

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

8. Receivables

	2017 ($000)	2016 ($000)
Current receivables		
Accounts receivable	59,698	56,813
Provision for doubtful debts	(5)	(2)
Net realisable value of current accounts receivable	**59,693**	**56,811**
Non-current receivables		
Long-term accounts receivable	35,279	49,422
Total non-current receivables	**35,279**	**49,422**
Total receivables	**94,972**	**106,233**

Long-term receivables relate to sales of developments subject to deferred settlement terms. Deferred settlements arise from sales being recognised when management considers that the risks and rewards of ownership have transferred to a purchaser/developer prior to completion of the development. Long-term receivables associated with deferred settlement debtors have been discounted to their net present value accordingly with an impact of $0.67 million gain recognised directly in the net surplus/(deficit) for the year (2016: $1.90 million loss).

9. Accounts payable and other liabilities

	2017 ($000)	2016 ($000)
Current accounts payable and other liabilities		
Trade creditors	1,947	9,418
Accrued expenses and other liabilities	11	–
Total current accounts payable and other liabilities	**1,958**	**9,418**
Total accounts payable and other liabilities	**1,958**	**9,418**

At 30 June 2017 no accounts payable and other liabilities relates to a development partner's share of the development margin on blocks sold within the Buckley A precinct (2016: $3.36 million).

10. Transactions with related parties

HAA is an account of the Crown. It undertakes some transactions with statutory corporations, state-owned enterprises and government departments on an arm's length basis.

In the current financial year, HAA received nil capital appropriations (2016: nil) and $0.008 million in operating appropriations (2016: $0.008 million) from the Crown. HAA no longer receives either capital or operating appropriations in relation to the Hobsonville development project, as it is now fully self-funded.

In the year to 30 June 2017 the Corporation provided management services to HAA. A management fee of $3.9 million (2016: $3.3 million) was charged by HLC (2017) Limited (HLC) for services relating to the Hobsonville development. No management fee has been charged for other services provided to HAA since this requires ministerial approval under the Housing Agency Accountability Agreement.

The Corporation administers HAA as an agent of the Crown under the Housing Act. As at 30 June 2017 the balance of the total amount owed to HAA by the Corporation and its subsidiaries was $0.5 million (2016: $4.66 million was owed by HAA to the Corporation). This balance was fully paid in July 2017.

In its capacity as agent for HAA, the Corporation manages the rental income and expenses of HAA's rental properties. No fee is charged for this service.

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

11. Provision for future development costs

	2017 ($000)	2016 ($000)
Current provisions		
Provision for development costs	32,220	20,770
Total current provisions	**32,220**	**20,770**
Non-current provisions		
Provision for development costs	4,415	6,032
Total non-current provisions	**4,415**	**6,032**
Total provisions for development costs	**36,635**	**26,802**
Movement in carrying amounts		
Provision for development costs		
Carrying amount at 1 July	26,802	18,939
Additional provisions recognised	29,949	15,819
Development expenditure incurred	(20,116)	(7,956)
Total carrying amount at 30 June	**36,635**	**26,802**

The additional provisions recognised are those costs estimated as required to complete the development process associated with those properties sold during the year. An additional 55,774 square metres of land was sold during the year bringing the total land area for which future costs have been included in the provision to 765,453 square metres.

The increase in estimates relates to the effect of applying revised estimates to those amounts previously provided for in prior years that still remain at the latest balance date.

The non-current portion of the provision has been discounted accordingly with an impact of $0.12 million loss recognised directly in the net surplus/(deficit) for the year (2016: $0.12 million gain).

In the year to 30 June 2017 site remediation costs of $13.26 million are included in the future development costs provision based on estimates provided by Pattle Delamore Partners and reassessment by HLC management (2016: $9.24 million).

12. Mortgage advances

	2017 ($000)	2016 ($000)
Beginning of year	1,201	969
Fair value gain/(loss)	152	513
Repayment of advances	(517)	(281)
Total mortgage advances at 30 June	**836**	**1,201**

Gateway Housing is an initiative approved by Cabinet in 2009 to assist community housing organisations by selling surplus Crown land to build houses for home ownership for first home owners. Where there is no demand for sections by housing organisations or no suitable proposal for land use, land may be offered to individual moderate income households.

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

The sale price of the land is treated as a loan to the buyer, secured by a second mortgage on the title. The interest rates charged on the loan are as follows:

- Years 1 to 5 – 3 percent
- Years 6 to 7 – 1 percent or market rate, whichever is lower
- Years 8 to 9 – 3 percent or market rate, whichever is lower
- Year 10 – 5 percent or market rate, whichever is lower

Gateway loans are designated at fair value through net surplus/(deficit). Any movement in fair value is taken to net surplus/(deficit).

The Gateway loans were revalued independently by Andrea Gluyas of PricewaterhouseCoopers, a member of the New Zealand Society of Actuaries and the Institute of Actuaries of Australia.

13. Financial instruments

	LOANS & RECEIVABLES ($000)	FAIR VALUE THROUGH NET SURPLUS/ (DEFICIT) ($000)	AMORTISED COST ($000)	TOTAL ($000)
30 June 2017				
Financial assets				
Cash at bank	74,528	–	–	74,528
Receivables	94,972	–	–	94,972
Mortgage advances	–	836	–	836
Advances from related parties	–	–	492	492
Total financial assets	**169,500**	**836**	**492**	**170,828**
Financial liabilities				
Accounts payable and other liabilities	–	–	1,958	1,958
Total financial liabilities	**–**	**–**	**1,958**	**1,958**
30 June 2016				
Financial assets				
Cash at bank	60,355	–	–	60,355
Receivables	106,233	–	–	106,233
Mortgage advances	–	1,201	–	1,201
Total financial assets	**166,588**	**1,201**	**–**	**167,789**
Financial liabilities				
Accounts payable and other liabilities	–	–	9,418	9,418
Advances to related parties	–	–	4,664	4,664
Total financial liabilities	**–**	**–**	**14,082**	**14,082**

14. Rights of First Refusal for sale of land

The Right of First Refusal (RFR) restricts the disposal of Crown properties except in accordance with legislation. Iwi/hapū granted RFR have the right to refuse to purchase properties held for disposal first, before they can be disposed of to anyone else.

The following are examples of Acts that grant RFR over those Crown lands set aside for a state housing purpose and administered by Housing New Zealand Corporation under the Housing Act:

- Nga Mana Whenua O Tamaki Makaurau Collective Redress Act 2014 (Minister of Housing exemption is available for the sale of Crown land for housing. If housing is to be built on the land by a third party (and

Housing Agency Account

Notes to the Financial Statements (continued)

For the year ended 30 June 2017

no exemptions apply), the Limited Partnership is to be offered the opportunity to submit a proposal to be the developer)
- Waikato-Tainui Raupatu Claims Settlement Act 1995 (some exemptions available)
- Port Nicholson Block (Taranaki Whānui ki Te Upoko o Te Ika) Claims Settlement Act 2009 (some exemptions available)
- Ngāi Tahu Claims Settlement Act 1998 (some exemptions available)

15. Commitments

Capital commitments

As at 30 June 2017 there is a commitment to pay $4.4 million in relation to the completion of civil project works within Hobsonville development site (2016: $5.3 million).

16. Contingencies

Contingent assets

Venture sale proceeds, Hobsonville Point development

Buckley B

The sale agreement for the Buckley B precinct superblocks, identified as Stage 2, Stage 3a and Stage 3b, to AVJ Hobsonville Ltd, provides for venture proceeds to accrue in the event that the net saleable per-square-metre value of the land being on sold to builder partners and end purchasers exceeds the agreed minimum on-sale per-square-metre price of that land. In such circumstances, 50 percent share of the additional revenue would accrue to HAA.

Catalina Bay

The sale agreement for Catalina Bay to The Landing Holdings Limited Partnership (TLHLP) provides for venture proceeds to be shared equally for the profits achieved from the sale and/or leasing of Catalina Bay calculated as follows:

Venture Proceeds for each Stage shall be the balance over and above that calculated based on gross sales prices and market value of Dwellings and Commercial Units respectively on Catalina Bay that results in a gross return to TLHLP (inclusive of its cost of capital calculated monthly) of 12.5 percent (excluding any GST, if payable) as at the Venture Proceeds Calculation Date of the relevant Stage. The cost of capital charge is an amount equal to the then five-year swap rate plus 5 percent, on debt and equity contributed in respect of each Stage, and is calculated monthly.

Any amount of venture proceeds that may arise from sales will be recognised as a gain on sale in net surplus/(deficit) but the respective amounts can only be determined when sale negotiations are completed.

Contingent liabilities

There are no contingent liabilities at balance date (2016: nil).

17. Subsequent events after balance date

There have been no significant events since balance date (2016: nil).

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF HOUSING AGENCY ACCOUNT'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of Housing Agency Account (the Account). The Auditor-General has appointed me, Grant Taylor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Account on his behalf.

Opinion

We have audited:

- the financial statements of the Account on pages 107 to 122, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies; and

In our opinion:

- the financial statements of the Account on pages 107 to 122:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

Our audit was completed on 26 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board Members of Housing New Zealand Corporation and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Board Members for the financial statements

The Board Members are responsible on behalf of the Account for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board Members are responsible for such internal control as they determine is necessary to enable them to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board Members are responsible on behalf of the Account for assessing the Account's ability to continue as a going concern. The Board Members are also responsible for disclosing, as

Chartered Accountants

applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Account, or there is no realistic alternative but to do so.

The Board Members' responsibilities arise from the Housing Act 1955.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Account's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board Members and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Account to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

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Other information

The Board Members are responsible for the other information. The other information comprises the information included on page 106, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Account in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with or interests in the Account.

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

Housing New Zealand
Housing New Zealand Corporation

New Zealand Government