Our Statement of Performance Expectations

2017 | 2018

Housing New Zealand
Housing New Zealand Corporation

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

Contents

Statement of responsibility

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

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

The information contained in the 2017/18 Statement of Performance Expectations for Housing New Zealand has been prepared in accordance with the Crown Entities Act 2004.

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

The information contained in this Statement of Performance Expectations is consistent with existing appropriations and with the appropriations set out in the Appropriation (2017/18 Estimates) Bill.

Signed:

Adrienne Young-Cooper
Chair

20 June 2017

Countersigned:

John Duncan
Deputy Chair

20 June 2017

Introduction

Housing New Zealand's Statement of Performance Expectations (SPE) sets out our operational and financial performance expectations for the 2017/18 financial year. Our SPE is a companion document to the 2017-2021 Statement of Intent, which provides further detail on our role and the key factors influencing the way we operate.

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

Who we are

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

We are the largest residential landlord in New Zealand. We own approximately 60,500 properties and lease around 2,600 properties. In all, we manage approximately 63,000[1] properties. The value of the owned portion of our portfolio was $22.7 billion[2] at 30 June 2016, making it one of the Crown's largest assets. Approximately 180,000 people live in our homes.

While the provision of social housing is our core role, we also contribute to a broadening range of outcomes across the housing continuum. The context for this change is outlined in the following section. Further detail on how and why our role is changing is outlined in our 2017-2021 Statement of Intent.

1. The figure included in this document is at 30 April 2017 and is post the transfer of properties in Tauranga to community housing provider Accessible Properties on 1 April 2017.
2. The 30 June 2016 property valuation figure has not accounted for the transfer of stock in Tauranga to Accessible Properties on 1 April 2017. Another portfolio valuation is due to be completed by 30 June 2017.

Quick Facts

Properties

Housing New Zealand owns approximately

60,500

We lease around

2,600

In all, we manage approximately

63,000

Portfolio

The value of the owned portion

$22.7b

at 30 June 2016, making it one of the Crown's largest assets

People

Approximately

180,000

live in our homes

Our key areas of focus for 2017/18

Housing New Zealand is embarking on changes to our business to better position itself for a greater leadership role in the housing sector. Our 2017-2021 Statement of Intent outlines in further detail the changes we have planned for the coming four years. Considering our current challenges, operating environment and ministerial expectations, we have identified the following areas of the business relating to operational delivery that we will be particularly focused on during 2017/18:

- Growing our supply of new housing, including social, affordable and market properties across New Zealand to support the Ministry of Social Development's purchasing strategy, including delivery of our Auckland Housing Programme
- Exploring opportunities to further reduce the cost of building including utilising the scale and longevity of our build programmes
- Using opportunities to intensify our land to support the delivery of affordable homes
- Reconfiguring our existing asset portfolio to ensure our homes are fit for purpose for our tenants
- Actively managing all vacant stock and engaging with the Ministry of Social Development on divestment decisions
- Utilising HLC effectively to ensure the successful delivery of our Auckland Housing Programme
- Continuing to work with the Ministry of Social Development to develop a common understanding of social housing demand
- Developing initiatives to support the capacity and capability of community housing providers, including potential small-scale transactions
- Using a social investment approach to determine the most effective mix of services for our tenants and working with other social service providers to establish where and from whom tenants can access appropriate services

Our strategic framework

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

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

This SPE outlines the scope of each of our functions and output classes and the key operational results we will be working to achieve by the end of year one (2017/18) of our four-year strategic framework.

The long-term outcomes we contribute to

BPS Result 8
A 20% reduction in the time to house Priority A clients from the social housing register by 2021

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

Healthier and more stable families and communities

BPS Result 3
A 20% reduction in hospital admission rates for a selected group of avoidable conditions in children aged 0-12 by 2021

A healthy and diverse social housing sector able to meet demand

New Zealand housing market provides affordable accommodation for more New Zealanders

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

Our role in achieving those outcomes

Social Housing

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

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

Social Housing Market Leader

We lead with quality advice and innovation that positively influences results and decision making to achieve social housing reform objectives

Affordable Housing

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

Transitional Housing

We deliver an agreed number of houses in the right places, at the right cost and of the right quality

The homes used for transitional housing are well maintained

The results we are aiming for by 2021

85%	of customers satisfied with our customer services
98%	of homes are let
Measure to be developed	Tenants in need sustaining their tenancies
90%	Alignment of portfolio additions with the Ministry of Social Development purchasing strategy
44 years	Average age of our stock
More than 76%	of our homes meet tenant bedroom requirements
85%	of customers satisfied with their home
95%	of surveyed lettable homes that meet or exceed the baseline standard
15%	reduction in construction programme build costs

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

Number of affordable or market homes enabled **2,380** June 2020 (At least 20% affordable)

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

Success monitored through delivery of agreed volume of emergency housing supply

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

Our functions and outputs

Tenancy management
OUTPUT CLASS 1

Property management
OUTPUT CLASS 1

Social housing supply
OUTPUT CLASS 2 & 5

Supporting social housing reform
OUTPUT CLASS 3

Management of home ownership products
OUTPUT CLASS 4

Supply of market and affordable homes
OUTPUT CLASS 4 & 5

Management and supply of emergency homes
OUTPUT CLASS 1 & 2

Our priorities to achieve our results

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

Our functions and outputs

Our activities and investments are split across the following areas:

Managing our homes

Undertaking activities associated with tenancy and property management, including:

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

Social housing supply

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

Social Housing Reform Programme support and public accountability

Contributing to the Social Housing Reform Programme, particularly through our support to transfer Housing New Zealand homes to registered community housing providers. It also includes providing ministerial support, governance and accountability functions to the Minister Responsible for Housing New Zealand, the Minister for Social Housing, and the Associate Minister for Social Housing.

Enabling housing supply and home ownership

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

Development services provided to the Housing Agency Account

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

When complete, Hobsonville Point will have over 3,500 homes as well as two new schools, community facilities, amenities, public transport facilities and neighbourhood centres to support this new community.

A reliably high-performing organisation

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

Reporting to the Minister

We will provide a quarterly report to the Minister Responsible for Housing New Zealand and the Minister for Social Housing, which will present an accurate and relevant picture of performance over the previous three months, including:

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

We will continue to report progress on our contribution to the growth of the social housing sector. We will also consult with the Minister Responsible for Housing New Zealand and the Minister for Social Housing on progress against the Auckland Housing Programme and portfolio redevelopment around the rest of New Zealand. This will include significant capital expenditure[3] in line with the consultation process set out in the Treasury Owner's Expectations Manual.

3. The threshold for ministerial consultation is currently set at $30 million; however, this will be reviewed in 2017/18 as a result of our strong Investor Confidence Rating.

Managing our homes OUTPUT CLASS 1

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

We renew our existing portfolio of homes

Description

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

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

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

During 2017/18 we will:

- further improve the management of vacant homes and land
- continue to improve our asset planning and asset management practices and processes
- engage with the Ministry of Social Development on divestment decisions
- work closely with the Ministry of Social Development to develop a common understanding of social housing demand
- use a social investment approach to determine the best mix of services for our tenants and work with other social service providers to establish where and from whom tenants can access appropriate services.

Scope

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

Activities

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

2017/18 managing our homes priorities

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

3 Optimise the management of our homes

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

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

How we assess our service performance

REF:	MEASURE	STANDARD 2017/18	STANDARD 2016/17	ACTUAL 2015/16
1.1	Customer satisfaction with Customer Services Centre	80%	80%	93%
1.2	Rental debt older than 7 days as a percentage of monthly rental income	5%	5%	4.1%
1.3	Percentage of homes that are let	97.2%	96.2%	96.0%
1.4	Average number of days from a home becoming vacant to being 'ready to let'	24 days	New measure	
1.5	Percentage of homes in Auckland that are let to applicants from the Ministry of Social Development's social housing register within 15 days of the home becoming available	90%	New measure	
1.6	The percentage of surveyed lettable properties that meet or exceed the baseline standard	89%	N/A	85%
1.7	Percentage of customers satisfied with repairs and maintenance	75%	70%	74%
1.8	Average time to respond to urgent health and safety queries	4 hours	8 hours	2.9 hours
1.9	Percentage of repairs and maintenance spend on planned activity	69%	60%	67%

Revenue and output expenses

DESCRIPTION	BUDGET 2017/18 $M	COMMENT
Revenue Crown	803.7	The revenue and expenses of this output class are in relation to management of the property portfolio. It includes all rent revenue and administration, maintenance and tenant servicing expense for state and Community Group Housing plus revenue and ownership expense for transitional housing. It includes net interest expense.
Revenue Other	396.1	
Expenses	1,033.5	
Net surplus/(deficit)	166.3	

Output class revenue and expense tables may have rounding differences.

Social housing supply OUTPUT CLASS 2

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

Description

Under this output class, Housing New Zealand redevelops its current properties, builds new properties and purchases properties to meet the changing needs of our tenant base and our community group, emergency and transitional housing portfolios.

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

During 2017/18 we will:

- deliver an ambitious asset development programme which will make more social housing available in areas of high demand, particularly Auckland, and will support the Ministry of Social Development's purchasing strategy
- explore opportunities to further reduce the cost of building, particularly for large-scale developments.

Scope

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

- providing new supply to community group, emergency and transitional housing providers.

Activities

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

2017/18 social housing supply priorities

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

3 Increase the pace and scale of housing supply

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

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

How we assess our service performance

REF:	MEASURE	STANDARD 2017/18	STANDARD 2016/17	ACTUAL 2015/16
2.1	Number of additional newly built or existing homes for social, community group and transitional housing*	1,460	1,339	N/A*

*New measurement methodology used in 2016/17 – previous year's results are not comparable.

Revenue and output expenses

DESCRIPTION	BUDGET 2017/18 $M	COMMENT
Revenue Crown	0.0	The revenue and expenses of this output class are in relation to housing supply, housing divestment and land development.
Revenue Other	34.4	
Expenses	164.9	
Net surplus/(deficit)	(130.4)	

Output class revenue and expense tables may have rounding differences.

Social Housing Reform Programme support and public accountability OUTPUT CLASS 3

We lead with quality and innovation that positively influences results and decision making to achieve social housing reform objectives

Description

The Government's vision for social housing is for a diverse sector that is responsive to the changing needs of New Zealanders. We are the largest provider of social housing in New Zealand, and as the reform programme progresses, the number of community housing providers will grow.

The Government is progressing with plans to transfer a proportion of our housing stock to community housing providers. In 2015/16 we transferred 2,708 Housing New Zealand properties in Tamaki to the Tāmaki Regeneration Company. The process of transferring ownership of properties in the Tauranga region to the community housing provider Accessible Properties was completed on 1 April 2017. A further 2,500 properties are expected to be transferred to a community housing provider in Christchurch during the coming year.

This output class also includes services that Housing New Zealand provides to our stakeholder Ministers and our public accountability requirements. Housing New Zealand does not receive an appropriation from Government to provide these services; they are funded from Housing New Zealand's resources.

During 2017/18 we will:

- develop initiatives to support the capacity and capability of community housing providers, including potential small-scale transactions.

Scope

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

Activities

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

2017/18 Social Housing Reform Programme support and public accountability priorities

One of our five organisational priorities for the year is related to our contribution to the Government's Social Housing Reform Programme.

5

Use our expertise to influence the performance of the housing sector

How we assess our service performance

REF:	MEASURE	STANDARD 2017/18	STANDARD 2016/17	ACTUAL 2015/16
3.1	Ministerial correspondence, parliamentary questions, and Official Information Act requests delivered meet the agreed deadline	95%	95%	N/A
3.2	Ministerial services delivered meet the quality criteria	95%	95%	N/A
3.3	Delivery of social housing reform transfers to other social housing providers within the agreed timeframe as set out by the Treasury	Milestones achieved	Milestones achieved	N/A

Revenue and output expenses

DESCRIPTION	BUDGET 2017/18 $M	COMMENT
Revenue Crown	0.0	The revenue and expenses of this output class are in relation to the costs associated with Ministerial services including supporting the Government's Social Housing Reform Programme and government accountability functions.
Revenue Other	(0.0)	
Expenses	21.9	
Net surplus/(deficit)	(21.9)	

Output class revenue and expense tables may have rounding differences.

Enabling housing supply and home ownership OUTPUT CLASS 4

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

Description

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

During 2017/18 we will:

- identify opportunities to intensify our land and support the delivery of affordable homes
- deliver against our Auckland Housing Programme, including freeing up land for market and affordable housing development.

Scope

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

Activities

Activities associated with increasing general and affordable housing supply include:

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

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

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

2017/18 enabling housing supply and home ownership priorities

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

3 Increase the pace and scale of housing supply

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

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

How we assess our service performance

REF:	MEASURE	STANDARD 2017/18	STANDARD 2016/17	ACTUAL 2015/16
4.1	Number of new homes enabled on land previously owned by Housing New Zealand for affordable and market housing	166	New measure for 2017/18	
4.2	Proportion of enabled homes delivered by third parties within agreed timeframes	95%	New measure for 2017/18	
4.3	Average number of days taken to assess a completed KiwiSaver application*	7 working days	7 working days	4.1 working days
4.4	Number of new loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme**	< 2,500	2,500	993

*During 2015/16 Housing New Zealand received 26,544 KiwiSaver applications and approved 15,411. This compared with 15,719 applications received in 2014/15, of which 8,029 were approved.

**This is the maximum number of loans that Housing New Zealand can underwrite in any one year. We are likely to underwrite between 1,250 and 1,300 loans during the 2017/18 year; however, the actual number is difficult to predict and can be influenced by changes in interest rates and monetary policy.

Revenue and output expenses

DESCRIPTION	BUDGET 2017/18 $M	COMMENT
Revenue Crown	103.7	The revenue and expenses of this output class are in relation to products that are managed on the Crown's behalf and expenses associated with the First Home Ownership and Tenant Home Ownership schemes.
Revenue Other	8.1	
Net transfer to unearned premium provision	(5.1)	
Expenses	101.4	
Net surplus/(deficit)	5.3	

Output class revenue and expense tables may have rounding differences.

Development services provided to the Housing Agency Account OUTPUT CLASS 5

DESCRIPTION

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

SCOPE

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

ACTIVITIES

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

2017/18 development services provided to the Housing Agency Account priorities

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

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

How we assess our service performance

REF:	MEASURE	STANDARD 2017/18	STANDARD 2016/17	ACTUAL 2015/16
HOUSING DEVELOPMENT PROJECT – HOBSONVILLE				
5.1	Revenue generated from land sales	>$72 million	New measure	
5.2	Value of HLC-led capex projects delivered	$4.15 million	New measure	
5.3	Units delivered that are long-term rental or affordable housing as a percentage of total units delivered	>20%	New measure	
5.4	Number of HLC community-led events that occur at Hobsonville Point	>3	New measure	
5.5	Percentage of residents satisfied with the overall living experience at Hobsonville Point	>75%	New measure	

Revenue and output expenses

DESCRIPTION	BUDGET 2017/18 $M	COMMENT
Revenue Crown	0.0	The revenue and expenses of this output class are in relation to management and development services for Crown-owned property.
Revenue Other	4.8	
Expenses	4.8	
Net surplus/(deficit)	0.0	

Output class revenue and expense tables may have rounding differences.

A reliably high-performing organisation

Description

Success in all our priorities is reliant on having the right people with the right skills. It also depends on effectively managing our organisational risks and ensuring we are supported by reliable and secure systems.

We have one of the largest asset holdings in the private or public sector in New Zealand. We need to continue to manage our business as efficiently as possible.

We are committed to providing a healthy, safe and secure environment for our staff, contractors and tenants and continuously improving our health, safety and security practices.

Activities

- Improving the management capability within the organisation
- Investing in identifying and retaining talented staff
- Improving our health, safety and security practices
- Undertaking workforce analysis to improve business decisions
- Reviewing our organisational cost structures
- Refreshing our organisational and asset management strategies
- Continuing to improve our support systems and processes
- Managing organisational risks
- Transitioning to 'as a service' technology provision where appropriate

Characteristics of a high-performing organisation

We are focused on becoming a reliably high-performing organisation. For Housing New Zealand, being a high performing organisation means:

- being strategy driven
- having brilliant and engaged people
- being operationally excellent
- focusing on efficiency.

Underpinning this is an ongoing focus on health, safety and security, the behaviours and attitudes that shape our work, and management of our reputation. Each of these things is fundamental to the way we operate, and requires a constant, deliberate focus.

How we assess our service performance

REF:	MEASURE	STANDARD 2017/18	ACTUAL 2015/16
6.1	Net operating costs of managing our housing portfolio per housing unit (excludes depreciation)	$11,700	New measure
6.2	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) as a percentage of total income	33%	39%
6.3	Interest costs to Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)*	4.12	4.82
6.4	Total Recordable Injury Frequency Rate	1.38	1.34**
6.5	Annual employee engagement***	Progress toward 2021 target of top quartile results in NZ public sector	4.06

*Includes capitalised maintenance.

**The measurement methodology used to calculate our Total Recordable Injury Frequency Rate changed for the 2016/17 financial year. The 1.34 result is the reinstated figure using the revised methodology that will continue to be used in 2017/18.

***The New Zealand state sector median score in 2014/15 for those state sector agencies using the Gallup engagement survey was slightly under 3.9 (State Services Commission Report – Human Resource Capability in the New Zealand State Services 2015, January 2016).

Forecast financial highlights for 2017/18

Housing New Zealand manages a portfolio of approximately 63,000 houses. The value of the owned portion of this portfolio was $22.7 billion at 30 June 2016. This is an increase of $1.8 billion on what the portfolio was previously valued at as at 30 June 2015. Another portfolio valuation is due to be completed by 30 June 2017.

The 2017/18 forecast operating surplus before tax is $19.4 million, with no surplus distribution to the Crown.

In 2017/18 we expect to receive $1,349 million in income, comprising:

- $1,189 million in rental income
- $113 million in other operational funding for Crown programmes
- $47 million in interest and other income.

In 2017/18 we expect to incur $1,258 million in operating expenses. In the main, these expenses are made up of:

- $332 million in repairs and maintenance (compared with $323 million budgeted in 2016/17)
- $267 million in depreciation and amortisation
- $198 million in property leases and rates
- $96 million in interest costs
- $95 million in grant payments, primarily from the KiwiSaver scheme
- $270 million in personnel and other expenses.

We also expect to incur $72 million of write-offs, driven by redevelopment activity.

In 2017/18 Housing New Zealand expects to spend $913 million on housing asset purchases and improvements, and expects to receive $319 million from the sale of housing assets.

In 2017/18 Housing New Zealand expects to make payments to the Crown of up to $184 million consisting of income tax of $93 million and interest costs of $91 million.

Forecast Statement of Comprehensive Revenue and Expense

	GROUP FORECAST 2017 $M	GROUP BUDGET 2018 $M
Revenue		
Revenue from non-exchange transactions		
Crown appropriation revenue	92	107
Rental income from income related rent subsidy (IRRS)	737	790
Rental income from tenants receiving IRRS	351	344
Rent Relief Fund revenue	4	4
Revenue from exchange transactions		
Rental income from tenants at market rent	51	51
Interest revenue	13	3
Mortgage insurance scheme	6	6
Other revenue	51	44
Total revenue	**1,305**	**1,349**
Expenses		
Repairs and maintenance	343	332
Rates	148	148
Third-party rental leases	61	50
Depreciation - rental properties	223	246
Depreciation and amortisation - infrastructure assets	23	21
Personnel	102	123
Interest expense	88	96
Grants	81	95
Other expenses	148	147
Total expenses	**1,217**	**1,258**
Other gains/(losses)		
Gain/(loss) on disposal of assets	3	-
Loss on asset write-offs	(45)	(72)
Total other gains/(losses)	**(42)**	**(72)**
Surplus/(deficit) before tax	**46**	**19**
Current tax expense	99	93
Deferred tax expense/(benefit)	(57)	(65)
Income tax expense/(benefit)	**42**	**28**
Net surplus/(deficit) after tax	**4**	**(9)**
Other comprehensive revenue and expense		
Revaluation reserve gains/(losses)	1,682	1,539
Impairment of assets		
Hedging reserve gains/(losses)	57	-
Income tax on items of other comprehensive revenue and expense	(175)	(101)
Other comprehensive revenue and expense net of tax	**1,564**	**1,438**
Total comprehensive revenue and expense net of tax	**1,568**	**1,429**

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

Forecast Statement of Financial Position

	GROUP FORECAST 2017 $M	GROUP BUDGET 2018 $M
Assets		
Current assets		
Cash and cash equivalents	30	30
Mortgage advances	4	4
Receivables and prepayments from exchange transactions	37	37
Receivables from non-exchange transactions	35	35
Short-term investments	252	97
Available-for-sale investments	10	10
Properties intended for sale	274	51
Total current assets	**642**	**264**
Non-current assets		
Property, plant and equipment	24,313	26,346
Properties under development	30	30
Mortgage advances	38	38
Financial assets at fair value through net surplus/(deficit)	–	–
Interest rate derivatives	3	3
Intangible assets	40	25
Total non-current assets	**24,424**	**26,442**
Total assets	**25,066**	**26,706**
Liabilities		
Current liabilities		
Rent in advance	9	9
Accounts payable and other liabilities from exchange transactions	90	91
Income tax payable	50	50
Loans - Crown debt	123	123
Loans - third-party debt	–	12
Provisions	11	1
Employee entitlements	6	6
Interest rate derivatives	29	29
Total current liabilities	**318**	**321**
Non-current liabilities		
Loans - Crown debt	1,813	1,837
Loans - third-party debt	–	148
Deferred tax liability	2,092	2,128
Interest rate derivatives	80	80
Mortgage Insurance Scheme unearned premium reserve	28	28
Provisions	1	1
Employee entitlements	1	1
Total non-current liabilities	**4,015**	**4,223**
Total liabilities	**4,333**	**4,544**
Net assets	**20,733**	**22,162**
Equity		
Equity attributable to the parent	3,560	3,560
Retained earnings	489	789
Revaluation reserve	16,760	17,889
Hedging reserve	(76)	(76)
Total equity	**20,733**	**22,162**

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

Forecast Statement of Changes in Equity

	GROUP FORECAST 2017 $M	GROUP BUDGET 2018 $M
Total equity at 1 July	**19,167**	**20,733**
Revaluation of property, plant and equipment		
Revaluation reserve gains/(losses)	1,682	1,539
Impairment of assets	-	-
Deferred tax on property, plant and equipment revaluations	(159)	(101)
Financial assets at fair value through other comprehensive revenue		
Hedging reserve gains/(losses)	57	
Deferred tax on hedging reserve gains/(losses)	(16)	
Net surplus/(deficit) for the year after tax	4	(9)
Total comprehensive revenue and expense for the period	1,568	1,429
Contributions from and distributions to the Crown		
Net capital contributions (to)/from the Crown	(2)	-
Payment of dividends to the Crown	-	-
Total contributions from and distributions to the Crown	**(2)**	**-**
Total changes in equity	**1,566**	**1,429**
Total equity at 30 June	**20,733**	**22,162**
Equity attributable to the Crown		
Opening balance	3,562	3,560
Net capital contributions (to)/from the Crown	(2)	-
Closing equity attributable to the Crown	**3,560**	**3,560**
Retained earnings		
Opening retained earnings	287	489
Net surplus/(deficit) for the year after tax	4	(9)
Net transfers from asset revaluation reserve on disposal of properties	198	309
Annual distribution	-	-
Closing retained earnings	**489**	**789**
Revaluation reserve		
Opening revaluation reserve	15,435	16,760
Asset revaluations - property, plant and equipment	1,682	1,539
Impairment of assets	-	-
Deferred tax on property, plant and equipment	(159)	(101)
Net transfers from asset revaluation reserve on disposal of properties	(198)	(309)
Closing revaluation reserve	**16,760**	**17,889**
Hedging reserve		
Opening hedging reserve	(117)	(76)
Fair value gains/(losses)	57	-
Deferred tax on derivative fair value movement	(16)	-
Closing hedging reserve	**(76)**	**(76)**
Total equity at 30 June	**20,733**	**22,162**

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

Cash Flow Statement

	GROUP FORECAST 2017 $M	GROUP BUDGET 2018 $M
Cash flows from/(used in) operating activities		
Rent receipts - tenants	394	392
Rent receipts - income-related rent subsidy	730	790
Rent relief fund income	4	4
Crown receipts for HomesStart grants	92	93
Other receipts from Crown	26	26
Mortgage Insurance Scheme (MIS) income	6	11
Interest received from customers and investments	13	3
Other receipts	–	41
Payments to suppliers and employees	(892)	(914)
Income tax paid	(111)	(93)
Interest paid	(96)	(97)
Net cash flows from/(used in) operating activities	**166**	**256**
Cash flows from/(used in) investing activities		
Sale of rental properties and management assets	208	319
Mortgage and other lending repayments	4	–
Purchase of rental property assets	(677)	(905)
Purchase of management assets	–	(5)
Purchase of intangible assets	(7)	(3)
Mortgage and other lending	–	–
Short-term investments	230	154
Net receipts from/(payments to) Housing Agency Account	4	–
Net cash flows from/(used in) investing activities	**(238)**	**(440)**
Cash flows from/(used in) financing activities		
Capital contributions	(3)	–
Net funds from borrowings	76	184
Annual distribution	–	–
Net cash flows from/(used in) financing activities	**73**	**184**
Net cash flows	1	–
Opening cash and cash equivalents	29	30
Closing cash and cash equivalents	**30**	**30**

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

Statements of underlying assumptions

These statements have been compiled on the basis of current government policy. They comply with PBE FRS-42 Prospective Financial Statements. They are presented to fulfil Housing New Zealand's statutory obligations under the Crown Entities Act 2004.

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

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

Opening balances of the Statement of Financial Position are estimates derived from the best assumptions for the closing balances at 30 June 2017.

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

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

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

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

Assumptions

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

Cost allocation policy

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

Managing the Crown's investment

Housing New Zealand is forecast to have total assets of $26.7 billion at 30 June 2018, funded by liabilities of $4.5 billion and equity of $22.2 billion.

Value of the Crown's investment

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

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

EQUITY AS AT 30 JUNE 2017 $M	EQUITY AS AT 30 JUNE 2018 $M
20,733	22,162

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

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

Financial distribution to the Crown

The Housing Corporation Act 1974 section 40(1) requires Housing New Zealand to pay its surplus for each financial year to the Crown, unless the responsible Ministers authorise Housing New Zealand to keep all or any part of it.

Under section 40(2) of the Act, surplus is defined as surplus capital and any operating net surplus, after any provision that responsible Ministers have agreed is necessary for the efficient and effective conduct of Housing New Zealand's operations.

The net surplus of Housing New Zealand is paid to the Crown as a surplus distribution in the following financial year. For the purposes of calculating the surplus distribution, all taxation in the current year is deducted (which is the tax expense and deferred tax). The following table highlights the adjusted net surplus after all taxation payable has been deducted, to arrive at the forecast distribution to the Crown.

Adjusted net surplus after tax

DESCRIPTION	GROUP FORECAST 2016/17 $M	GROUP BUDGET 2017/18 $M
Net surplus before tax	46	19
Less current income tax expense	(99)	(93)
Operating surplus distribution	0	0
Capital surplus distribution	0	0
Surplus distribution to Crown in the following year	0	0

Business diversification

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

Agreements that result in compensation from the Crown

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

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

Statement of accounting policies

Corporate information

Housing New Zealand is a statutory corporation (Crown-owned) operating under the Housing Corporation Act 1974 (as amended). The core business of Housing New Zealand and its subsidiaries is to give effect to the Crown's social objectives by providing housing, and housing-related services, in a business-like manner, and to ensure the Minister Responsible for Housing New Zealand and the Treasury receive appropriate information on social housing and housing-related services.

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

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

(a) Basis of preparation

The prospective financial information is prepared based on PBE IFRS 42 Prospective Financial Statements as appropriate for PBEs reporting under Tier 1 of the PBE Standards. The financial statements constitute a projection for the year ending 30 June 2017. As a projection, the financial information is prepared on the basis of one or more hypothetical but realistic assumptions, which reflect possible courses of action for the prospective financial information period as at the date this information has been prepared. The prospective financial information may vary from actual results. The financial information is forward looking and should be read in conjunction with the assumptions set out on pages 27 to 29. Because such statements involve risks and uncertainties, actual events may differ materially from those expressed or implied in forward-looking financial statements.

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

The financial statements are presented in New Zealand dollars, which is the functional currency of the 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 Generally Accepted Accounting Practice in New Zealand (NZ GAAP) as appropriate for PBEs being PBE Standards.

These prospective financial statements are the first set prepared under the PBE Standards.

(c) Consolidation

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

The controlled entities are all those entities over which the controlling entity has the power to govern the financial and operating policies. Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities. Control should have a power element and a benefit element.

The controlled entities are fully consolidated from the date on which control is transferred to the controlling entity. They are de-consolidated from the date that control ceases.

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.

Investments in subsidiaries held by the Parent are accounted for at cost in the financial statements.

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree, the equity issued by the Group, and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred and included in administrative expenses.

(d) Property, plant and equipment

Motor vehicles, office equipment, furniture and fittings, computer hardware, and leasehold improvements are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

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

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

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

(e) Rental property, land and buildings

Housing for community groups held by Housing New Zealand Corporation, and state housing held by Housing New Zealand Limited, is categorised on purchase or construction at cost. Such costs include the cost of repairs and renewals that are eligible for capitalisation. All other repairs and maintenance costs are recognised in the net surplus/(deficit) for the year.

Each year, rental property, land and buildings are revalued, on a class basis, to fair value.

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. Therefore, the surplus is recognised in the net surplus/(deficit) for the year.

Any revaluation deficit is recognised in the net surplus/(deficit) for the year except to the extent that it offsets previous revaluation surplus for the same asset class that was recognised in the asset revaluation reserve in other comprehensive revenue and expense. Therefore, 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 benefits are expected to arise from the continued use of this asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Any gain or loss arising on derecognition of an asset is included in the net surplus/(deficit) for the year, in the period the item is derecognised. Gain or loss on derecognition is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

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

- Rental properties — 10-60 years

(f) Work in progress

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

(g) Property intended for sale

Property previously held to generate rental income but identified as available for sale, as it is no longer required, is classified as a property intended for sale. This classification is used where the carrying amount of the property will be recovered through sale, the property is available for immediate sale in its present condition, and sale is highly probable.

Property intended 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 improvements.

(h) Properties under development

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

After initial recognition, properties under development are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution. Any write-downs to net realisable value are expensed in the net surplus/(deficit) for the year.

Properties under development are recognised as an expense when developed for utilisation or consumption in the ordinary course of operations of the Group.

(i) Borrowing costs

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

(j) Intangible assets

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

Computer software is capitalised at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. An intangible asset is 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 taken to the net surplus/(deficit) for the year.

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) for the year 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 non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that there is a loss in the future economic benefit or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation or amortisation.

Non-cash-generating assets

The Group assesses at each reporting date whether there is an indication that a non-cash-generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash-generating asset's fair value less costs to sell and its value in use.

Impairment of non-cash-generating assets reflects a decline in the utility of an asset to the entity that controls it.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount. In assessing value in use, the present value of the asset's remaining service potential is assessed.

In determining fair value less costs to sell, the price of the assets in a binding agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributed to the disposal of the asset, is used. If there is no binding agreement, but the asset is traded on an active market, fair value less cost to sell is the asset's market price less cost of disposal. If there is no binding sale agreement or active market for an asset, the Group determines fair value less cost to sell based on the best available information.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable service amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable service amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable service amount, or exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in net surplus/(deficit).

Impairment of non-cash-generating assets held at revalued amounts is recognised first against the revaluation reserve for that class of property. Then the portion of the loss greater than the asset class revaluation reserve is recognised in the net surplus/(deficit) for the year in the period in which it arises. Impairment of non-cash-generating assets held at cost is recognised in the net surplus/(deficit).

Cash-generating assets

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or the cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations, including impairment of properties under development, are recognised under net surplus/(deficit) in those expense categories consistent with the nature of the impaired asset. Impairment losses of cash-generating assets held at revalued amounts are recognised first against the revaluation reserve for that class of property. Then the portion of the loss greater than the asset class revaluation reserve is recognised as an expense in the net surplus/(deficit) for the year in the period in which it arises.

(l) Investments and other financial assets

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

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

Recognition and derecognition

All regular purchases and sales of financial assets are recognised on the trade date ie, the date that the Group commits to purchase the asset. 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.

Financial assets or, where applicable, a part of a financial asset or part of a group of similar financial assets are derecognised when the:

- rights to receive cash flows from the asset have expired or are waived
- Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Financial assets at fair value through net surplus/(deficit) are carried in the Statement of Financial Position at fair value with changes in fair value recognised in net surplus/(deficit).

(ii) Available-for-sale investments

The Group classifies available-for-sale financial assets as non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, or financial assets at fair value through net surplus/(deficit). These are current investments in bank registered certificates of deposit that have been set aside to support the provisions under the Mortgage Insurance Scheme, Housing Innovation Fund (HIF) and sold mortgage loans.

After initial measurement, available-for-sale financial investments are measured subsequently at fair value with any gains or losses recognised directly in other comprehensive revenue and expense until the financial asset is derecognised, at which time the cumulative gain or loss is recognised in net surplus/(deficit).

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. 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.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a group of debtors are experiencing significant financial difficulty.
- There is default or delinquency in interest or principal payments.
- There is the probability that debtors will enter bankruptcy or other financial reorganisation.
- Observable data indicates a measurable decrease in estimated future cash flows (eg, changes in arrears or economic conditions that correlate with defaults).

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

Impairment loss on financial assets is recognised in net surplus/(deficit).

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of financial assets classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value was below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the net surplus/(deficit) – is removed from the reserve in net assets and recognised in net surplus/(deficit).

When there is significant prolonged decline in value the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive revenue and expense is recycled to net surplus/(deficit).

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(m) Mortgages and housing-related lending

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

The mortgage provision reflects an amount considered adequate to provide for incurred losses based on the best information available at balance date, for loans identified as having particular risk, where security is considered inadequate. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited in net surplus/(deficit).

Loans issued at discounted or nil interest rates were impaired to the fair value of the discounted cash flows. The impairment was calculated as the difference between the amortised cost of the loans and the present value of the estimated future cash flows discounted at the effective interest rate. The Group accretes the discount to net surplus/(deficit) using the effective interest rate method.

(n) Trade and other receivables

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

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

(o) Cash and cash equivalents

Cash and cash equivalents is defined as cash on hand and cash at bank, deposits on call and short-term liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risks of changes in value.

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are recognised initially at fair value. After initial recognition, they are subsequently measured at amortised cost using the effective interest method.

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

(q) Interest-bearing borrowings

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

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

Gains and losses are recognised in the net surplus/(deficit) when the liabilities are derecognised as well as through the effective interest method amortisation process.

(r) Mortgage insurance liabilities

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

The Mortgage Insurance Scheme unearned premium reserve represents the unrealised amount of premium received. It is determined by apportioning premiums received over the relevant periods of risk underwritten, based on actuarially assessed risk factors. The provision for claims is based on the actuarial assessment of the present value of the estimated cost of future claims, in excess of unearned premium reserve. Any estimate of future monetary amounts is in nominal dollars and no inflationary increases have been built in.

The Outstanding Claims Liability (OCL) represents the liability for claims incurred at reporting date. These may include those claims incurred but not yet reported (IBNR). 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. This liability is discounted to recognise the time value of money.

At each reporting date, the 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. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised at the net surplus/(deficit) for the year by establishing a provision for liability adequacy.

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

(s) Provisions

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

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

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

(t) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or 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

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the future minimum lease payments. The Group does not have finance leases as at balance date.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group. Operating lease payments are recognised as an operating expense in the net surplus/(deficit) 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 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.

(u) Revenue

(i) Revenue from exchange transactions

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue from exchange transactions is generated when an exchange of transactions of approximately equal value has occurred between the Group and a third party.

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

Rental income

Rental income received from the tenants paying market rent is recognised on a straight-line basis over the lease terms and included in revenue.

Mortgage insurance income

The premium income realised and the movement in outstanding claims liability during the year are recognised in the net surplus/(deficit) for the year. Premiums, including premium subsidies from the Crown, are realised over the estimated period of the contract, in accordance with the pattern of the incidence of risk expected under the contract, which is an estimate when the premium is earned.

Interest income

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.

Surplus distribution

(ii) Revenue from non-exchange transactions

Non-exchange transactions are transactions where the Group receives resources and provides no or nominal consideration directly in return. Assets from non-exchange transactions are recognised when the Group initially gains control of the resources as a result of a past event, and expects to receive future economic benefits or service potential from those resources, and the fair value of the assets can be measured reliably.

The timing of revenue recognition on non-exchange transaction depends on whether the stipulations attached to the transactions have either a restriction or a condition.

Conditions on transferred assets

A condition on transferred assets is defined in PBE IPSAS 23 as stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor. If the transferred asset has conditions, the Group recognises a liability at the same time as the asset is recognised. As the Group performs its obligations and the liability is extinguished, then the revenue is recognised.

Restrictions on transferred assets

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

An asset received with restriction is recognised as revenue when received or when the right to receive the asset is established.

The revenue generated by the Group arising from non-exchange transactions is represented below:

Rental income

Rental income received from the tenants who pay below market rent, including income-related rent subsidy received from the Crown, is recognised on a straight-line basis over the lease terms.

Crown operating appropriations

The Group receives revenue from the Crown as operating appropriations. Crown appropriation revenue is received to subsidise third-party revenue to bring it to 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, home ownership education courses). All Crown appropriation revenue is recognised when the right to receive the asset is established. In the case of grants received from Housing Innovation Fund (HIF) and KiwiSaver, the revenue is recognised when the services relevant to HIF and KiwiSaver have been delivered or completed.

(v) Contingent assets

The 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. If conditions have been breached, or are likely to be breached, the Group will disclose, but not recognise, a contingent asset, as there will be a possibility that resources will flow to the Group in future.

(w) Income tax

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

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

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

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

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

(x) Other taxes

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

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

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

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

(y) Long-term receivable

The Group holds a long-term receivable from the developer of the Northern Glen Innes (NGI) properties. This receivable was recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The receivable is discounted for the time value of money to bring it down to its fair value.

(z) Derivative financial instruments

The 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 initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in fair value are charged to net surplus/(deficit), unless they are in a hedge relationship.

(i) Fair value

Housing New Zealand carries its interest rate swaps at fair value through net surplus/(deficit), unless they are in a hedge relationship, calculated by discounting the expected future cash flows at prevailing interest rates. The fair value is based upon using the NZD swap borrowing curve as reported by Thomson Reuters, which is an active market interest rate benchmark.

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.

(ii) Hedge accounting

The 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 or a forecasted transaction.

Interest rate swaps that meet the conditions for hedge accounting as cash flow hedges can have the effective portion of the gain or loss on the hedging instrument recognised directly in other comprehensive revenue and expense and the ineffective portion recognised in the net surplus/(deficit).

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

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

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

(ab) Financial guarantees

When Housing New Zealand entered agreements to sell mortgages to Westpac Banking Corporation in 1996, 1998 and 1999, Housing New Zealand guaranteed a certain number of those mortgages. The mortgage sale provision is the actuarially assessed amount likely to be payable under the guarantees. In order to estimate fair value the following assumptions are made:

- House price indices are grouped into 11 geographical areas.
- Household income will keep pace with general market inflation.

- A discounted provision is calculated to ensure interest is added and sufficient to meet expected future payments. The rate of interest used is that obtained by holding New Zealand Government bonds.

The carrying value of guarantees approximates fair value as the underlying sold loans' likely defaults are actuarially assessed each year.

(ac) Employee benefits

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

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on assumptions, the results of which form the basis of the carrying values for assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies, which require significant judgements, estimates and assumptions. Actual results may differ from these estimates under different assumptions and conditions may materially affect financial results or the financial position reported in future periods.

(a) Impairment of non-financial assets

Cash-generating assets

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change, which may then impact management's estimations and require a material adjustment to the carrying value of tangible assets.

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Cash-generating assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates of expected future cash flows are prepared for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Non-cash-generating assets

The Group reviews and tests the carrying value of non-cash-generating assets when events or changes in circumstances suggest that there may be a reduction in the future service potential that can reasonably be expected to be derived from the asset. Where indicators of possible impairment are present, the Group undertakes impairment tests which require the determination of the fair value of the asset and its recoverable service amount. The estimation of these inputs into the calculation relies on the use of estimates and assumptions. Any subsequent changes to the factors supporting these estimates and assumptions may have an impact on the reported carrying amount of the related asset.

If no impairment is stated, then management does not consider that the triggers for impairment testing have been significant.

(b) Actuarial liabilities

Mortgage Insurance Scheme (MIS)

The Mortgage Insurance Scheme is assessed quarterly by an independent actuary to ensure the provision for claims is based on the best estimate of the present value of future claims. Key assumptions made as part of this assessment relate to the nature of borrowers and the future patterns of loan repayments and defaults under the MIS. The discount rate used in the calculation of the provision for MIS claims was based on a series of risk-free interest rates determined based on the gross yields to maturity of government debt securities. The probability of sufficiency and risk margin used is 75 percent.

Westpac mortgage sale provisions

As part of the agreement to sell mortgages to Westpac Banking Corporation, Housing New Zealand guaranteed a certain number of those mortgages. The mortgage sale provision is an actuarially assessed amount, likely to be payable under that guarantee. The value of the provision depends on various factors, some of which are the value of the loans expected to default, the number of active mortgages, and the average loan balance.

(c) Rental properties

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

Housing New Zealand owns approximately 60,500 properties around New Zealand. In performing the valuation, the entire portfolio has not been individually inspected due to its size. A market indexation approach has been adopted for the remaining uninspected portfolio due to the homogeneous nature of the portfolio. 'Highest and Best Use' scenario was used in the property valuation.

(d) Derivatives

Housing New Zealand's interest rate derivatives are fair valued 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 Housing New Zealand's counterparties are highly creditworthy.

Long service leave

Effective from 1 July 2008, all employees are eligible for long service leave on the following basis:

- After 10 years' continuous service a staff member is entitled to two weeks' long service leave.
- After 15 and 20 years' continuous Housing New Zealand service, a staff member is entitled to one week's long service leave.

Housing New Zealand values the long service leave provision based on economic assumptions advised by the Treasury – discount rate, salary inflation, and employee leaving probability tables determined with reference to public service leaving statistics.

(e) Classification of assets as held for sale

The Group classifies assets as held for sale when its carrying amount will be recovered through a sale transaction. The assets must be available for immediate sale and the Group must be committed to selling the asset either through entering into a contractual sale agreement or the activation of and commitment to a programme to locate a buyer and dispose of the assets and liabilities.

(f) Taxation

The Group's accounting policy for taxation purposes requires management's judgement. Judgement is also required in assessing whether deferred tax assets and liabilities are recognised in some areas. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only when they may be recovered, dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These include future house prices, rents, housing volumes, operating costs, maintenance costs, rates, capital expenditure and surplus distribution. Judgements are also required about the application of income tax legislation.

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.

Prior to the 2009/10 financial year, chattels included in rental properties were depreciated with the building based on the allowable depreciation rate for buildings. With the removal of the deductibility of building depreciation for tax purposes from the 2010/11 financial year, the Group obtained approval from the taxation authority to split out the chattels component of the rental properties to claim tax depreciation on chattels. The Group engaged an independent professional valuer to value the chattels in a sample of properties that were representative of the Group's residential portfolio. The representative sample was based on:

- properties throughout different geographical locations
- properties of varying size (for example, single units, multi-units)
- properties of varying age.

The chattels to be depreciated for tax purposes were identified in line with Interpretation Statement 10/01 Residential Properties – Depreciation of Items for Depreciable Property.

(g) Make-good provisions

A provision has been made for the present value of anticipated costs of the future restoration of leased premises to their state at the commencement of Housing New Zealand's lease. The calculation of this provision requires assumptions such as the cost of materials, labour, fittings and fixtures. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the Statement of Financial Position by adjusting both the expense or asset (if applicable) and provision.

(h) Estimation of useful lives of assets

Housing New Zealand reviews the useful lives and residual values of its property, plant and equipment annually. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires Housing New Zealand to consider a number of factors such as the physical condition of the asset, expected period of use and expected disposal proceeds from the future sale of the asset. An incorrect estimate of the useful life or residual value 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.

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

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

(i) Long-term receivable

Housing New Zealand has sold a number of properties located in Northern Glen Innes. The control of the assets has transferred to the buyer but the settlement is deferred and payment will be staggered over the next three to five years. In this case, the receivable was discounted to its present value based on the expected timing of repayments from the developer using the Group's weighted average cost of capital of 5.89 percent as the basis for discounting the receivable.

If the actual timing of payment receipt from the developer differs from that of the estimate, there will be an impact on the timing of recognition and releasing the receivable discount to the Group's net surplus/(deficit).

Appropriations – output tables

The following tables set out the appropriated funding Housing New Zealand expects to receive from the Crown in 2017/18. This funding is shown by appropriation and programme, and is aligned with Housing New Zealand's output classes.

Output Table: Operating Appropriations 2017/18

		HOUSING NEW ZEALAND'S OUTPUT CLASSES				
APPROPRIATION AND PROGRAMME	$M	MANAGING OUR HOMES	SOCIAL HOUSING SUPPLY	SHRP SUPPORT & PUBLIC ACCOUNTABILITY	ENABLING HOUSING SUPPLY & HOME OWNERSHIP	SERVICES TO THE HOUSING AGENCY ACCOUNT
HNZC Housing Support Services						
Mortgage Insurance Scheme (Welcome Home Loan)	8.700	–	–	–	8.700	–
KiwiSaver Housing Deposit Subsidy – Administration	2.998	–	–	–	2.998	–
Total HNZC Housing Support Services	**11.698**	**0.000**	**0.000**	**0.000**	**11.698**	**0.000**
Housing Assistance						
Community Owned Rural Rental Housing Loans Interest Subsidy	0.420	–	–	–	0.420	–
Housing Innovation Fund Interest Subsidy	0.700	–	–	–	0.700	–
Other Legacy Loan Costs	0.370	–	–	–	0.370	–
Nat/WPT Portfolio – Loss of Interest SPOB	0.010	–	–	–	0.010	–
SHAZ Bridging Finance	0.007	–	–	–	0.007	–
Total Housing Assistance	**1.507**	**0.000**	**0.000**	**0.000**	**1.507**	**0.000**
Purchase of Housing and Related Services for Tenants Paying Income-Related Rent*	**789.516**	**789.516**	**0.000**	**0.000**	**0.000**	**0.000**
KiwiSaver Deposit subsidy	**102.451**	**0.000**	**0.000**	**0.000**	**102.451**	**0.000**
Total Operating Appropriations	**905.172**	**789.516**	**0.000**	**0.000**	**115.656**	**0.000**

*The income-related rent subsidy (IRR) budget value is based on a different set of assumptions from those used by the Ministry of Social Development for the IRRS Crown appropriation budgets, creating a difference from values reported by the Ministry of Social Development.

Output Table: Multi-Category Appropriations 2017-18

APPROPRIATION AND PROGRAMME	$M	HOUSING NEW ZEALAND'S OUTPUT CLASSES				
		MANAGING OUR HOMES	SOCIAL HOUSING SUPPLY	SHRP SUPPORT & PUBLIC ACCOUNTABILITY	ENABLING HOUSING SUPPLY & HOME OWNERSHIP	SERVICES TO THE HOUSING AGENCY ACCOUNT
Community Group Housing MCA						
Community Group Housing Market Rent Top-Up	10.106	10.106	–	–	–	–
Community Housing Rent Relief	4.104	4.104	–	–	–	–
Acquisition and Improvement of Community Group Housing Properties – Non-Departmental Capital Expenditure	5.800	–	5.800	–	–	–
Total Multi-Category Expenses and Capital Expenditure	**20.010**	**14.210**	**5.800**	**0.000**	**0.000**	**0.000**

Output Table: Capital Appropriations 2017/18

APPROPRIATION AND PROGRAMME	$M	HOUSING NEW ZEALAND'S OUTPUT CLASSES				
		MANAGING OUR HOMES	SOCIAL HOUSING SUPPLY	SHRP SUPPORT & PUBLIC ACCOUNTABILITY	ENABLING HOUSING SUPPLY & HOME OWNERSHIP	SERVICES TO THE HOUSING AGENCY ACCOUNT
Refinancing of HNZC and HNZL Debt	335.854	0.000	335.854	0.000	0.000	0.000
Total HNZC Capital Appropriations	**335.854**	**0.000**	**335.854**	**0.000**	**0.000**	**0.000**

Housing New Zealand
Housing New Zealand Corporation

New Zealand Government