

2004/7

Statement of Intent

Building the Future:
Towards a New Zealand
Housing Strategy
A Discussion Document

The NZ
Housing
Strategy

Energy
efficient

Insulation
under wrap
energy saver!

Reduces
and heating bills
0800 000 000
orders

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PURPOSE

This Statement of Intent provides information required by Section 41D of the Public Finance Act 1989 for the financial years ending June 2005, 2006 and 2007.

The Statement of Intent is divided into four:

Part 1 outlines Housing New Zealand Corporation's (the Corporation/ HNZC) strategic direction. It sets out the mission, objectives, and the nature and scope of the Corporation's activities within the housing sector. It defines the outcomes the Corporation aims to achieve.

Part 2 outlines how the Corporation will manage the delivery of its strategic direction. It defines the Corporation's governance structure, organisational capability and risk management approach.

Part 3 sets out the Corporation's financial structure. It includes forecast financial statements, along with the assumptions and policies used to develop these statements.

Part 4 shows how the Government's appropriations are allocated to the Corporation, the output classes, their associated performance targets, and the Corporation's processes and criteria in undertaking its role.

The below diagram illustrates the linkages between Part 1 and Part 2 and how the Corporation's activities ultimately contribute to the government's key goals.



FOREWORD

We have pleasure in presenting Housing New Zealand Corporation's Statement of Intent for 2004-2007. The Statement sets out the direction for the Corporation over the coming three years and outlines its plans, programmes, priorities and targets.

The Corporation has identified four long-term outcomes to guide its direction. These are that:

- > state housing assistance meets diverse housing need
- > development practices ensure sustainability of housing
- > housing provision across the sector is responsive to need
- > the social and physical health of communities is enhanced.

The Corporation is New Zealand's largest social housing provider with approximately 65,000 tenancies. It is accountable for significant state assets that require managing in a business-like and responsible manner. Existing stock will be expanded in the years ahead and asset improvement programmes continued. The continuing demand for state housing, particularly in Auckland, will in part be addressed through the Corporation's acquisitions programme, which has been developed to reflect housing need.

The breadth of activity undertaken by the Corporation has expanded over recent years. It is now also focused on growing the size of the social housing sector and works closely with local government, iwi and community based groups to effect this. It has a programme in place to assist those on moderate incomes into home-ownership and is influencing the standard of housing, particularly in more deprived rural communities within Northland, East Coast and the eastern Bay of Plenty.

In addition to the provision of policy advice to the Government, the Corporation develops policy to support activity across the housing sector. Further to leading the development of the New Zealand Housing Strategy, the Corporation is currently working with other agencies on a number of policy issues such as rural housing needs, resettlement of new migrants and refugees, and the Sustainable Cities programme.

In all of its activities the Corporation endeavours to work closely with households and communities to devise housing solutions that meet specific housing need for the individuals and communities concerned.

We look forward to reporting on our progress, and on how we are making a significant contribution to improving the housing and lives of many New Zealanders.

Roger Bonifant

Chairman
30 June 2004

Helen Fulcher

Chief Executive
30 June 2004



Part 1: The Corporation's strategic direction

KEY INFLUENCES

The Corporation's direction is influenced by key government goals that guide the public sector, the legislated objectives under which the Corporation operates, and its mission statement.

The Corporation's mission incorporates key aspects of its role:

- > To ensure access to adequate shelter with particular focus on low income households and those with reduced ability to access market opportunities for housing.
- > To ensure people are in sustainable shelter, which can impact on other social outcomes such as education, health, and wealth.
- > To facilitate positive housing outcomes that assist the social and physical wellbeing of communities, and encourage individuals to be involved in improving their social environment.

Legislated objectives

To give effect to the Crown's social objectives by providing housing, and services related to housing, in a businesslike manner, and to that end to be an organisation that:

- > exhibits a sense of social responsibility by having regard to the interests of the community in which it operates
- > exhibits a sense of environmental responsibility by having regard to the environmental implications of its operations
- > operates with good financial oversight and stewardship, and efficiently manages its assets and liabilities and the Crown's investment.

To ensure that the Minister of Housing receives appropriate policy advice, other advice and information on housing and services related to housing.

Key government goals

- > to strengthen national identity and uphold the principles of the Treaty of Waitangi
- > to grow an inclusive, innovative economy for the benefit of all
- > to maintain trust in Government and provide strong social services
- > to improve New Zealanders' skills
- > to reduce inequalities in health, education, employment and housing
- > to protect and enhance the environment.

Mission

The Corporation provides access to decent homes, helping New Zealanders manage their own circumstances and contribute to community life.

OUTCOMES

The Corporation has identified long-term outcomes to guide it towards achieving its mission and contributing to key Government goals:

State housing assistance meets diverse housing need

HNZC understands the dimensions of housing need and provides targeted responses that are timely, ranked according to need, effective, and appropriate to the specific need for its duration.

Development practices ensure sustainability of housing

HNZC demonstrates, influences and supports best practice in housing development through a balance of social, environmental and economic responsibility.

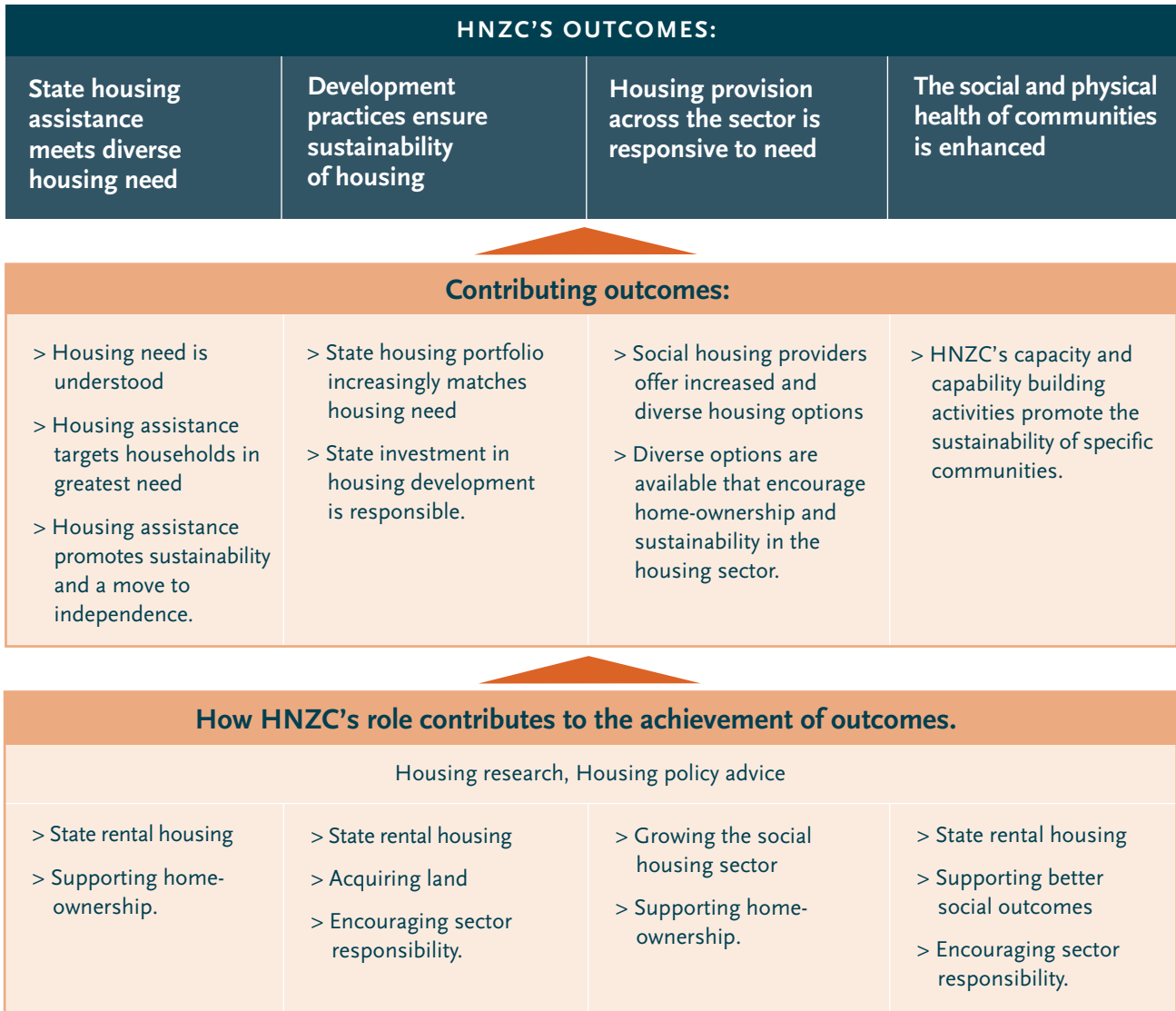
Housing provision across the sector is responsive to need

HNZC promotes and supports the social and private sectors to appropriately address demand for affordable housing.

The social and physical health of communities is enhanced

Improvements to the social and economic wellbeing of communities with which the Corporation works are supported by Corporation assistance, investment and partnerships.

The success of each outcome is demonstrated by several contributing outcomes. Various aspects of the Corporation's roles also contribute to each outcome. The diagram below illustrates the connection:



THE CORPORATION'S ROLE

The Corporation undertakes various roles across the housing sector to appropriately address housing need and achieve its mission. State rental housing for low income households is the Corporation's most significant housing intervention, in terms of investment and the size of its tenancy base.

The Corporation's role is expanding to incorporate a number of other housing interventions. It recognises that there are housing needs for which state rental assistance is not the best solution, and is increasingly focusing on identifying ways to address these diverse and complex needs.

Similarly, the Corporation is focusing on building the capability and capacity of individuals and communities to manage their housing situations. Interventions include:

- > growing the social housing sector
- > supporting better social outcomes
- > supporting home-ownership
- > encouraging sector responsibility
- > acquiring land.

The Corporation also has policy advice and research roles that support housing interventions and assistance. These have wide ranging implications across all aspects of the housing sector.

STATE RENTAL HOUSING

The Corporation owns or leases approximately 65,000 rental properties (including community group housing) and houses over 185,000 individuals.

Applicants for state rental housing are assessed using the Social Allocation System to ensure those most in need of housing assistance are given priority. Approximately 90% of state housing tenants pay an income-related rent – attracting a subsidy worth over \$365m per year. Tenancy management includes additional support activities such as case management, which focuses on households with complex needs.

The Corporation also provides relationship and tenancy management to 360 organisations that rent its community group houses. As part of this, the Corporation acquires, leases or modifies these houses to suit the specific needs of these health and/or support providers.

Management of the \$7 billion state rental asset is planned around demand identified by the Social Allocation System, the needs of the current tenant base, and forecast future demand. The Corporation's asset management activities include additions (through purchase and leasing), maintenance, and improvements to maintain stock and ensure that the portfolio best matches priority demand and tenant need.

Programmes such as Community Renewal and Healthy Housing contribute to improving the physical and social environments of state housing communities.

The Auckland region has the highest demand for Corporation housing. It has 14 of the 43 neighbourhood units, 44% of the current rental portfolio, and 63% of the national priority waiting list for state rental housing. A significant proportion of the Corporation's planned asset management activities are directed at addressing demand issues in Auckland.

The Corporation's three-year asset programme is part of a larger asset management strategy under development that aims to ensure the Corporation can meet current and future demand for state housing.

Success for Household Action Plan pilot

Tenancy managers in Manawatu and Mangere trialled Household Action Plans for high needs tenants, between October 2003 and March 2004.

The pilot tested whether a proactive, customer-focused approach to tenancy management would help tenants overcome obstacles that might otherwise prevent them from managing their own housing circumstances long-term.

This moves away from the traditional landlord/tenant relationship focused primarily on rent collection. Household Action Plans are created with the tenant and involve proactive intervention before problems escalate to a level that could jeopardise a tenancy.

The pilot resulted in positive actions such as identifying the need for budget training, providing referrals to gambling or substance abuse support agencies, and ensuring tenants received the financial support available to them.

GROWING THE SOCIAL HOUSING SECTOR

The Corporation is increasingly focusing on social housing sector development, with the aim of growing the supply of housing options to better meet demand.

New Zealand's social housing sector – 6% of the housing market – is low compared to other countries,¹ and for the level of demand. The Corporation aims to increase the availability of housing options for low to moderate income households through local government, third sector and iwi providers.

The Housing Innovation Fund provides grants, capital funding, and practical assistance and support, to help third sector groups (not-for-profit and non-governmental community organisations) and iwi to develop the capacity and capability to provide social housing. It also encourages local authorities to invest in, and retain, social housing.

Capacity and capability building is also undertaken through the Rural Housing Programme, which helps iwi, Māori and community groups towards their goal of providing and managing social housing.

The Corporation also helps not-for-profit community groups, which support individuals with special needs, to gain access to housing, and provides them with support and advocacy services.

Housing Innovation Fund strengthens community based housing

The \$63 million Housing Innovation Fund, to be spent over four years from 2003, aims to encourage third sector groups, iwi and local government to increase their capacity to meet the housing needs of low-income New Zealanders and those with special needs.

The fund provides loans for new houses and advisory support to help third sector groups and iwi develop sustainable, long-term housing. Joint initiatives with local councils and community-based organisations are also underway.

To date, the Corporation has had over 50 enquiries from community-based organisations and helped 20 of those with applications. Interest came from iwi/ Māori, disability and mental health services, aged and emergency care providers, and general purpose social housing. By June 2004, the Corporation had approved applications for six groups, which will result in around 40 new social housing units.

The Corporation has helped applicant groups develop strategic plans, asset and tenancy management systems, and provided staff secondments and legal advice.

SUPPORTING BETTER SOCIAL OUTCOMES

The Corporation is increasingly encouraging individuals and communities to build their capability to better manage their circumstances, and facilitate better social outcomes.

The Rural Housing, Community Renewal and Healthy Housing programmes work with households and communities to enable better social results while addressing major housing issues. Improving health and safety features across all three programmes has economic, social and educational consequences.

Supporting communities to build the skills and resources they need to identify, develop and manage their own housing solutions is another key focus. Capacity building takes various forms, from individual training and education, to community group support and assistance, to developing opportunities for individuals to become involved in decision making.

The Corporation has developed a community contribution framework for its maintenance contractors. This requires them to demonstrate that they will help the sustainability of the communities in which they work - generally by providing work opportunities for the unemployed. Other programmes within the Corporation have also successfully adopted this approach.

The Corporation has also worked with contractors to pilot taking on unemployed individuals and helping them through a maintenance qualification. The qualification, developed through the Building and Construction Industry Training Organisation (BCITO), enables participants to work with contractors on maintenance activities and provides them with the skills to take up mainstream apprenticeships. The pilot, supported by the Tertiary Education Commission and Work and Income, will soon be available for all contractors.

¹ In many European countries social housing makes up 25%-40% of the housing market.

THE HOUSING SECTOR

State housing assistance

The State's main roles in housing are to regulate the housing market and housing quality, and to help low-income households who have difficulty accessing affordable and suitable housing.

Most state housing assistance is provided as either rental housing or an income supplement. The government, through the Corporation, provides approximately 65,000 state rental houses.

Around 90% of state rental households pay a subsidised income-related rent and, in addition, Work and Income distributes the Accommodation Supplement to over 40,000 homeowners and 190,000 low-income people in the private rental sector. Overall, this income assistance is worth approximately \$1.1 billion per annum.

Local government housing

Local government is the largest not-for-profit provider of rental housing after the Corporation. Of the 74 territorial local authorities, 69 provide some form of social housing, mostly for single people and older people on low-incomes. Most of the larger urban councils, such as Manukau, Wellington, Hutt City and Christchurch, have been significant providers in their local rental markets. Local government provides around 13,900 housing units. Over past years, some local authorities have expressed a desire to cease providing social housing. The Corporation's Local Government Housing Fund encourages and supports local authorities to continue to provide social housing.

Third sector and iwi housing

The social sector also includes iwi and third sector housing providers (not-for-profit and non-governmental community organisations). It provides around 4,100 housing units, with providers generally holding less than 100 units. Most third sector housing providers target groups that need specialist support such as mental health groups, emergency or crisis housing, and the elderly.

Private sector housing

The 2001 census recorded over 845,000 private owner-occupied households and over 305,000 privately rented households. The private sector also includes property investors and the building industry. To illustrate the sector's breadth, the building industry alone consists of:

- > major construction companies (typically substantial housing developments)
- > small and medium sized building companies (individual and small multi-unit developments)
- > developers (typically housing developments commissioned for on-sale or rental)
- > designers (architects, engineers, draughtsmen and designers) and other professionals
- > small businesses and individual contractors
- > skilled labour (trained carpenters, roofers, plasterers, plumbers and electricians)
- > consumers (commissioners or residential property purchasers) and owner-builders
- > product manufacturers and suppliers, building certifiers and regulators (Building Industry Authority and territorial authorities).

Regulatory environment

The Ministry of Housing makes an important contribution to achieving a well-functioning housing sector through its role in ensuring effective regulation of the rental housing market and through working with others to deliver better housing outcomes.

Regional councils are responsible for monitoring consent compliance. Territorial local authorities are responsible for land management such as controlling the impacts of land use, subdivision and noise control.

Note: On 30 June the Government announced the creation of the Department of Building and Housing to improve and streamline building and housing regulatory functions. The Department will carry out the work of the Ministry of Housing, manage the Weathertight Homes Resolution Services Act, and be responsible for the new Building Act, including absorbing the functions of the Building Industry Authority.

SUPPORTING HOME-OWNERSHIP

The Corporation aims to assist low to moderate income households into home-ownership, through developing and providing loan and insurance products.

A number of low to moderate income households are in the position where they are able and willing to undertake home-ownership, but face difficulties entering the market. The security of tenure presented by home-ownership over the private rental market provides an incentive to assist these households. HNZN has an emerging role in the provision of assistance to these households.

The recent mortgage insurance scheme is one such product. The Corporation underwrites home loans for households who do not meet mainstream lending credit criteria.

The rural regional loan portfolio also provides low deposit mortgages to rural households. Recipients are taught budget planning and other skills as part of the Low Deposit Rural Lending (LDRL) graduate course.

Key to the Corporation's success in this role are ongoing evaluation of lending products and pilot programmes, and identifying alternative options.

The Corporation proactively controls debt and promotes loan sustainability. It practices early intervention when there are payment defaults on its mortgage portfolio. This helps to reduce the likelihood of individuals getting into debt that becomes overwhelming.

New home-owners move in

About 350 homes across the country now belong to people who had previously thought home-ownership was beyond their means.

The Government's mortgage insurance scheme pilot runs until June 2005. It targets those who do not meet standard commercial credit criteria but whom the Corporation believes can support a loan. The loans are provided through Kiwibank.

Potential applicants are given advice about the process of home buying and the start-up and agency costs. Help is also available with sample application forms in a user-friendly application pack and an 0800 information line.

Post-settlement advice, aimed at keeping those in their homes long-term, is also provided.

Surveys show that most recipients value the scheme's concept, approach and eligibility criteria. The general sentiment was that the scheme offered positive encouragement to people who had otherwise decided that home-ownership was not possible.

Some of those who had settled into their new homes said that signing their mortgage was an event they would never forget.

ENCOURAGING SECTOR RESPONSIBILITY

The Corporation's presence in the housing sector provides an opportunity to positively influence some aspects of the private housing sector, particularly in relation to housing standards.

Under the Corporation's leasing programme, the Corporation leases private rental accommodation for state rental use. As a consequence, private sector investors become involved in providing social housing. They are required to provide a decent standard of rental accommodation that meets housing demand in relation to configuration and location.

As a significant property owner, the Corporation has the opportunity to influence various aspects of the private housing sector. The Corporation's development guide directs the development of the state rental portfolio. It provides clear standards and practices to all contractors working with the Corporation. It is expected that these standards and practices will flow into other developments that the contractors undertake.

As part of its Rural Housing Programme, the Corporation works with communities (particularly rural communities in Northland, East Coast and eastern Bay of Plenty) to resolve housing issues, address and eliminate sub-standard private housing. It works with communities to assess the degree of disrepair and the level of work required (including funding - and where required, some assessment - for the Fire Service programme to provide smoke detectors). The Corporation provides loans for repairs and infrastructure work and co-ordinates contractors to do the work.

New skills and houses in Ruatahuna

A new housing project in the remote settlement of Ruatahuna in the Urewera Ranges is underway, built by locals gaining on-the-job construction experience. This has been achieved in partnership and with the support of the Ruatahuna based Hinepukohurangi Trust.

The group - comprising eight Ruatahuna residents and two local builders - is building its eighth house in 18 months, with a total of 13 planned as part of HNZN's Rural Housing Programme.

The Programme combines immediate responses to existing substandard housing - involving needs assessment, essential repairs, infrastructure loans for water supply, electricity, roading and sewerage disposal and rental housing - but also initiates longer-term social development, such as training and employment opportunities.

The Ruatahuna group received initial guidance and tendering advice from HNZN staff on the East Coast. The group successfully tendered for the work and group members are crediting this work experience towards trade certificates.

ACQUIRING LAND

The Corporation may acquire land – where opportunity arises – to safeguard the supply of housing sites in anticipated high demand areas such as Auckland.

The Corporation is currently involved in a larger scale development at Papakura to supplement the state housing portfolio and ensure it can continue to deliver on its state rental housing objectives.

In Hobsonville the Corporation plays a wider development planning role in order to facilitate an integrated urban community on Crown land formally used for defence purposes.

The Corporation is working with the Crown to understand the implications of participating in land development. Until this work is complete, it will approach developments on a case-by-case basis in consultation with the Crown.

HOUSING RESEARCH

The Corporation is the Government's primary provider of housing research and evaluation activities.

This involves designing, managing and delivering an internal programme of research and evaluation to reflect and inform the Corporation's policy development, policy advice, service delivery and other operational activities.

Current activities include evaluating programmes (such as the Rural Housing, Community Renewal and Healthy Housing programmes, the Mortgage Insurance Scheme and Mangere Integrated Services pilot), and developing and producing housing market monitoring reports to identify trends in the private rental market, migration, housing prices and population growth.

The Centre for Housing Research Aotearoa New Zealand (CHRANZ) was established by the Corporation's Board with a mandate to address the research needs and gaps in the wider housing market.

The Corporation provided initial research funding to 'kick-start' the housing research sector, with the expectation that CHRANZ will become increasingly independent by attracting funding support from other stakeholders. Research is structured around six key aspects of the housing sector: access issues; housing demand and need for vulnerable populations; changing attitudes to tenure; housing investment; alternative providers; and the performance of housing in urban and rural environments.

Positive response to housing market monitoring

The Corporation is strengthening its capacity to monitor aspects of the New Zealand housing market. Over the past year, it has published quarterly housing market reports with information from public and private sector agencies.

The reports translate information into a summary of movements and trends across the housing market, and include specific analyses of sub-markets such as particular demographic groups or regions. Information includes new dwelling consents, regional property and land sales, and trends in interest rates, migration and unemployment.

The Corporation has published the reports on its website and feedback on the reports has been positive. They are considered concise, informative summaries of key housing market trends.

A number of agencies contribute to and use the housing market reports. They include the Ministry of Housing, Ministry of Social Development, Statistics New Zealand and local authorities.

HOUSING POLICY ADVICE

The Corporation is the government's primary adviser on housing and services related to housing. It undertakes policy development, advice and other activities that have implications across the entire housing market.

These activities include policy development around housing standards, and leading the development of the New Zealand Housing Strategy.

The Corporation, with the Ministry of Social Development, advises on policy for the Accommodation Supplement. This is distributed to over 230,000 low-income people in private sector accommodation to supplement rent, board and mortgage repayments.

It also works with other government agencies to develop policy relating to rural housing needs, future management of local authority social housing, resettlement of new migrants and refugees, the Sustainable Cities programme, support for community group and emergency housing providers, homeownership options, and the housing needs of disabled and senior citizens.

Consultation engages communities and key housing sector groups

When the New Zealand Housing Strategy is finalised later this year it will reflect more than three years of extensive research, consultation and debate across the housing sector.

The Strategy's development began in late 2001, with an all-day forum at which over 180 people with an interest in social housing identified and ranked the issues the strategy should address, and the principles on which it should be based. Participants included tenants, landlords, iwi, community groups, property professionals, researchers, local authorities and government agencies, as well as HNZC staff and board members.

That initial meeting led to the formation of eleven similarly diverse working parties, to further explore the issues identified. Their work provided input for the discussion document *Building the Future: Towards a New Zealand Housing Strategy*, which was launched for public comment by the Minister of Housing, the Hon Steve Maharey, in April 2004.

The consultation process was publicised through mainstream media such as daily newspapers, along with more targeted communications aimed at Māori and Pacific communities. An 0800 freephone number and a web page were set up to encourage members of the public to provide input for the final strategy by reading and commenting on the priorities and proposed actions set out in the discussion document.

Over 4,000 copies of the discussion document have been provided to individuals and organisations known to have an interest in housing issues, and a further 1100 key stakeholders were invited to participate in consultation meetings, hui and fono around the country.

BUILDING THE FUTURE: TOWARDS A NEW ZEALAND HOUSING STRATEGY

The Corporation is leading the development of a New Zealand Housing Strategy. The Government requested the strategy be developed to provide direction to the overall housing market for the next 10 years. The discussion document, *Building the Future: Towards a New Zealand Housing Strategy*, identifies six key areas for the housing sector to focus on to achieve the vision that:

All New Zealanders have access to affordable, sustainable, good quality housing appropriate to their need.

1. Improving housing assistance and housing affordability

This generally relates to assessing government assistance, such as the benefit system or state housing, to ensure it is the best way to achieve good housing for low-income New Zealanders. It includes encouraging the development of an innovative alternative social housing sector that is able to provide affordable and secure rental housing.

2. Responding to housing markets under stress

In some areas housing is becoming unaffordable for average income households. In others, economic decline has led to smaller rating bases, a decline in housing quality and difficulty in maintaining local infrastructure such as sewage and roading. The government is committed to working with local communities to address these housing issues that affect social and economic well being.

3. Developing innovative home-ownership programmes

Home-ownership rates have fallen from 74% to 68% in the past 10 years. They have fallen even further amongst Māori and Pacific peoples and younger first-home buyers, and in high cost areas such as Auckland. Options for supporting sustainable home-ownership will be explored to reverse this trend.

4. Developing the private rental sector

The private rental market is playing an increasingly important role in housing, making up 26% of the housing market. Actions will be undertaken to ensure stable, good quality and affordable housing for people who rent their homes. These include legislation reviews, considering different tenure options, new dispute resolution tools, and improving housing quality in the rental sector.

5. Improving housing quality

Poor housing quality has been identified as having an ongoing social, health and economic impact. Improving housing quality will involve developing legislation and quality controls for new homes and the building industry, reviewing existing regulations on housing standards, and ongoing commitment to eliminating sub-standard housing in rural areas.

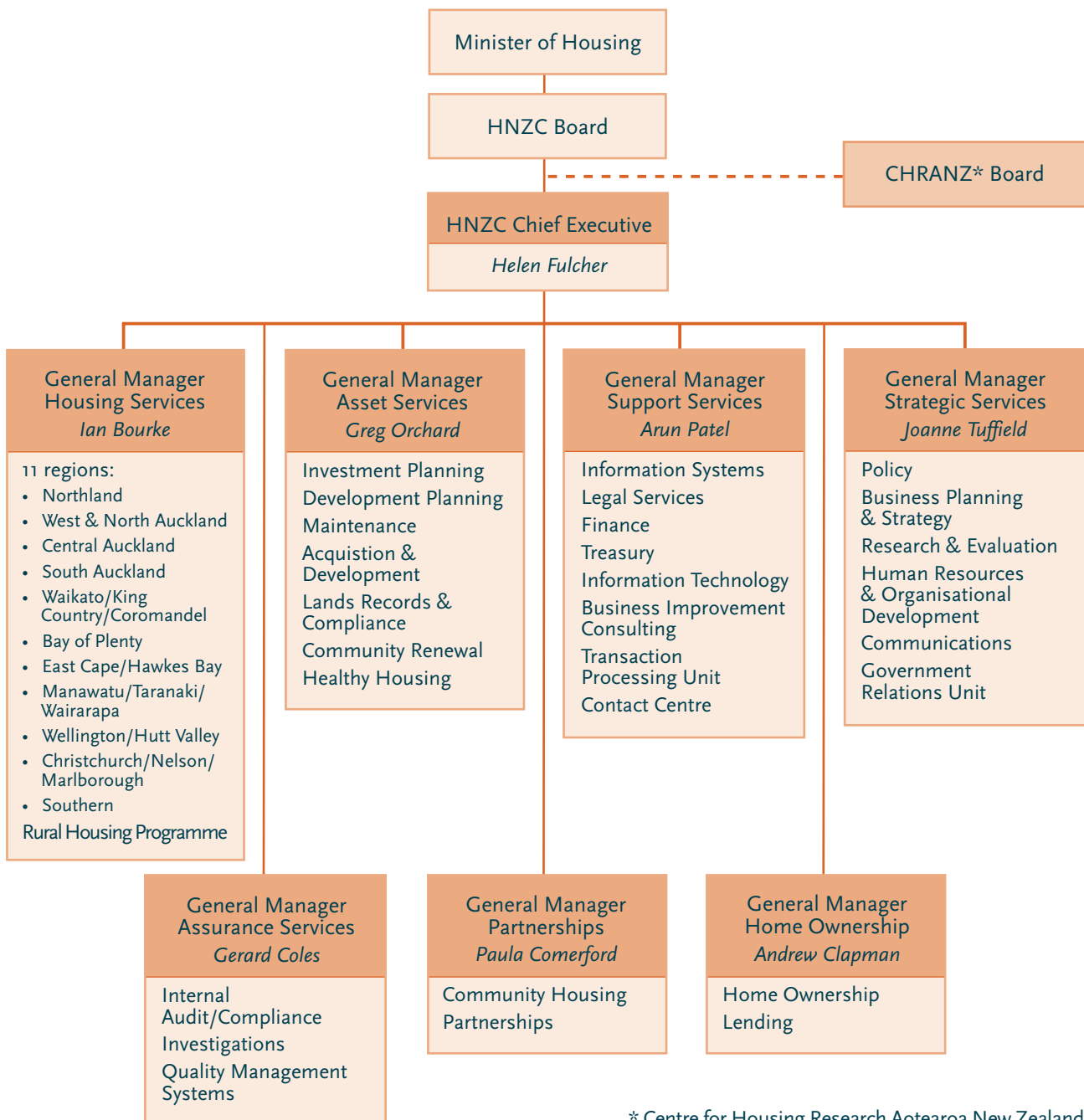
6. Building capacity and capability in the housing sector

Building the capacity and capability of all areas of the housing sector is necessary to meet New Zealanders' changing needs. This involves supporting new housing research and providing more opportunities for housing consumers to have input into the way in which services are delivered.

Part 2: Delivering the strategic direction

ORGANISATIONAL STRUCTURE

The Corporation's Board is appointed by the Corporation's responsible Ministers. The Corporation's executive management team has a Chief Executive and seven General Managers.



* Centre for Housing Research Aotearoa New Zealand

DELIVERING THE CORPORATION'S ROLE

HNZC will deliver on its outcomes through fulfilling its role in the housing sector. A number of developments have been undertaken, or are in progress, that will improve the delivery of key Corporation functions. In recent years, the public sector has focused on working together more strategically, clusters have been developed and projects identified to encourage agencies to work together in specific communities.

Internally, the Corporation has gained greater knowledge of aspects of the housing sector and the impact of various government strategies on the housing sector. Changes have been made to regional boundaries and operations to better reflect communities and improve service delivery.

The discussion document on the development of a New Zealand Housing Strategy is undergoing public consultation. With government consent, the Strategy will be ready for implementation by early 2005. While the Corporation has identified key areas from the discussion document that may have implications for delivery and resource requirements, this will be fully assessed and planned for when the Strategy is finalised.

The Corporation has identified three priority areas to ensure previous efforts are built on and to achieve success in its role. The priorities are short-term and supported by various activities. Some have an external focus, to meet need and enhance delivery in the sector, and some have an internal focus, to build the Corporation's capability and develop effective processes, learning, skill and leadership at strategic and operational levels. These priorities and planned supporting activities for 2004/05 are illustrated opposite.

PRIORITIES		
<p>Investing for the future in a stronger more responsive housing sector</p> <p>Developing support that considers the current and potential requirements of the sector. Activities focus on investing in the development of capability and capacity within the sector, particularly around understanding the housing market and developing robust strategies that consider the activities and impacts of related sectors.</p>	<p>Increasing the Corporation's influence in the housing and government sectors</p> <p>Ensuring the Corporation develops and maintains a strong foundation to enable and support best delivery of its core roles. Activities focus on ensuring accurate perceptions and expectations of HNZC in the government and housing sectors and building strong relationships with key stakeholders that facilitates collaborative working.</p>	<p>Enhancing responses to ensure housing needs are met</p> <p>Evaluating and developing resources to ensure they result in the best solution for the specific housing need. Activities focus on ensuring effectiveness and efficiency by providing simple, flexible and tailored solutions (without necessarily increasing responses), and by collaborating with relevant agencies, organisations and the community where appropriate, to develop and deliver the responses.</p>

2004/05 Delivery and sectoral activities		
<ul style="list-style-type: none"> • Complete and release the New Zealand Housing Strategy • Enhance the response to housing and housing-related issues in Auckland • Prepare for the medium-term review of the Accommodation Supplement • Continue support for the third sector and private sector, to enable increased housing provision • Review the effectiveness of capital investment, including the balance between investing in new housing and ensuring the quality of existing stock. 	<ul style="list-style-type: none"> • Implement the New Zealand Housing Strategy and related consultation • Continue to contribute to resolving housing and public sector issues through participation in Government strategies • Continue to build relationships with local authorities at various levels across the Corporation • Participate in Sustainable Cities Programme of Action. 	<ul style="list-style-type: none"> • Review the Corporation's response to rural housing need to ensure it is efficient and coordinated • Assess effectiveness of the mortgage insurance pilot and consider other products to promote increased home ownership • Continue to review and enhance the Corporation's approach to maintenance investment • Continue to develop social services cluster initiatives including the Community Renewal project and Mangere Integrated Services pilot.
2004/05 Organisational capability activities		
<ul style="list-style-type: none"> • Understanding housing need at national and local level • Improve HNZC's knowledge and evidence base and access to information • Enhance future budget processes with the development of a capital requirements framework. 	<ul style="list-style-type: none"> • Build effective relationships with key stakeholders (households, communities, government agencies, iwi and Māori) to enhance the achievement of goals and sustainable solutions • Review and realign HNZC's output classes to better link to the outcome framework • Continue to improve information collection, reporting and analysis • Develop sustainable leadership for the future • Enhance professional development to enable staff to manage change well. 	<ul style="list-style-type: none"> • Continue to review policies, systems and processes that assess and deliver housing responses • Build capability to develop sustainable relationships with key stakeholders • Implement and consolidate operational structure and regional realignment improvements.

THE CORPORATION AS AN EMPLOYER

Throughout the delivery of the Corporation's role, it is committed to being a good employer and to meeting the Government's expectations of state sector employees. These expectations include that the Corporation's employees:

- > behave with integrity, responsibility and respect
- > work in ways that are responsive to the community, performance-oriented and accountable
- > demonstrate commitment to a whole of government approach
- > serve the Government with free, frank and comprehensive advice
- > implement decisions effectively with an awareness of the Government's priorities.

The Corporation's values reflect similar expectations of employees - to 'respect, support, deliver and learn'.

EFFICIENCY AND EFFECTIVENESS

The Corporation is legally required to:

- > provide housing and housing-related services in a businesslike manner while showing a sense of social and environmental responsibility
- > operate with good financial oversight and stewardship
- > manage its assets and liabilities and the Crown's investment efficiently and effectively.

The Corporation defines businesslike as achieving the Corporation's social, financial and environmental objectives while using the resources available (assets, people and the Crown's investment) in an efficient and sustainable manner.

The Corporation's Board has set a framework of social, financial and environmental objectives that recognises the significance of a responsible approach to each of these objectives.

To further develop this framework the Corporation intends to undertake work to enhance efficiency measurement. In the next year this will focus on gaining a better understanding of activity-based management principles and strategic performance measures (current measures are on page 20). This will help to identify the key cost and performance drivers. The Corporation will also investigate cross-subsidisation between social housing operations and rental housing activities, which will eventually enable these activities to be benchmarked.

HOUSING AGENCY ACCOUNT

The Housing Agency Account is administered by the Corporation as an agency of the Crown as specified by the Housing Act 1955. The activities of the Housing Agency Account are managed by the Housing Agency Account Accountability Agreement between the Crown and the Corporation. The Housing Agency Account owns land at Hobsonville (approximately 30.5 hectares) and other small parcels of land. The land at Hobsonville will be developed in terms of the Accountability Agreement. The other parcels of land are in the process of being sold to third parties.

RISK MANAGEMENT

To develop and deliver a sustainable response to housing need, the Corporation must manage a range of strategic risks. It has established a number of processes to manage and monitor risks. These include the Board's Assurance Committee regularly reviewing the strategic risks and a national risk management framework that records and monitors risk. The Corporation has identified nine key risks, illustrated opposite.

Risk	Timeframe/ impact	Mitigation
An inability to meet increased demand for housing solutions due to population growth, demographic changes and housing affordability issues.	Short-term ongoing risk/high impact	Build knowledge at local and national levels to increase understanding of the factors that affect the demand for social housing.
Supply restraints (such as land, building materials and labour), particularly in high demand areas, increase the Corporation's costs associated with delivering asset-based programmes.	Medium-term risk/medium impact	<p>Long-term planning of possible asset responses to enable flexibility about where, when and the extent to which asset programmes occur.</p> <p>Long-term funding requirements will be developed to create more certainty around the future work programme.</p>
Capability of critical stakeholders (third sector, iwi/Māori, Pacific peoples and local government) to address identified housing issues with sustainable solutions.	Medium-term risk/medium impact	Invest time in building relationships with key stakeholders. Ensure robust internal mechanisms around requirements of stakeholders. Help stakeholders to develop planning activities.
A gap between expected and actual results when working in collaboration with other government agencies.	Medium-term ongoing risk/medium impact	Provide clarity (and where required, supporting policy) around the roles, responsibilities and accountabilities of each agency, to ensure the Corporation can successfully support and deliver on joint initiatives.
An inability to deliver outcomes due to difficulties attracting and retaining staff with the required skills.	Medium-term risk/high impact	<p>Increase the capability of existing staff through development.</p> <p>Investigate ways to attract and retain appropriately skilled staff.</p>
Conflict between long-term asset planning and the three-year funding cycle creates uncertainty around work programme.	Medium-term risk/medium impact	Develop long-term capital requirements to identify future funding needs based on achieving policy objectives.
Local government regulations and processes result in added complexities, delays and cost to Corporation land redevelopment and housing construction.	Medium-term risk/medium impact	Plan long-term asset responses so consents and regulatory processes are identified and met in advance, to avoid delays.
An imbalance between planned income and investment.	Medium-term risk/high impact	<p>Enable a greater understanding of the options available to respond to this risk by improved understanding of cost drivers with activity-based management techniques.</p> <p>Monitor rental trends at a market-rent level and macro-economic level.</p>
Increased breadth of activities across the Corporation, including participation in land acquisition, increases financial and non-delivery risks.	Medium-term risk/high impact	<p>Ensure robust understanding across the Corporation of the scope and boundaries of new activities.</p> <p>Ensure stakeholders understand the Corporation's broadened role, its implications and the safeguards to reduce risk for new activities (such as the Housing Agency Account and governance structure of property development subsidiary to reduce land acquisition risks).</p> <p>Work with The Treasury to understand the nature of the financial risks and the necessary steps to manage these.</p>

COLLABORATION

The Ministry of Social Development has identified two factors that drive the need for a whole of government approach to social development:

- > social outcomes are not independent of each other
- > social policy pursued now will affect New Zealanders' future well-being.

The Corporation works across government and is committed to ongoing collaboration to identify the contribution that housing can make towards addressing the well-being of New Zealanders.

Collaborative activities, which will enhance the delivery of the Corporation's role, are reflected within the Corporation's priorities on page 15. However, there are a number of whole of government strategies in which the Corporation participates on an ongoing basis. These include:

Clustering

The Corporation is involved in the social services cluster with Ministry of Social Development, Child, Youth and Family, and the Ministry of Housing to improve policy integration, help co-ordinate service delivery and improve outcomes for common customers.

Future Directions

The Corporation shares responsibility with the Ministry of Social Development for policy advice on the most appropriate forms of housing assistance, including the Accommodation Supplement.

Sustainable Development

The Corporation participates, particularly at a policy level, in the Sustainable Cities Programme of Action. Operationally, activities such as energy efficient retrofits to properties ensure the Corporation's rental portfolio follows good environmental practices. The Corporation's development guide ensures compliance with environmental practices.

Immigration and refugee strategies

The Corporation contributes to the development of a National Immigration Strategy and an Ethnic Responsiveness Plan, led by the New Zealand Immigration Service and the Office of Ethnic Affairs.

Reducing Inequalities

The Corporation works actively to reduce inequalities in housing by:

- > using the Social Allocation System to prioritise housing assistance
- > providing assistance to improve housing standards in rural areas of deprivation such as Northland, East Coast and the eastern Bay of Plenty
- > facilitating loan products to those in rural areas to help homeownership options
- > contracting community groups to develop and deliver home improvement services aimed at halting the deterioration of housing stock and improving the living conditions of low-income households.

Disability Strategy

The Corporation provides rental accommodation to community groups that support groups of individuals in need. It carries out modifications that enable better access and facilities for individuals with disabilities, under its Suitable Homes Programme.

E-government

The Corporation participates in the e-government programme that aims to integrate the government through internet services. The Corporation will, where possible, identify opportunities to develop business applications that are capable of interactive use by various stakeholders.

Other government agency outcomes

It is expected that the key government goals that guide the public sector will ensure a complementary direction and common social outcomes for New Zealanders. Several other agencies have outcomes that link to the Corporation's goals and activities. These include:

Ministry of Social Development

- > A whole of government approach to achieving the government's social vision.
- > People achieve economic independence, are able to participate in and contribute to society, and have a sense of belonging.
- > Communities, hapu and iwi are able to determine and achieve their vital and unique social, economic and cultural goals for the betterment of New Zealand.

Ministry of Housing

- > A rental housing market that provides stable, quality housing for those who choose or need to rent their home.

Ministry of Health

- > The best possible improvement in New Zealanders' health status and quality of life over time, within the resources available.
- > An improvement in the health status of those currently disadvantaged, particularly Māori, Pacific peoples and people with low socio-economic status.
- > The health and disability support sector contributes constructively to having a society that fully values the lives of people with disabilities.

Department of Labour

- > People with high-quality working lives in thriving and inclusive communities.

Te Puni Kokiri

- > Government interventions deliver positive outcomes for Māori.

Ministry of Pacific Island Affairs

- > Barriers to, and constraints on, Pacific peoples' social and economic participation are reduced.
- > Government programmes, policies and strategies that promote Pacific peoples' social and economic participation are supported and effectively communicated to Pacific communities.

Whole of community approach

The Corporation's mission sets out to help households to manage their own circumstances and contribute to community life. To achieve this, the Corporation recognises solutions should be identified and implemented in partnership with the communities they affect, rather than be imposed. When working with a community, the Corporation aims to increase the community's sense of ownership for solutions by giving stakeholders the opportunity to be involved in their development.

This approach is used wherever possible, but is particularly relevant to the Community Renewal and Rural Housing programmes. Both are based on principles of community and social development.

This approach is characterised by:

- > taking a holistic view of individual communities, that involves all stakeholders and considers all aspects of the community
- > a co-ordinated and collaborative approach across central and local government, residents, community organisations and the private sector, to address the inter-related issues disadvantaged communities face
- > placing emphasis on empowering communities to build their capacity and motivation to solve issues and take ownership of solutions
- > focusing on communities, and the social, environmental and economic sustainability of solutions.

Part 3: Financial information

STATEMENT OF UNDERLYING ASSUMPTIONS

These statements have been compiled on the basis of Government policies at the time the statements were finalised. The forecast financial statements comply with generally accepted accounting practice and the Public Finance Act 1989.

The measurement base applied is modified historical cost, and the accrual basis of accounting has been used to prepare these statements. These statements have been prepared on a going-concern basis.

FINANCIAL RESPONSIBILITY

Financial summary

	Budget 2004/05 \$000's	Budget 2005/06 \$000's	Budget 2006/07 \$000's
Total operating revenue	688,481	710,722	738,467
Total direct costs	425,698	444,831	459,889
Interest costs	124,420	128,948	130,967
Other indirect costs	67,103	67,638	69,274
Operating surplus before tax	71,260	69,305	78,337
Income tax expense	45,810	45,879	48,449
Net surplus after tax	25,450	23,426	29,888

Financial performance

The Corporation is obliged to operate in a businesslike manner when managing Crown resources. Through its financial frameworks, the Corporation aims to provide good financial oversight and stewardship, and efficient and effective management of assets and liabilities, by ensuring investment decisions relating to the total portfolio maintain or improve financial performance.

Performance measures / indicators			
Gross margin (= EBITDA/Income)	45.24%	44.85%	45.17%
Return on equity (= Net income/Average equity)	0.42%	0.38%	0.47%
EBIT:Income ratio	28.42%	27.89%	28.34%
EBIT:Net interest	1.62	1.59	1.66
Credit rating (Standard & Poors)	AA	AA	AA

Financial structure and accounting policies

The ratio of consolidated capital funds, as a proportion of total assets, is forecast to be approximately 76% for 30 June 2005 and the following two years.

The Corporation will maintain accounting policies in accordance with legislation and generally accepted accounting standards promulgated by the Institute of Chartered Accountants of New Zealand. A statement of the Corporation's accounting policies follows.

Financial distribution to the Crown

The Corporation will pay its surplus for each financial year to the Crown, unless the responsible Ministers authorise the Corporation to keep all or any part of it.

It is intended that funds surplus to the Corporation's investment and operating requirements will be distributed to the Crown by way of a dividend. The last date for paying the dividend will be the business day closest to 31 October of the following financial year.

In determining dividend payments, the Corporation recommends that Ministers consider:

- a) the Corporation's interest cover ratio and maintaining it in the region of 1.3 to 1.7 times
- b) the Corporation's medium-term capital expenditure programme
- c) the Corporation's working capital requirements.

The expected distribution by way of dividend is \$25.5 million, \$23.4 million and \$29.9 million respectively, for each of the next three financial years.

Information provided to Ministers

The Corporation will:

- > comply fully and promptly with all requests from Ministers for information relating to the Corporation's affairs to the extent that systems and procedures make it possible
- > provide Ministers with a draft Statement of Intent no later than one month before the start of each financial year, in keeping with section 41C of the Public Finance Act 1989
- > produce an Annual Report in keeping with section 42 of the Housing Corporation Act 1974 (as amended)
- > provide quarterly reports to the Ministers or their agents to monitor compliance with specific operating procedures and activities that help meet the Crown's social and business objectives as identified
- > provide, on request, other information pursuant to section 45B of the Public Finance Act 1989.

Procedures for acquiring shares

The Corporation will only invest in the shares of another housing services-related business where shares acquired are considered necessary to achieve the Corporation's objectives. In the case where the Corporation intends to subscribe for or otherwise acquire 20% or more of the issued capital, it will give prior written notice to the Ministers of its intention.

Business diversification

The Corporation undertakes to obtain Ministers' agreement before any material changes to its business undertakings.

Agreements for which the Corporation seeks compensation from the Crown

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

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

Value of the Crown's investment

The value of the Crown's investment in the Corporation before any revaluation as at 30 June 2004 was \$5,936 million. This value is the equity of the Corporation and equates to assets less liabilities.

The figures for the following three years, based on estimated book values, before any revaluation, are:

30 June 2005	30 June 2006	30 June 2007
\$m	\$m	\$m
6,097	6,244	6,384

STATEMENT OF SPECIFIC ACCOUNTING POLICIES

Reporting entity

The Corporation is a statutory corporation (Crown-owned entity) under the Housing Corporation Act 1974 (as amended). The core business of Housing New Zealand Corporation and its subsidiaries is to give effect to the Crown's social objectives by providing housing, and services related to housing, in a businesslike manner, and ensure that the Minister of Housing receives appropriate policy advice, other advice, and information, on housing and services related to housing.

The group financial statements are for the Housing New Zealand Corporation Group (the Group), including all its subsidiaries. The financial statements

have been prepared and presented in accordance with generally accepted accounting practice in New Zealand, the Financial Reporting Act 1993, the Public Finance Act 1989 and the Housing Corporation Act 1974 (as amended).

Measurement basis

The accounting principles recognised as appropriate for measuring and reporting financial performance and financial position, on a historical-cost basis have been followed with the exception that under the modified historical cost basis, rental properties and freehold land have been revalued in accordance with *FRS 3 Accounting for Property, Plant and Equipment*.

Specific accounting policies

The following specific accounting policies, which materially affect measuring financial performance and financial position, have been consistently applied:

a) Basis of consolidation – purchase method

The consolidated financial statements are prepared from the financial statements of the parent entity and its subsidiaries, using the purchase method. All transactions between the group entities are eliminated on consolidation. Investment in the subsidiaries is stated at cost in the Corporation's financial statements.

b) Revenues

Income shown in the Statement of Financial Performance consists of the amounts received and receivable by the Group for the provision of housing and lending services and providing policy advice to the Crown.

c) Maintenance

The Group recognises liabilities for maintenance on the following basis:

- > Work undertaken before balance date is recognised as liabilities and expenses, except where the expenditure creates additional service potential.
- > All identifiable obligations relating to building health and safety regulations are recognised at balance date. These amounts are regarded as expenses.

d) Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment (except for freehold land and capital works in progress) at rates calculated to allocate the cost or valuation less estimated residual value of the assets, over their estimated useful lives.

Leasehold improvements are depreciated over the shorter of the unexpired period of the lease and the estimated useful life of the improvement.

Major depreciation periods are:

- | | |
|-----------------------------------|--|
| > rental properties | up to 40 years |
| > leasehold improvements | period of the lease or estimated useful life |
| > furniture and fittings | 10 years |
| > office equipment | five years |
| > computer equipment and software | four years |
| > motor vehicles | five years. |

e) Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in determining the operating surplus in equal instalments over the lease term.

f) Income tax

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effects of timing differences calculated using the liability method. Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

g) Goods and services tax

The Group is principally an exempt supplier in respect of Goods and Services Tax. For this reason, Goods and Services Tax on the majority of inputs is included in expenditure.

h) Property, plant and equipment

The Group has the following classes of property, plant and equipment:

- > freehold land
- > rental properties
- > capital work in progress
- > leasehold improvements
- > furniture and fittings
- > office equipment
- > computer equipment and software
- > motor vehicles.

All property, plant and equipment are initially recorded at cost. Freehold land and rental properties are revalued to fair value, determined by reference to its highest and best use, on an annual basis in accordance with *FRS 3 Accounting for Property, Plant and Equipment*.

Any revaluation surplus arising on the revaluation of freehold land and rental properties is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve is recognised as an expense in the Statement of Financial Performance in the period it arises. Revaluation surpluses that reverse previous revaluation deficits recognised in the Statement of Financial Performance are recognised as revenue in the Statement of Financial Performance.

i) Properties intended for sale

Properties intended for sale are recognised at the lower of cost and net realisable value.

j) Mortgage advances

Mortgage advances are stated at the lower of amounts advanced plus accrued interest, less repayments net of provisions made on advances that are considered doubtful of collection, or the recoverable amount. Interest charged on loans that have been specifically provided for is not recognised as income.

The mortgage provision reflects an amount that is considered adequate to provide for probable losses based on the best information currently available. Where possible, specific provisions are made for loans that are identified as having particular risk, where security is considered inadequate.

k) Investments

Investments in government securities, local authority securities, short-term and other investments are stated at face value less/add unamortised discounts and premiums. Discounts and premiums are amortised to income on either a yield-to-maturity basis or a straight-line basis over the terms of the investments.

l) Receivables

Receivables are stated at their estimated realisable value.

m) Mortgage sale insurance

Provisions related to insurance provided on mortgages sold have been recorded based on the present value of actuarially determined assessment of likely losses.

n) Mortgage insurance scheme

The premium income realised and movement in provision for claims during the year are recognised in the Statement of Financial Performance. The unearned premium reserve consists of the unrealised amount of premiums received. This is determined by apportioning premiums received over the effective periods of risk underwritten. The provision for claims is the actuarial assessment of present value of the estimated cost of future claims.

o) Financial instruments

Financial instruments recognised in the Statement of Financial Position include cash balances, bank overdrafts, receivables, payables, investments, mortgages and short- and long-term borrowings.

The Group uses various financial instruments, some of which have off-balance sheet risk, for the purpose of reducing its exposure to movement in interest rates and foreign currency exchange rates.

For interest rate swap agreements, the differential to be paid or received is accrued and is recognised as a component of the interest expense/income over the life of the agreement.

Premiums paid for interest rate options are expensed in the Statement of Financial Performance. Net settlements on maturity of forward rate agreements and options are amortised over the period of the hedged item. The Group enters into currency and interest rate swaps and foreign currency forward exchange contracts to hedge foreign currency transactions. Any exposure to gains or losses on these forward contracts is generally off-set by a related loss or gain on the item being hedged.

Gains and losses on contracts which hedge specific short-term foreign currency denominated transactions are recognised as a component of the related transaction in the period in which the transaction occurs.

The Group is not involved in foreign exchange or interest rate speculating. Any financial instruments that do not qualify as hedges are stated at cost, with adjustments for market value if appropriate.

p) Foreign currencies

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the transaction date. Short-term transactions covered by forward exchange contracts are measured and reported at the forward rates specified in those contracts. At balance date, foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these translations are included in the Statement of Financial Performance. The exchange differences on hedging transactions undertaken to establish the price of particular foreign currency transactions, together with any costs associated with the hedge transactions, are included in the measurement of the foreign currency transactions.

Changes in accounting policies

There have been no changes in accounting policies. All accounting policies have been applied on a basis consistent with those used in previous years.

FINANCIAL STATEMENTS

Statement of financial performance²

	Budget 2004/05 \$000's	Budget 2005/06 \$000's	Budget 2006/07 \$000's
Income			
Rental income – Tenants	304,631	311,332	319,116
Rental income – Shortfall	366,074	381,602	400,156
Interest income	9,368	11,304	13,120
Other income	8,408	6,484	6,075
Total income	688,481	710,722	738,467
Maintenance	123,241	127,000	131,000
Rates	79,378	82,562	86,934
Rental property depreciation	108,497	113,013	116,303
Other direct costs	114,582	122,256	125,652
Total direct costs	425,698	444,831	459,889
Interest costs	124,420	128,948	130,967
Other indirect costs	67,103	67,638	69,274
Total indirect costs	191,523	196,586	200,241
Total costs	617,221	641,417	660,130
Operating surplus before tax	71,260	69,305	78,337
Taxation	45,810	45,879	48,449
Net surplus after tax	25,450	23,426	29,888

² The decrease in net surplus from 2004-05 onwards compared with the Corporation's Statement of Intent 2003-06 is due to an increase in interest costs (approximately \$13m per annum) associated with increased debt of \$277m. This debt included \$127m of subordinated debt and \$150m of equity, which both converted to interest bearing debt following a review of the Corporation's capital structure.

Statement of forecast financial position

	Budget 30 June 2005 \$000's	Budget 30 June 2006 \$000's	Budget 30 June 2007 \$000's
Capital contribution	(3,195,286)	(3,344,869)	(3,478,375)
Retained earnings	34,533	36,557	30,096
Asset revaluation reserves	(2,936,140)	(2,936,140)	(2,936,140)
SHAREHOLDER'S FUNDS	(6,096,893)	(6,244,452)	(6,384,419)
Short term debt	(87,768)	(94,144)	(64,607)
Long term debt	(390,530)	(390,530)	(131,188)
Borrowing – Crown	(1,308,772)	(1,350,962)	(1,647,960)
LONG TERM LIABILITIES	(1,787,071)	(1,835,637)	(1,843,755)
Accounts payable and accruals	(124,115)	(127,332)	(130,817)
Sold mortgage and lease provisions	(34,280)	(28,875)	(23,959)
CURRENT LIABILITIES	(158,395)	(156,207)	(154,776)
Total liabilities and shareholders funds	(8,042,359)	(8,236,297)	(8,382,950)
Mortgages and other lending	99,935	123,696	147,141
Management assets	23,821	26,618	28,948
Rental properties	7,841,700	8,009,078	8,129,957
FIXED ASSETS	7,965,456	8,159,392	8,306,045
Rent, prepayments and other receivables	32,067	32,067	32,067
Provision for doubtful debts	(2,163)	(2,163)	(2,163)
Short term investments	47,000	47,000	47,000
CURRENT ASSETS	76,904	76,904	76,904
Total assets	8,042,359	8,236,296	8,382,949

Statement of movement in equity

	Budget 30 June 2005 \$000's	Budget 30 June 2006 \$000's	Budget 30 June 2007 \$000's
Opening equity	5,943,524	6,096,893	6,244,452
Net surplus	25,450	23,426	29,888
Changes in revaluation reserve	0	0	0
Total recognised revenues and expenses	5,968,974	6,120,319	6,274,340
Distributions to owners	(33,890)	(25,450)	(23,426)
Contributions from owners	161,809	149,583	133,505
Closing equity	6,096,893	6,244,452	6,384,419

Statement of forecast cash flows

	Budget 30 June 2005 \$000's	Budget 30 June 2006 \$000's	Budget 30 June 2007 \$000's
Cashflows from/used in operating activities			
Receipts from customers	306,503	311,332	319,116
Receipts from Crown	377,651	388,605	407,733
Interest received	8,076	8,877	9,713
Other income	266	256	253
Payments to suppliers and employees	(364,791)	(379,651)	(395,986)
Income tax paid	(45,810)	(45,879)	(48,449)
Interest paid	(124,404)	(128,948)	(130,967)
Net cashflows from operating activities	157,491	154,592	161,413
Cashflows from/(used in) investing activities			
Sale of rental properties & management assets	10,048	10,695	10,074
Mortgage and other lending repayments	9,074	13,822	10,068
Purchase of rental properties & management assets	(317,190)	(312,197)	(265,107)
Mortgage and other lending	(38,116)	(39,611)	(34,646)
Net cashflows from investing activities	(336,184)	(327,291)	(279,611)
Cashflows from/(used in) financing activities			
Capital contributions	161,809	149,583	133,505
Crown borrowings	45,638	42,190	296,998
Other debt borrowings	5,136	6,376	0
Dividends paid	(33,890)	(25,450)	(23,426)
Crown debt repayment	0	0	0
Long term debt repayment	0	0	(259,342)
Other debt repayment	0	0	(29,537)
Net cashflows from financing activities	178,693	172,699	118,198
Net cashflows	0	0	0
Opening cash position	0	0	0
Closing cash position	0	0	0

Part 4: Appropriations, output classes and policies

OPERATING APPROPRIATIONS

Appropriations	04/05 \$m ³	Description
Housing policy advice		
Policy advice	0.931	Housing advice to the Minister on strategic, sectoral and operational policy.
Research	0.146	Appropriate research to better understand housing markets and future need for housing assistance.
Evaluation of the Northland, East Coast, eastern Bay of Plenty (NECBOP) programme	0.150	Evaluation of the NECBOP programme.
Ministerial support	0.338	Support the Minister to meet Ministerial, Parliamentary and statutory responsibilities.
Local government and third sector housing policy advice	0.050	
Total	1.615	
Contracted housing support services		
Low Deposit Rural Lending education and support	1.255	To support 12 Low Deposit Rural Lending service providers to deliver housing education programmes. (2004/05 target: 1000 graduates)
Group Self Build scheme	0.200	Planning and supervision grants for housing projects initiated under the Group Self Build scheme.
Rural Fire Service safety programme	0.300	Support the New Zealand Fire Service's Rural Fire Safety Campaign by providing smoke alarms and fire safety plans, and other logistical support.
Home improvement project zone	0.350	Support for community-based housing groups to plan and deliver home improvement services within Rural Housing Programme areas.
Capacity building for Pacific People (SHAZ)	0.200	To support Pacific groups to develop sustainable housing solutions by funding capacity building and seeding activity.
Total	2.305	

³Including GST.

OPERATING APPROPRIATIONS (CONTINUED)

Housing support services		
Community Renewal	0.340	Operating costs associated with running the Community Renewal Programme.
Healthy Housing	0.400	Operating costs associated with running the Healthy Housing Programme.
Low cost design initiative	0.088	Provide incentives to test new, low-cost housing designs and construction methods within the Rural Housing Programme areas.
Housing Innovation Fund – the Corporation’s support services	2.132	Help third sector, iwi and local government providers to plan and deliver social housing demonstration products: capacity building grants and evaluation. Includes \$0.68m carry over.
Total	2.960	
Housing assistance		
Rural Housing Programme’s suspensory loans for urgent and essential repairs	6.000	To fund essential repairs and maintenance to address acute health and safety concerns for people living in substandard housing in rural areas. This provides for expansion of the Rural Housing Programme. Includes \$1.5m allocated to Broadening RHP (100 loans) and \$0.5m carry-over (34 loans). (2004/05 target: 369 loans)
Infrastructure suspensory loans (SHAZ)	0.750	Includes \$0.25m carry-over (17 loans). (2004/05 target: 50 loans)
Bridging finance (SHAZ) interest forgone	0.100	To help community groups to develop their own housing projects by providing interest-free loans during start-up and construction.
Rural community-owned rental housing interest forgone	0.782	Provides for cost of interest and other concessions associated with Rural Housing Programme loans to community organisations.
Interest forgone on loans advanced	1.000	HNZC and Ministry of Housing share this appropriation for interest subsidies.
Housing Innovation Fund – Housing assistance	2.697	Help third sector and iwi providers to plan and deliver social housing demonstration projects: conditional grants, interest subsidy and suspensory loans write down.
Mortgage Insurance Scheme pilot	4.199	Funding will be used to underwrite loans over a two-year period and provide pre-advice and post-purchase support. Includes \$1.267m carry-over. (2004/05 target: 1450 loans)
Total	15.528	
Community housing rent relief programme	4.500	
Income-related rental subsidy	366.074	

CAPITAL APPROPRIATIONS

Appropriations	04/05 \$m ⁴	Description
Loans to refinance third party debt	0	No third party debt matures during 2004/05
Capital injections to the Corporation for housing activities		
Former ACC Unit Development/ Reconfiguration Project	27.000	Upgrade the former ACC portfolio through reconfiguration and replace units lost through reconfiguration. This figure includes \$12m carry-over and is subject to re-phasing.
Healthy Housing	16.900	Improve health outcomes for tenants through interventions such as housing modifications and referrals to health and social service providers.
Modernisation	33.810	Build the Corporation's modernisation capacity to alleviate long-term deterioration of state housing. (2004/05 target: 728 interventions)
Community Renewal	10.790	Promote positive change to the economic, social and physical environments in selected areas where there is a high concentration of state rental housing, through redevelopment and capital improvements. Funding includes acquisitions and other capital expenditure.
Rental acquisitions	62.282	Purchase additional state houses to better meet the needs of under-served priority housing applicants. (2004/05 target: 256 units) ⁵
Rental reconfigurations	2.801	Reconfigure existing state houses to better meet the needs of under-served priority housing applicants. (2004/05 target: 20 units)
Community Group Housing acquisitions	14.700	Purchase and modify additional community houses to alleviate demand from community housing provider groups. (2004/05 target: 51 units)
Braemar/Kimberley resettlements	6.466	Purchase community housing units to resettle Braemar Hospital and Kimberley Centre residents. (2004/05 target: 20 units)
HNZC rural rental housing	11.965	Provide state housing in Rural Housing Programme areas where priority demand has been identified. (2004/05 target: 100 units)
Housing Innovation Fund	11.745	Help third sector, iwi and local government providers to plan and deliver social housing demonstration projects: grants and concessionary loans for acquiring and modifying dwellings. Includes \$2.4m carry-over. (2004/05 target: 20 loans)
Rural regional loans	20.000	Help low and modest income households in selected rural areas to achieve homeownership goals with mortgage lending and support services. (2004/05 target: 250 loans)
Bridging finance (SHAZ)	7.000	SHAZ loans are to facilitate a partnership between the Corporation and urban or rural community groups to ensure the development of sustainable housing solutions and active progress towards capacity building.
Rural community-owned rental housing loans	6.371	Provide loans to rural-based community organisations to develop their own sustainable housing portfolios. Includes carry-over of \$1m. (2004/05 target: 37 loans)
Total	231.830	

⁴ Including GST.⁵ HNZC invests additional \$105.5m to acquire further 468 units.

**STATEMENT OF OBJECTIVES –
THE CORPORATION’S OUTPUT CLASSES**

Output class 1: Research and policy advice

Objective

This output class includes providing housing advice to the Minister and the Corporation’s operational units on strategic, sectoral and operational policy. To achieve this, the Corporation will carry out appropriate research and policy development (across the wider housing system) that contributes to achieving the government’s housing outcomes by providing well-informed policy advice and information to the Minister, and facilitate better understanding of housing markets and the future need for housing assistance.

Key activities

Policy

- > Finalise, release and implement New Zealand Housing Strategy.
- > Prepare for the medium-term review of Accommodation Supplement.
- > Contribute to a range of options to improve the standard of housing in New Zealand.

Research

- > Develop and publish a quarterly housing market monitor.
- > Evaluate the Community Renewal, Rural Housing and Healthy Housing programmes.
- > Develop a built environment research programme.
- > Support growing independence of CHRANZ research work programme.
- > Continue market monitoring.

Key performance measures

2004/05 performance target

Deliver policy and research work programmes within the time, cost and quality guidelines

Programme deliverables to meet the quality and timeliness guidelines (see pages 35–36)

Output class 2: Ministerial support

Objective This output class includes supporting the Minister of Housing to meet a range of Ministerial, Parliamentary and statutory responsibilities by providing high quality and timely support.	
Key activities <ul style="list-style-type: none"> > Continue to provide effective processes to deliver quality ministerial service. > Increase the level of understanding of government processes within the Corporation. 	
Key performance measures	2004/05 performance target
Deliver Ministerial correspondence, Parliamentary Questions and Official Information Act requests within time, cost and quality expectations	Deliverables to meet the quality and timeliness guidelines (see page 37)

Output class 3: Identifying and matching housing need

Objective This output class aims to provide appropriate ways for people to access the Corporation's housing services, accurately assess their housing needs and provide access to sustainable housing solutions.	
Key activities <ul style="list-style-type: none"> > Implement 'Understanding Communities and Addressing Housing Need' across regions. > Implement regional alignment to enhance housing needs assessment and service delivery. > Continue to work in a whole of government and whole of community way to ensure identification of need and sustainable solution. 	
Key performance measures	2004/05 measure
Average time to assess high priority applicants	<=7 days
SAS audit results (percentage of correct assessment decisions)	>= 95%
Percentage of new tenants receiving income-related rent	98%
Suspensory loans approved for essential repairs	\$ 4m ⁶ Volume: 335
Suspensory loans approved for infrastructure	\$ 0.5m Volume: 33

⁶ see appropriation table for further detail.

Output class 4: Tenant support

Objective

This output class aims to support tenants to achieve sustainable housing solutions by understanding their needs, developing strong relationships and providing ongoing support to households where the Corporation has facilitated a housing solution.

In working with tenants and applicants, the Corporation will meet its statutory obligations and responsibilities. As a landlord, the Corporation has specific responsibilities under the Residential Tenancies Act, the Resource Management Act and other relevant legislation.

The Corporation also provides ongoing management functions. These include collecting and reviewing rental/mortgage payments, case management (where required, and involving other housing and social service providers) and a range of other tenant service activities. Involvement in inter-governmental forums contributes to the stability of those receiving social housing assistance. The Corporation will continue to contribute to wider sector development of strategies, aimed at specific need groups (e.g. the disability sector), at an inter-governmental level and through the draft New Zealand Housing Strategy.

Key initiatives and programmes

- > Continue to participate in social services cluster and identify projects to improve outcomes of common stakeholders.
- > Implement household action plans across state rental tenancies.
- > Continue to review and enhance policies, processes and systems that impact service delivery.
- > Continue support work with mental health and migrant communities.
- > Continue to distribute localised newsletters to tenants to build communication.

Key performance measures	2004/05 measure
Income-related rent accuracy – audit result	>=96%
Percentage of total tenants receiving income-related rent	>=89%
Percentage of case management cases with management plans	90%
Percentage of debt under arrangement ⁷	65% by year end

⁶ Separate rental debt:income measure included in Output Class 5.

Output class 5: Managing investment in housing

Objective

This output class aims to optimise Crown investment to maximise housing solutions for people in need. The government has purchase and ownership interests in the Corporation's assets.

Assets include physical housing stock and the lending portfolio. While the government purchases specific outputs (e.g. a number of additional rental houses and Low Deposit Rural Lending loans) as an owner, it also wishes to ensure that these capital assets are used efficiently to maximise the available housing solution opportunities for people in need, so it can continue to provide services in future. Government must be assured that new investment in housing represents value for money and that existing investments are maintained (e.g. stock quality and amenities).

The Corporation has a responsibility to display sustainability in the built environment. This includes having regard to environmental responsibility, while taking into consideration the economic and social implications and effects of its operations.

Key initiatives and programmes

- > Enhance future budget processes by developing a capital requirements framework.
- > Review the effectiveness of capital investment, including the balance between investing in new housing and ensuring the quality of existing stock.

Key performance measures	2004/05 measure
Net additions to rental stock	953
Level of maintenance expenditure	\$140m
Level of modernisation expenditure	\$33.8m
Level of Community Renewal expenditure	\$19m ⁸
Level of Healthy Housing expenditure	\$16.9m
Volume of energy efficiency retrofits	2,100
Level of expenditure on former Auckland City Council units	\$15m ⁹
Property condition benchmark compliance	>88%
Stock available for re-letting	<1.5%
Level of under-utilisation	<5%
Rental debt + damages debt: Income	<=10%

⁸ Includes \$8.2m non-appropriated.

⁹ Subject to re-phasing. See appropriation table for further detail.

Output class 6: Housing provider development

Objective

This output class aims to work in partnership with the non-state social housing sector and the private housing sector to encourage and develop their capability to provide housing, and to ensure increasing availability of affordable housing for low to moderate income households.

Social housing providers

There are advantages in locally devised housing solutions that are integrated with other service providers. They provide greater levels of participation and personal responsibility in social housing. The Corporation will work with non-state housing providers to assist a growing third sector and encourage local authorities to retain and invest in social housing provision.

Fostering private sector involvement

The Corporation will increasingly work with the private sector to encourage mutually beneficial investment into housing provision for low to moderate income households.

Key initiatives and programmes

- > Continue the Housing Innovation Fund to help deliver social housing solutions.
- > Continue the Local Government Housing Fund to promote retention of social housing.
- > Consider options to promote homeownership for low to moderate income households.

Key performance measures	2004/05 measure
Additional bedrooms available through the non-state social housing sector	170–215 ¹⁰
Non-state social housing units improved	50–75 ¹⁰
Grants allocated for community-based organisation capacity and capability building	91
Loans underwritten by the Corporation through the mortgage insurance scheme pilot	1,450
Low Deposit Rural Lending loans approved by the Corporation	250
Low Deposit Rural Lending graduates	1,000

¹⁰ As proposals vary greatly in size the measures should be regarded as indicative and not fixed.

DISCRETIONS FOR INCOME-RELATED RENTS AND HOUSING ALLOCATION

Discretions for income-related rents

While Part 5 of the Housing Restructuring Act 1992, amended by the Housing Restructuring (Income-Related Rents) Act 2000, largely prescribes the process for calculating and administering income-related rents, the Corporation is required to exercise a number of discretions in the following areas:

- > the establishment of assessable income
- > the completeness and accuracy of information provided
- > the adjustments to outcomes of the calculation mechanism.

In exercising the discretions, the Corporation endeavours at all times to be guided by the following objectives:

- > to consider, where appropriate, the way in which similar government agencies have exercised similar discretions
- > to follow a process, or apply guidelines where they exist, in a way that is transparent to the tenant or prospective tenant
- > to exercise consistency between discretions, unless it is inappropriate to do so
- > to promptly explain to tenants and prospective tenants (who ask about the exercise of discretions) how the discretions relate to them, the decisions made and any rights they have to seek decision reviews.

Allocating Corporation housing

The process of allocating Corporation housing is not prescribed in legislation. The Corporation and the Crown have established principles and a process to govern the allocation of houses to prospective residents. *Social Allocation of Housing New Zealand Corporation Housing* outlines the principles and process the Corporation is required by Cabinet to follow, when allocating Corporation housing. This document is available on the Corporation website at: www.hnzc.co.nz. In allocating housing, the Corporation is authorised by section 61 of the Housing Restructuring Act 1992 to consider matters that would or may, except for section 61, constitute a breach of the Human Rights Act 1993.

QUALITY PROCEDURES AND CRITERIA

Policy advice

The policy unit will follow a set of quality procedures and criteria to ensure high quality policy advice.

Quality procedures

- > A policy manual defines templates, guidelines and standards for preparing Board papers, Ministerial briefing papers and Cabinet papers.
- > All papers are reviewed against a quality checklist by another policy analyst or an external assessor, before being signed off by the Policy Manager.
- > All papers sent to the Minister's Office are signed off by the General Manager Strategic Services or the Chief Executive and, where possible, the Communications Director.
- > Feedback is sought from the Minister's Office on an annual basis.
- > Each year, external assessors are commissioned to critically assess a sample of the policy papers produced by the policy unit.

Quality criteria

Peer reviewers and assessors are required to judge the quality of the policy advice against the following criteria:

- > The advice supports the Government's key priorities.
- > The aim of the advice is clearly stated and the problem properly defined.
- > The assumptions behind the advice are explicit, and the argument is logical and supported by accurate and relevant facts.
- > An adequate range of options is presented and the benefits, costs and consequences including risks of each option are assessed.
- > Other government agencies and affected parties have been consulted and possible objections to proposals identified.
- > Problems relating to implementation, technical feasibility, timing and consistency of recommendations have been considered.
- > The format meets formal requirements. The material is effectively, concisely and clearly presented; has short sentences in plain English; and is free of spelling, grammatical or numerical errors.
- > Papers delivered to Cabinet meet Cabinet Office requirements.
- > Advice is delivered to the Minister of Housing within negotiated deadlines.

Policy performance measures

Quantity	
> Policy advice, research and evaluation will meet the policy work programme priorities and requirements agreed with the Minister of Housing at the start of each six-month period	Sign-off received
Quality	
> Policy advice, research and evaluation will meet the quality characteristics described in the quality procedures and criteria	Standard met
> Six-monthly assessment/feedback meetings with the Minister of Housing	Feedback recorded and acted upon
Timeliness	
> Policy advice, research and evaluation will be delivered to the Minister of Housing within negotiated deadlines	100%
> Reporting on the work programme will be included in the Corporation's quarterly report	The last day of the month following the end of the quarter

Research and evaluation

The research and evaluation team will follow a set of quality procedures and criteria to ensure high quality research and evaluation.

Quality procedures

- > A research and evaluation manual defines templates, guidelines and standards for preparing Board papers, research and evaluation plans, requests for proposals, reports and all briefing papers.
- > All papers are reviewed against a quality checklist by another research and evaluation analyst or an external assessor, before being signed off by the Research and Evaluation Manager.
- > All papers sent to the Minister's Office are signed off by the General Manager Strategic Services or the Chief Executive and, where possible, the Communications Director.
- > Regular feedback, including assessment of work and reports, will be sought from stakeholders and project advisory teams including external advisors.

Quality criteria

Peer reviewers and assessors are required to judge the quality of the research and evaluation outputs against the following criteria:

- > The research objectives and the research questions are clearly identified and linked.
- > The assumptions behind the research design and methodology are explicit and appropriate to the research problem.

- > The research design and plan are of scale and scope to ensure sufficient and comprehensive coverage.
- > The links between the findings and recommendations are explicit, logical and supported by accurate and relevant facts.
- > Other relevant government agencies and stakeholders have been consulted.
- > The format meets formal requirements. The material is effectively, concisely and clearly presented; has short sentences in plain English; and is free of spelling, grammatical or numerical errors.
- > The research and evaluation undertaken is designed with a practical focus. The reports produce practical findings to inform policy and or decision making at operational and other levels.
- > The research and evaluation projects and reports are delivered within negotiated deadlines.

Ministerial services

The content and format of responses meets formal requirements. The content is effectively, concisely and clearly presented; has short sentences in plain English; and is free of spelling, grammatical or numerical errors.

Ministerial performance measures

Quality Draft replies to the following items are approved by the Minister:	
> Ministerial correspondence	95%
> Parliamentary questions	98%
> Official Information Act requests and Ombudsman investigations	95%
Timeliness Draft replies to the following items are sent to the Minister's office by the following deadlines:	
> Ministerial correspondence: within 20 working days of the Corporation receiving the correspondence	95%
> Parliamentary questions: within four working days of HNZN receiving the question	100%
> Official Information Act requests and Ombudsman investigations: within the deadline required by the Minister's Office	100%
Quantity	
> Ministerial correspondence	650
> Parliamentary questions	550
> Official Information Act requests and Ombudsman investigations	20



National Office Wellington, Grey Street, PO Box 2628, Wellington 6015

Phone: 04 474 2100 **Fax:** 04 472 5752

www.hnzc.co.nz

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