

**STATEMENT OF
INTENT 2010–13
HELPING
NEW ZEALANDERS
IN THEIR TIME
OF HOUSING NEED**

Our Vision: **Helping New Zealanders in their time of housing need**

Outcomes for the community

- 1 New Zealanders with priority housing needs are supported in their time of need.
- 2 New Zealanders in need are helped along their pathway towards housing independence.
- 3 The Crown's resources are managed in the most efficient and effective manner.
 - Achieve the right balance between the Crown's social and financial objectives
 - A housing portfolio that is fit for purpose by type and location.

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Foreword: Board Chair

We have to make the resources we have go further and ensure they help more people in their time of housing need.

The Government remains focused on improving the effectiveness and efficiency of social services provided to New Zealanders, particularly vulnerable citizens. It expects stronger performance from government agencies and is seeking new ways to do more with less, within a restricted funding environment.

The Corporation manages a portfolio of more than 69,000 houses, currently valued at \$14.5 billion. The scale of the housing challenges facing New Zealand means the Corporation needs to keep thinking about the scope of its role and how it can best meet these challenges long-term. In developing the Statement of Intent, the Board, in consultation with the Government, has reviewed how it can best contribute to the Government's social objectives, improve the performance of the Corporation and deliver value for money.

This Statement of Intent sets out how the Corporation proposes to provide access to housing solutions for New Zealanders with priority needs, now and into the future. Our purpose is still to support those who need help the most. But we recognise that to continue to do this we must make better decisions to make the most of our resources and help more people.

Our homes can change lives. We need the right types of houses, in the right places, to the right standard. Our housing portfolio is the government's second largest asset, so we must manage it effectively and efficiently. The distribution, concentration and standard of many of our homes are legacy issues that need to change to meet current and future demand in a more efficient manner. This is an issue that the Corporation is seeking to progressively address.

Like many other government agencies, the Corporation must find new ways to provide what the community rightly expects for those in need and, within economic constraints, to represent the most value for taxpayers. While the Government is committed to the current level of provision of state housing, it is keen to see the development of

alternative suppliers 'of scale' to deliver additional affordable rental housing and affordable home ownership opportunities. The Corporation will work closely with the community, other social housing providers, iwi, government agencies and the private sector to help achieve this.

The Corporation also acknowledges that Government expectations may change, depending on the outcome of Ministers' consideration of the Housing Shareholders' Advisory Group report, and it will be responsive to those changes.

The focus of 'what we do' is to deliver both social and economic value by contributing to the following outcomes:

- New Zealanders with priority housing needs are supported in their time of need.
- New Zealanders in need are helped along their pathway towards housing independence.
- The Crown's resources are managed in the most efficient and effective manner.

There are challenges ahead, but I am confident the Corporation has the ability to make a significant contribution to these outcomes for the community.



Patrick N Snedden
CHAIR



Chief Executive's overview

We are sharpening our focus on our core business. This Statement of Intent sets out how we propose to achieve our vision of helping New Zealanders in their time of housing need.

Providing state housing and tenancy services for our tenants is our core role. We are here to help house people in the greatest need and we currently provide housing for 200,000 people. Meeting the demand for social housing is an ongoing challenge as there are more people asking for state housing than we are able to provide. At any one time there are around another 3,500 priority applicants (and their families) waiting who urgently need our help.

It is important that state housing continues to be available for those with high and complex needs, particularly as demand for social housing is likely to continue to grow in future. Our focus is to help those who need it most, making sure that access to state housing is available for vulnerable people and families and in areas of high demand. Once in state housing, households are able to stabilise their circumstances, enabling them to achieve housing independence when they are ready.

We also recognise that as people's circumstances change, their housing needs and potential housing options change. Depending on their circumstances, our role in helping people might be to support them along their pathway towards housing independence. We will operate in a dynamic and customer-focused way to facilitate housing options for those able to rent privately or own their own home. We have already started changing how we operate through the introduction of our Options and Advice Service.

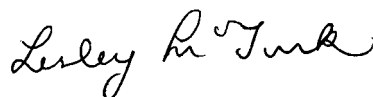
The resources we use could easily be used elsewhere in government. We have to think and work differently to ensure our resources go further and represent the most value for taxpayers. To do this we need to operate with commercial discipline and demonstrate efficiency and effectiveness in everything we do. We have revised our outcome framework to provide a more balanced overview of performance and more transparency about our contribution to the Government's social and financial objectives. We have also developed a revised set of high-level performance measures that will enable us to better

demonstrate progress over the medium term. There is further work to be undertaken but over time this will help us to benchmark performance and improve decision making on where we invest our effort for maximum effect.

The current stock of state houses was mostly built for the nuclear families of previous generations, rather than the needs of single people, single parents, and larger families today. Our focus is to develop the housing portfolio to be 'fit for purpose' by type and location to support our customer delivery, and better match demand and the changing needs of our customers.

If we are to meet demands for our services and deliver on the outcomes identified for the Corporation, we need to build our capability and improve performance. Changing how we operate will require focus, capable leadership, adaptable and skilled people, a commitment to delivery, and systems and processes that enable success. Our aim is to become a proactive, results-focused and high-performing organisation. The Statement of Intent sets out how we plan to achieve this.

This Statement of Intent sharpens the Corporation's focus on its core business, so we can continue to serve New Zealand by helping more people in the greatest need. I look forward to delivering on this Statement of Intent.



Dr Lesley McTurk
CHIEF EXECUTIVE



Role and functions

The Corporation's purpose

The Corporation is a Crown entity. The Housing Corporation Act 1974 sets out the Corporation's objectives and functions as follows:¹

- (a) 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:
 - (i) exhibits a sense of social responsibility by having regard to the interests of the community in which it operates; and
 - (ii) exhibits a sense of environmental responsibility by having regard to the environmental implications of its operations; and
 - (iii) operates with good financial oversight and stewardship, and efficiently and effectively manages its assets and liabilities and the Crown's investment; and
- (b) to ensure that the Minister of Housing receives appropriate policy advice, other advice, and information, on housing and services related to housing.

The primary relationship between the Government and the Corporation is between the Ministers of Finance and Housing and the Corporation's Board. The Corporation has the following Responsible Ministers:

MINISTER OF HOUSING (OWNERSHIP AND POLICY ADVICE)	MINISTER OF FINANCE (OWNERSHIP INTEREST)
Hon Phil Heatley	Hon Bill English

The Board is responsible for the overall governance of the Corporation and for managing it according to its legal mandate.

The Corporation's subsidiaries

The Corporation has the following subsidiaries to the Housing New Zealand Corporation Parent company:

HOUSING NEW ZEALAND LIMITED	Wholly-owned subsidiary of the Corporation that holds the state housing portfolio
HNZC PROPERTY DEVELOPMENT LIMITED	Wholly-owned subsidiary of the Corporation that undertakes some of the Corporation's property developments
HOBSONVILLE LAND COMPANY LIMITED	Wholly-owned subsidiary of the Corporation for the development of the former airbase site at Hobsonville, Auckland, on behalf of the Crown. Development activity in Hobsonville is funded through the Crown's Housing Agency Account

The Housing Agency Account is the vehicle by which the Corporation carries out its agency role on behalf of the Crown. The Corporation undertakes property management and development services on behalf of the Crown in relation to land and buildings that have been transferred to its direct control.

¹ Housing Corporation Act 1974 as amended by the Housing Corporation Amendment Act 2001 section 3B(a) and (b).

Part one

Medium-term information

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The operating environment

Why is housing important?

Shelter is recognised internationally as a basic human right. Our homes influence our wellbeing, as do our ties to the communities in which we live and work. Most people in New Zealand today are well housed and are able to satisfy their own housing needs within the private housing market. However, there are many New Zealanders who require assistance to obtain affordable, secure and appropriate housing for their needs.

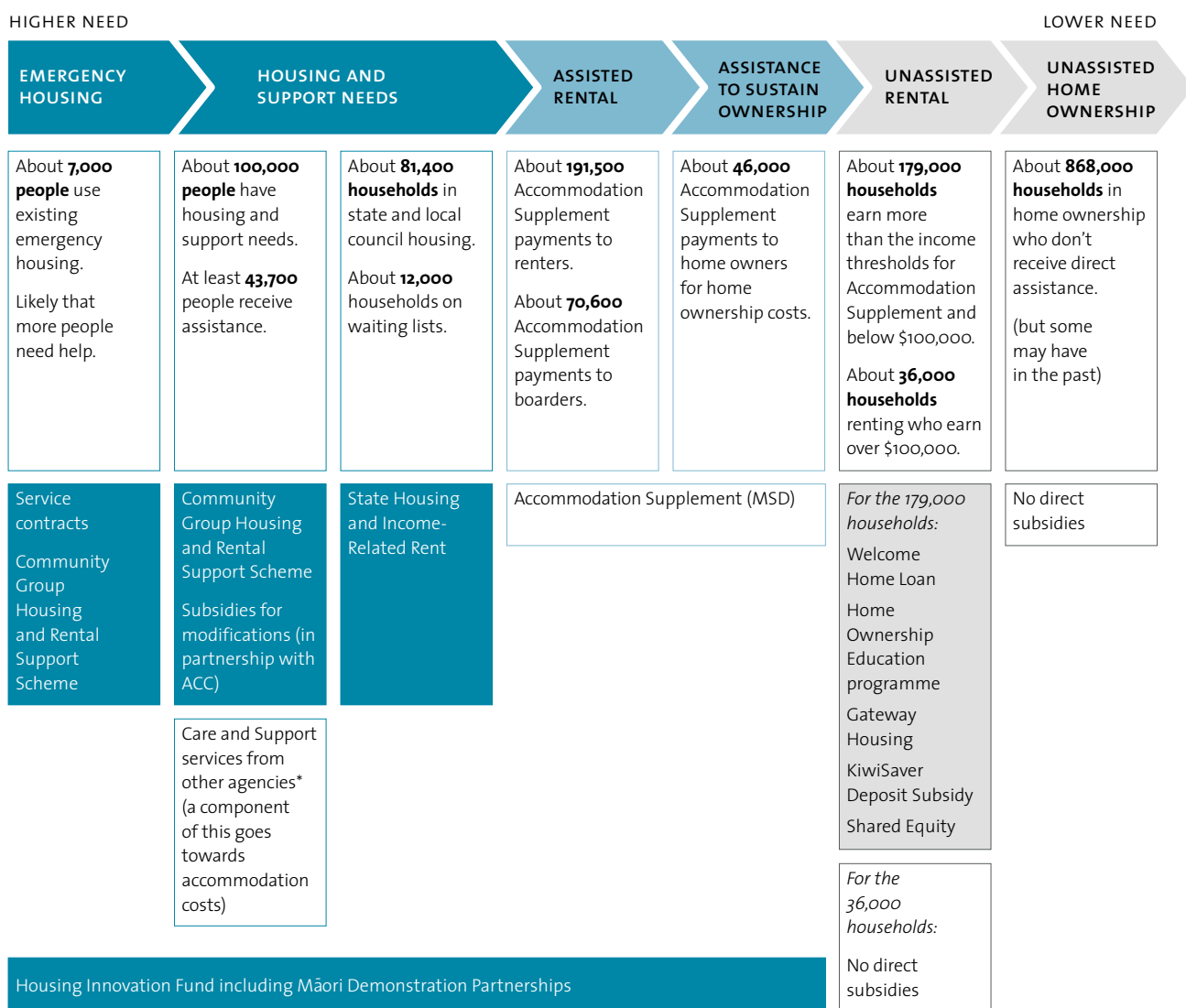
The New Zealand housing continuum

The Corporation has developed the concept of the housing continuum to better understand and respond to the housing needs and services in New Zealand across different market segments, from providing emergency housing to assisting people into independent home ownership. Customers are on different housing pathways across the continuum. They enter at different stages and progress to different points over their lives. With changing circumstances, New Zealanders in rental

accommodation typically change house on average every two years, and those owning their own home shift on average every six years.

State housing is an important part of the housing continuum. The housing continuum on page seven gives an overview of the continuum from lowest to highest need and highlights Government housing assistance through the Accommodation Supplement (AS), the Corporation's housing, or support provided to third party providers of assisted housing.

The housing continuum



The New Zealand context

While economic conditions are stabilising, challenges remain

The year 2009/10 was dominated by the impact of the global financial crisis and the impacts of a domestic economic recession. The outlook has, for now, stabilised, and the Treasury is expecting a stronger recovery over the next couple of years than it had forecast in Budget 2009.

The recession has generated increasing unemployment and hardship, particularly for low-skill employees. The worsening conditions have resulted in an increase in the number of people receiving benefits and the Accommodation Supplement (AS). Unemployment is expected to remain high during 2010 and this may increase the demand for government housing assistance, particularly by people with high and complex needs.

In addition, the Government is facing fiscal deficits for a number of years to come. To help get government debt back to prudent levels, the Government is committed to driving better performance across the public sector. The Corporation faces a number of challenges in delivering better social housing outcomes in an environment of tightly constrained resources, and is committed to improving performance.

A growing and changing population base

New Zealand's population is expected to reach five million within 20 years. Higher growth is expected in urban areas such as Auckland, where the population is projected to increase by 53 percent to 2.1 million by 2031, placing increasing pressure on housing.

The New Zealand population is facing permanent changes as people live longer, delay having children and have smaller families. The number of households will increase significantly, with an increasing proportion of households of only one person and of couples without children, and a decrease in households with three or more children.

Population ageing is important fiscally. By 2050, the number of people aged over 65 is projected to have increased 150 percent and the number of those aged 85 and older will have grown by about 400 percent – from 64,000 now to 330,000. Along with the increase in numbers, government spending on

these age groups will rise – currently, 25 percent of government spending is on the 12 percent of population aged over 65. Population ageing is also likely to cause a slowdown in economic growth because of the shift to a relatively smaller working-age population.

The housing market

Housing affordability

In 2006, 67 percent of homes in New Zealand were owner-occupied, down from 71 percent in 1996. Projections suggest that home ownership will decline to 62 percent by 2016. Regionally, Auckland has lower home ownership, projected to drop to 58 percent by 2016. Home ownership is lower for Māori (43 percent) and Pacific peoples (34 percent).

Housing affordability remains a significant barrier for first-home buyers attempting to enter the market. The Corporation has begun an analysis of the available data to better understand households that rent and why they are not in home ownership.

Data indicates that a majority of renters cannot afford the weekly mortgage repayments on a lower-quartile priced house in their region. For some, this is because they have low incomes, and for others it is because they live in areas with high house prices. However, there is a significant group of renters who could theoretically afford to purchase a house but do not for a variety of reasons. These people are on a wide range of incomes and live in a range of different housing markets across the country.

Related research the Corporation is undertaking sheds light on why some of those renters who can afford to buy are not moving into home ownership. The research suggests that household funds available for purchasing a house (savings after purchasing necessities) change little with modest to medium incomes. The data indicates that, at these income levels, other expenditure choices available to households are more attractive than home ownership. Furthermore, at the same incomes, rents are relatively cost effective when compared with home ownership. This information about people's spending decisions will be used by the Corporation to inform advice on home ownership assistance.

Rental levels have remained relatively stable on both a national and a regional basis. However, key drivers of market rents, such as interest rates and the stock of available rental properties, appear to point towards moderate rent increases, as landlords begin to demand a higher rental yield on their properties. Housing supply problems are emerging in some regional housing markets where there is more rapid population growth, such as in South Auckland. This may force house prices and rents upwards in these areas over time.

Housing quality

Links between poor housing quality and health impacts are clear, as are the benefits of insulation and heating. In winter, New Zealand homes average six degrees below World Health Organization recommendations. This is particularly significant for the vulnerable. Cold houses place more physiological stress on older people, babies, and sick people, who are less robust and are also likely to spend more time inside.

Nationwide, government assistance has been focused on insulation and maintenance, both for its own stock and for those who require assistance in the private sector. The Corporation has used its funding from the Government's Economic Stimulus Package to improve existing state homes across the country to make them warmer, drier and healthier. Budget 2009 saw the launch of the \$323 million home insulation fund to support jobs and improve the quality of private homes through the Energy Efficiency and Conservation Authority.

Overcrowding

Too many people living in a house results in significantly higher rates of infectious disease, such as tuberculosis and acute rheumatic fever. Overcrowding can also make it hard for young people to study and can increase household stress levels.

In 2006, Census data showed that 10 percent of New Zealanders lived in crowded households. Manukau City had by far the highest proportion of overcrowding, with 25 percent of people living in households in need of one or more extra bedrooms. It is possible that levels of overcrowding have increased in some areas since Census 2006.

Pacific peoples and Māori have the largest proportions (37 and 32 percent respectively) living in severely crowded situations (households requiring two or more extra bedrooms). Pacific peoples appear significantly more likely to be living in crowded households than other ethnic groups. In 2006, 43 percent of Pacific peoples lived in crowded households, compared with 23 percent of Māori and just 4 percent of European New Zealanders.

Financial hardship and housing need

From a social housing perspective, a recession is a worrying development as it increases need and demand for housing support and at the same time decreases access to funding for social housing providers to address the resultant need.

The Accommodation Supplement (AS) and the Income-Related Rent Subsidy (IRR) are the two main state interventions that support housing affordability, and without these, housing costs would burden many households. IRR is administered by the Corporation and provided to vulnerable people and families with high and complex needs who require state housing and support. The AS is administered by the Ministry of Social Development and is provided to people and families with low incomes who need income support to sustain housing in the private sector.

Accommodation Supplement

The total number of AS recipients increased by 20 percent to 322,500 in the December 2009 year, signalling an ongoing increase in the level of financial stress being felt by households.

The number of AS recipients receiving an unemployment-related benefit continues to trend upwards, pushing up the costs of housing support. Over the year to December 2009, the number of people who received both an AS and an unemployment-related benefit more than doubled, from 30,800 to 62,000, and is significantly higher than in December 2007, when there were 22,600 recipients of both benefit types. The number of applicants receiving both an AS and an unemployment-related benefit is expected to continue to increase in line with expected increases in unemployment.

Private renters continued to account for 60 percent of AS recipients, while 15 percent were home owners. Treasury forecasts highlight an increasing trend in the number and associated cost of the AS over time with forecasts predicting the number will reach 330,000 people by 2014.

The challenges facing the Corporation

The Corporation currently provides housing for approximately 200,000 people, who occupy approximately 69,000 houses throughout New Zealand. It provides homes to approximately 5 percent of the nation's population. Almost all new tenants come to the Corporation with severe or significant and persistent housing and other needs. The Corporation also has a significant number of applicants currently waiting for a state house to become available.

The Corporation faces challenges in meeting current and forecast customer needs within a capital constrained environment. Growing unemployment is expected to increase the demand for government housing assistance, particularly by people with high and complex needs. Challenges facing the Corporation include:

Managing a housing portfolio that is misaligned to needs

Historically (40 to 50 years ago) state housing was provided for low-income workers and families; today state house tenants comprise not only low-income households, but beneficiaries, elderly, solo families, Māori, Pacific peoples, migrants, refugees, people with complex needs and others. The deinstitutionalisation of the health and mental health sector has also impacted on state house demand.

Complex needs are likely to be a demand driver in the future. The economic, demographic and social projections for New Zealand suggest the customers, diversity and range of social housing needs will rapidly grow in size and complexity. Growth in complex needs includes the impact of immigration and population ageing. For example, the Refugee Quota Programme creates demand for state housing, with the current level of intake estimated to require around 200 Corporation properties a year.

Developing a housing portfolio to accommodate growing demand that will change further in terms of location and house size

Demand is also changing in terms of location and house size. The Corporation is dealing with low demand in some areas and growing demand in others. Over time demand has shifted to the larger centres of Auckland, Wellington and Christchurch. There is now large demand for state housing in places such as Central and South Auckland and the Corporation expects demand for houses to continue to grow strongly there.

In addition, changing family composition and household size are also impacting upon demand. Demand is shifting from nuclear family arrangements to housing for single people, one-parent families and also larger families. The changing nature of demand has an impact on the Corporation's housing portfolio and its service delivery. The Corporation has a legacy of stock that is in the wrong place, of the wrong size and/or in poor condition. There is an over-supply of state housing in some areas, reflecting a level of historical demand that no longer exists. In high-demand areas, there is a shortage of houses of the right type. For example, there is much greater demand for smaller houses (properties with one or two bedrooms) and larger houses (four or more bedrooms) than the Corporation can supply at present.

The need to address high concentrations of state housing in certain locations

In the New Zealand housing market, as also happens internationally, the poor are increasingly clustered together. This process is driven by the housing market, which values location and physical security very highly. Over time, areas begin to decline when wealthier, better-educated individuals move out and less-privileged residents move in. The allocation of state houses to those in greatest need reinforces this tendency.

The Corporation owns a large proportion of the total housing stock in areas such as Tamaki, Mangere, Mt Roskill and Otara in Auckland, and Porirua, Naenae and Titahi Bay in Wellington. The effect of allocating state houses to those in greatest need has been to concentrate deprivation in these areas.

Because of its current and historical presence in these communities, the Corporation has a role in showing leadership in whole-of-government efforts to address the deprivation.

The cost of upgrading the existing stock

The Government has prioritised the upgrade of the state housing stock, and this was one of the Corporation's SOI priorities for 2009/10. Expenditure of approximately \$1.7 billion could be funded over eight years of depreciation (if the depreciation was not used for any other expenditure), but under current financial settings this would leave insufficient funding for meeting other challenges. The remaining economic life of the state housing portfolio would still decline from 39 years to 35 years, reflecting a further build-up of deferred maintenance and major upgrade/renewal work.

Responding to tenants' changing life situations

Tenants' circumstances change as their family and financial situation changes. State houses are not always tenanted by people in greatest need. A proportion of the Corporation's stock is occupied by tenants who pay a market rent (market renters) and other tenants whose life circumstances have improved over time. A significant proportion of the stock is also occupied by tenants living in houses that are now too large for their needs.

There is an opportunity to work more actively with tenants to explore suitable alternative housing options when their circumstances have improved.

Investing in a time of fiscal constraint

The Corporation is a Crown agency under the Crown Entities Act 2004 and is required to deliver on social objectives, balanced by the requirement to operate in a businesslike manner. The Government has indicated that there is unlikely to be additional funding available and it is expecting the organisation to deliver ongoing operational efficiencies and increased financial returns. It is a particular challenge to reconfigure the state house asset portfolio in a fiscally neutral manner without increasing the level of debt.

The Corporation's strategic direction

In 2009, as part of a longer-term Performance Improvement Plan, the Board led a review to identify how the Corporation could best use its assets and resources to provide housing for vulnerable New Zealanders and meet their needs into the future. That review has provided the basis for engagement with Ministers on the Government's expectations, the development of the Corporation's strategic response and the development of this Statement of Intent.

Consultation with Ministers on strategic direction

The Board reported to Ministers in December 2009, outlining the challenges facing the Corporation and ways to achieve, over time, a sustainable, self-funded social housing system with the ability to meet changing demand in the long term. The Board indicated it would be able to meet the challenges that it faces and operate in a value-for-money way through a combination of:

- clear Crown social objectives
- appropriate funding and accountability settings that fund the social components of the Corporation's role while allowing it to embed commercial disciplines
- strategic partnerships between the Corporation and private partners, iwi, and community housing organisations
- appropriate tenancy and management provisions that target allocation of state housing to those in ongoing need.

Ministers acknowledged the issues facing the Corporation and have subsequently agreed to a set of Crown social objectives for housing. In planning for 2010/11, the Corporation was asked to:

- work with the Department of Building and Housing to develop the Corporation's dividend policy and improve transparency of Crown-funded programmes

- work with the Department of Building and Housing, in consultation with the Treasury, to develop a new suite of core key performance indicators, for implementation in 2010/11. These indicators will support the achievement of the social objectives and assist the commercial management of the asset portfolio, while reducing the current number of measures in the Corporation's Statement of Intent.

The outcome of this work is reflected in this Statement of Intent.

Given the scale of the change in approach that may be required, the Ministers of Housing and Finance also agreed to the formation of an external Housing Shareholders' Advisory Group to provide Ministers with independent advice on:

- the most effective and efficient delivery model for state housing services to those in greatest need
- more productive and innovative ways to use current social housing assets to better support the objectives of the Government
- transparent measures for how this is being achieved.²

The Advisory Group reported to responsible Ministers in early May 2010. Because of the potential impact of the Advisory Group's work, this Statement of Intent is a transitional document.

² Terms of Reference: Housing Shareholders' Advisory Group.

Overall Government expectations

The Government’s overall goal is “to lift the long-term performance of the economy, to make New Zealand a more prosperous country capable of providing well-paid jobs and a better standard of living for us all, and to provide the world-class public services needed to give opportunity and security to New Zealanders and their families”.³

The Government is also continuing to drive savings in the public sector, demanding stronger performance from government agencies and expecting a lift in the quality of public services. The Government remains focused on improving the effectiveness and efficiency of social services provided to New Zealanders, particularly vulnerable citizens. In a restricted funding environment it is seeking new ways to do more with less.

Social objectives for housing and Letter of Expectations requirements

The Government’s vision for the social housing sector is one that provides the right housing in the right place and at the right time to those most in need, for as long as the need exists; and to achieve these outcomes in the most cost-effective manner. The Ministers of Finance and Housing have agreed the following set of social objectives at the sector level and for the Corporation.

CROWN SOCIAL OBJECTIVES FOR THE HOUSING SECTOR		
<p>Housing assistance: Assistance is available to those most in need for the duration of their need, and is delivered in a cost-effective manner</p>	<p>Access to housing: New Zealanders have access to housing that meets their needs and is affordable</p>	<p>Investment in affordable housing: Create a suitable business environment for investment in affordable housing by providers, including not-for-profit organisations</p>
CROWN SOCIAL OBJECTIVES FOR THE CORPORATION		
<p>Provide cost-effective state housing and associated services (as agreed with Ministers) to those most in need, for the duration of their need</p>	<p>Assist low-income and/or vulnerable individuals and families to make the right housing choices and work with other agencies to transition low-priority tenants into alternative housing</p>	<p>Facilitate the development of alternative providers of affordable rental housing and home ownership opportunities</p>

It is acknowledged that the Corporation is one of many agencies contributing to the sector-level objectives and that only the first two are core outcomes for the Corporation. The key requirements included in the Letter of Expectations have been taken into account and highlighted in the content of this Statement of Intent.

³ Prime Minister’s Statement to Parliament, 9 February 2010.

Outcome framework

The 2009/10 Outcome Framework has been updated to provide a more balanced overview of the performance of the Corporation. The revised framework has been developed to provide a simple transitional framework that:

- includes high-level outcomes that align with the Government's social objectives and will enable the Corporation to articulate its strategic direction and tell a compelling performance story based around its core business
- increases the transparency between the Government's social and financial objectives
- facilitates a shift in focus from detailed output measures to high-level impact measures based around each outcome/objective, which will enable the Corporation to have a smaller set of output measures focused on core business activity.

Typically, outcomes do not have immediately quantifiable measures of impact. The outcomes are realised incrementally over a period of years from a cumulative series of interventions by the Corporation and by other agencies. It is no easy task to isolate the impacts and effectiveness of our outputs, especially within the time period of a Statement of Intent. The Medium-term Operating Intentions section that follows, reports on a high-level set of key performance indicators that should enable the Board and Ministers to assess the Corporation's outcome contribution over time. Where the Corporation is directly responsible for the performance indicator, annual performance targets are included in Part Two of the Statement of Intent.

A range of tools are used to measure and evaluate progress and refine the choice of interventions.

- We survey our Minister as to his satisfaction with the quality of policy advice and seek feedback from our customers using the Common Measurement Tool advocated by the State Services Commission.
- We analyse data and undertake research and evaluation activity to assess progress with specific interventions and our contribution towards the outcomes for the Corporation.
- The Board monitors progress on a monthly basis and the Corporation reports quarterly to Ministers on progress against the expectations set out in the Statement of Intent.

The Corporation's outcomes framework

CROWN SOCIAL OBJECTIVES FOR THE HOUSING SECTOR		
<p>Housing Assistance Assistance is available to those most in need for the duration of their need, and is delivered in a cost-effective manner</p>	<p>Access to Housing New Zealanders have access to housing that meets their needs and is affordable</p>	<p>Investment in Affordable Housing Create a suitable business environment for investment in affordable housing by providers, including not-for-profit organisations</p>

CROWN OBJECTIVES FOR THE CORPORATION			
<p>Housing Assistance Provide cost-effective state housing and associated services (as agreed with Ministers) to those most in need, for the duration of their need</p>	<p>Access to Housing Assist low-income and/or vulnerable individuals and families to make the right housing choices and work with other agencies to transition low-priority tenants into alternative housing</p>	<p>Investment in Affordable Housing Facilitate the development of alternative providers of affordable housing, including not-for-profit organisations</p>	<p>Financial Objective Operate in a businesslike manner with good financial and asset stewardship to effectively manage the Crown's investment</p>

OUTCOMES		
<p>New Zealanders with priority housing needs are supported in their time of need</p>	<p>New Zealanders in need are helped along their pathway towards housing independence</p>	<p>The Crown's resources are managed in the most efficient and effective manner</p>

OUR PARTNERS					
Our customers	Ministry of Social Development	Te Puni Kōkiri	Community housing sector	Department of Building and Housing	Private developers
Local communities	Ministry of Health	Ministry of Pacific Island Affairs	Iwi	Other central and local government agencies	Institutional investors
	Accident Compensation Corporation				

Medium-term operating intentions

This section outlines the outcomes the Corporation will work towards, and why these are important to the Corporation. This is followed by an outline of how the Corporation intends to achieve the outcomes, and how it will measure progress in achieving these outcomes.

Outcome 1

OUTCOME					
New Zealanders with priority housing needs are supported in their time of need					
OUR INTERMEDIATE OUTCOMES					
People with priority needs are supported by community housing providers			People with priority needs are supported by state housing in their time of need		
OUR CONTRIBUTION					
Support community housing providers through the Housing Innovation Fund and Community Group Housing	Provide research and advice on social housing	Assess need through the Social Allocation System and manage waiting list efficiently	Housing those in most need	Engage with tenants to understand changes in need during their tenancies	Work with tenants to sustain and respect social requirements of their tenancy
OUR OUTPUTS AND ACTIVITIES					
Financial Assistance – Housing	Advisory Services	State House Tenancies	Policy Advice		
WHO WE WORK WITH					
Community housing providers Local councils Salvation Army City Mission New Zealand Housing Foundation	Individuals Families Communities	Ministry of Social Development Ministry of Health Te Puni Kōkiri Ministry of Pacific Island Affairs Accident Compensation Corporation New Zealand Police			

New Zealanders with priority housing needs are supported in their time of need

Why does this matter?

Demand for housing assistance is growing, particularly by people with high and complex needs. The unmet demand from high-priority applicants remains strong. As at May 2010, there were 4,709 applicants on the waiting list with high housing need ('A' and 'B' priority). Of these, 1,169 were state housing tenants needing an urgent transfer, and about 3,540 were people (and their families) outside of state housing in urgent need of assistance. There are often individuals outside state housing with greater need than those within it.

The Government remains committed to delivering housing assistance to those most in need. The Corporation has a key role in contributing to the Government's vision for the social housing sector. This outcome relates to the high-needs part of the housing continuum – where we provide funding for community housing and manage state house tenancies to help those in the greatest need.

Once in state housing, households are able to stabilise their circumstances and see improvements in their health, educational and other outcomes. In addition, government and other agencies can better coordinate the provision of support services once their clients' housing situation has been addressed.

What is the impact we are seeking to make?

Our goal is to effectively provide for those most in need, for as long as they need it, through the right products and services.

To achieve this goal, the Corporation allocates state housing according to 'housing need'. Prospective tenants are assessed by the Corporation in accordance with the Social Allocation System (SAS), which assesses new applicants on the affordability, adequacy and suitability of their current housing circumstances (for example, dwelling type, size and level of overcrowding) and their ability to access and sustain housing in the private sector. An example of an 'A' priority applicant is someone who has severe and persistent housing need that must be addressed immediately, such as a family living in a garage, or staying with extended family in severely overcrowded and unhealthy conditions.

The Corporation will increase the focus on helping those with priority housing needs and will continue to actively manage its waiting list to ensure that applicants in the greatest need are placed in an appropriate housing solution in the quickest possible timeframe.

The Corporation must use its limited resources cost-effectively to help meet the growing demand of applicants with priority housing needs. This includes having effective policies and procedures so that the Corporation houses tenants with high housing needs for as long as they need it. To best target its assistance, the Corporation requires a thorough understanding of its current and future customers, and the barriers they face to housing independence. The Corporation has developed a customer segmentation framework to identify current and future customer segments, profiles and needs.

The Corporation currently assesses people for their housing need when they apply for a home. As their circumstances change, their housing needs and potential housing options change. Over the longer term, the Corporation is keen to use its relationship with tenants to ensure they have housing options appropriate to their circumstances.

Depending on those circumstances, the Corporation's role in helping people might be as a landlord or it might be as a facilitator of housing options for those able to sustain private rental or home ownership. For example, if engagement showed the tenant's situation had deteriorated, the Corporation would examine whether existing processes could be used to stabilise or improve their housing situation. This could involve a transfer to ensure that housing remains appropriate to their needs, such as the right size to family composition.

With Crown funding, the Corporation will continue to support the growth of community-based organisations to deliver specialist services in the community, by renting houses and providing rent relief through community group housing, and supporting providers to build their own houses through the Housing Innovation Fund (HIF). These providers deliver housing services to support people with physical, intellectual or sensory disabilities, or people unable to live in their own homes owing to violence or abuse.

What will we do to achieve this?

The Corporation will:

- pilot and implement a customer engagement framework to establish ongoing need and assess the changing life circumstances of current tenants. This will improve the use of state housing to better match demand with supply
- determine the Corporation's priority customers as part of a customer lifecycle management approach
- design and develop products and services tailored to different customer groups as identified through customer segmentation
- redesign and centralise income-related rent debt and management processes to improve efficiency and release staff to provide higher-value customer services
- reconfigure the Corporation's service delivery model and footprint to match changing demand profile and location, including exploring co-location initiatives with other agencies
- work with government agencies and other providers to deliver joined-up services
- review the Social Allocation System to ensure that it remains an effective tool to assess people's housing needs when they apply for a house
- support the growth of community-based organisations to deliver specialist services in the community through community group housing, and the Housing Innovation Fund
- develop a medium-term strategy for the growth of the community group housing sector.

How will we demonstrate success?

DESIRED IMPACT	INDICATORS OF SUCCESS	DESIRED RESULT/TREND
Housing those with priority needs for the duration of their need	Proportion of 'A' and 'B' priority applicants housed to total housed	Increasing over time from a current base of 85 percent. New measure
Prompt service for priority customers	Time taken to house 'A' priority applicants	Target (within 25 days of priority assessment being confirmed) or less. New measure for 2009/10
	Time taken to house 'B' priority applicants	Target (within 30 days of priority assessment being confirmed) or less. New measure for 2010/11
Limited down-time between tenancies	Turnaround time between occupancy and re-let	Target (to be established in 2010/11) or reduce over time. New measure
Quality customer service	Customer satisfaction with tenancy management service delivery levels	Target (at least 70 percent) or more. 2008/09 Actual: 69 percent

Outcome 2

OUTCOME				
New Zealanders in need are helped along their pathway towards housing independence				
OUR INTERMEDIATE OUTCOMES				
People who can sustain other housing options achieve housing independence			Rental and home ownership opportunities are increased through alternative providers	
OUR CONTRIBUTION				
Provide housing options and information through the Options and Advice Service	Deliver Crown housing affordability products	Provide research and advice on housing and services related to housing	Partner with community housing sector through HIF to enable growth	Partner with iwi through Māori Demonstration Partnerships
OUR OUTPUTS AND ACTIVITIES				
Advisory Services	Financial Assistance – Housing	Policy Advice	Property Management Agency Services	
WHO WE WORK WITH				
Tenants/Applicants First-home buyers Communities	Iwi Community housing providers Private rental sector Development partners Institutional investors	Ministry of Social Development Department of Building and Housing Te Puni Kōkiri Ministry of Pacific Island Affairs		

New Zealanders in need are helped along their pathway towards housing independence

Why does this matter?

Home ownership remains the Kiwi dream for most New Zealanders. It is valued for the implicit benefits of long-term wealth creation and for household security, and encouraging stable communities. Affordable home ownership remains one of the Government's housing priorities.

Most New Zealanders meet their own housing needs either through the private rental market or through home ownership, sometimes with support from the Accommodation Supplement. The Corporation exists to provide housing and housing-related services to those in greatest need, whose needs are unable to be met by the private housing market. This outcome focuses on facilitating housing access for low-income New Zealanders to private rental and home ownership options.

This outcome also supports Outcome One by freeing up state houses for high-need applicants. This approach is more cost-effective than acquiring more state housing to meet need.

What is the impact we are seeking to make?

Helping people who can sustain alternative housing achieve housing independence

Some of the Corporation's existing tenants' circumstances have changed positively over time. Some tenants are on a sufficient income to enable them to pay market rent to the Corporation and therefore have the potential to sustain private rental or home ownership with the right support and assistance. The Corporation's customer segmentation work illustrates that there are tenants with the capability and/or aspiration to move from state housing, or possibly buy their own state house.

The Corporation can work with tenants on an individual basis, consider their particular circumstances, and provide additional support and guidance to help customers find alternative housing solutions. The Corporation's direct contact with tenants also provides an opportunity to link them with agencies and services they may not otherwise have considered.

This will often involve relationships with other providers and agencies such as community organisations. The Corporation's Options and Advice Service, rolled out nationally from 1 March 2010, emphasises customer choice and links people to other government and community support to help them access and sustain housing.

The Corporation needs to develop tailored approaches as its customers become increasingly diverse. The Corporation's emerging customer segmentation work will play a critical role in developing targeted strategies to help customers achieve housing independence.

Preliminary customer segmentation work has identified a high proportion of tenants of Pacific origin who aspire to enter into home ownership. Pacific peoples have special importance because they account for about a third of state housing occupants, and generally within the population, they experience relatively poor housing outcomes compared with other New Zealanders. The Corporation, in cooperation with the Ministry of Pacific Island Affairs, has developed Orama Nui, a 10-year housing strategy for Pacific peoples to respond more effectively to their housing needs and support their housing aspirations, including achieving home ownership.

Delivering Crown interventions to improve housing affordability

The Corporation will also deliver Crown-funded programmes to improve housing affordability and deliver tailored housing assistance. This facilitates low-income New Zealanders along their pathway towards housing independence in a range of ways such as providing home ownership advice or expertise, and delivering home ownership products. Products include Welcome Home Loans, Gateway Housing and the KiwiSaver Deposit Subsidy, offering selected state housing for sale to existing tenants through Tenant Home Ownership, and providing Kāinga Whenua loans for houses on multiple-owned Māori land.

Facilitating the development of alternative providers of affordable rental and home ownership

The Government has made it clear it is committed to the provision of state housing. However, the Government considers that alternative providers 'of scale' need to be developed to deliver affordable rental housing and affordable home ownership opportunities. This will enable the Corporation to focus on supporting those for whom the sector is unable to provide. The Corporation has a role to play in supporting the growth of alternative providers, and will continue to work with the Department of Building and Housing and the Treasury to develop a medium-term strategy for growing the provision of affordable housing through the third sector and non-government organisations.

The Government's effort to grow alternative providers over the past decade has largely been through the Housing Innovation Fund. In 2009/10, the Government outlined a new focus for the HIF which aims to grow larger providers and support Māori Demonstration Partnerships to encourage growth and deliver affordable rental housing and affordable home ownership opportunities. During 2010/11, the Corporation will continue to encourage increased investment in affordable housing by iwi, private sector and non-government providers through partnerships. This will contribute to the supply of affordable rental accommodation and improve home ownership opportunities for first-home buyers.

The Māori Demonstration Partnerships will create traction in building housing, primarily on multiple-owned Māori land, and, in doing so, work with Māori land trusts and iwi authorities who are in a position to provide equity and forms of security to develop sustainable and affordable housing. The partnerships will also assist in addressing housing issues in isolated areas where there are ongoing supply and quality issues, alongside projects in urban areas.

The Corporation will also review Te Au Roa, the Corporation's Māori Strategic Plan in 2010 (a year earlier than originally planned), in recognition of the changes that have taken place since its inception in 2007, such as the desire of iwi to invest in social housing as well as social revitalisation accords as seen in some of the more recent Treaty of Waitangi settlements.

What will we do to achieve this?

The Corporation will:

Help people who can sustain alternative housing achieve housing independence

- expand the Options and Advice Service to help current tenants. The enhanced service will be piloted for six months in eight neighbourhood units from early 2010/11
- develop an agreed joint work programme with Te Puni Kōkiri to increase rates of Māori home ownership
- review Te Au Roa, the Corporation's Māori Strategic Plan, and fully integrate it into the Corporation's strategic direction
- deliver opportunities for existing tenants to purchase their homes through the Tenant Home Ownership scheme
- continue implementing initiatives from Orama Nui, the Housing Strategy for Pacific Peoples, to improve housing outcomes for Pacific peoples.

Deliver Crown interventions to improve housing affordability

- deliver existing Crown-funded products and services that create opportunities for affordable home ownership including:
 - providing home ownership advice or expertise through the Welcome Home First Steps Home Ownership Education programme
 - delivering home ownership products such as the KiwiSaver Deposit Subsidy and Welcome Home Loans (with increased financial limits extended to multiple-owned Māori land)
 - assisting first-home buyers through the provision of appropriate land for the building of affordable housing through Gateway.

Facilitate the development of alternative providers of affordable rental and home ownership

- encourage increased investment in affordable housing by private sector and non-government providers through the Housing Innovation Fund
- support Māori and iwi to use their assets to develop affordable and sustainable housing
- work with the Department of Building and Housing and the Treasury to develop a medium-term strategy for increasing the supply of affordable housing by growing the community housing sector.

How will we demonstrate success?

DESIRED IMPACT	INDICATORS OF SUCCESS	DESIRED RESULT/TREND
Number assisted into non-Corporation housing	Percent of Options and Advice Service customers housed in private sector or helped to sustain their current tenancy	Increasing over time from the current base of 10 percent. New measure for 2010/11
	Percentage of market renters in state houses	Reducing over time from current base of 7–8 percent. New measure
State house tenants moving into private rental/home ownership options	State house tenants as a proportion of those taking up affordability products (KiwiSaver, Welcome Home Loans, Gateway)	Increasing over time from a base to be established in 2010/11. New measure
Quality customer service	Customer satisfaction with Options and Advice Service delivery levels	Target (at least 60 percent) or more. New measure piloted in 2009/10
Increased use of multiple-owned Māori land for housing purposes	Use of HIF and Kāinga Whenua Loans for housing on multiple-owned Māori land	Increase from a base to be established in 2010/11. New measure

Options and Advice is a new service and measures are in the early stage of development, but complementary evaluation work is underway that will provide data and enable us to evaluate the effectiveness of interventions.

Outcome 3

OUTCOME				
The Crown's resources are managed in the most efficient and effective manner				
OUR INTERMEDIATE OUTCOMES				
Achieve the right balance between the Crown's social and financial objectives			A housing portfolio that is fit for purpose by type and location	
OUR CONTRIBUTION				
Operate with good commercial discipline to improve efficiency and effectiveness	Improve funding sustainability and transparency	Housing portfolio is configured to best meet demand	Houses in the portfolio are of an appropriate standard	The value of the housing portfolio is optimised
OUR OUTPUTS AND ACTIVITIES				
Advisory Services	Policy Advice	Financial Assistance – Housing	State House Tenancies	Property Management Agency Services
WHO WE WORK WITH				
Responsible Ministers The Treasury Department of Building and Housing	Our customers Local communities	Building and construction industry Development partners Institutional investors		

The Crown's resources are managed in the most efficient and effective manner

PART A:

Achieve the right balance between the Crown's social and financial objectives

Why does this matter?

The Corporation is responsible for giving effect to the Crown's social objectives by providing housing and housing-related services. It is also required to operate with good financial oversight and stewardship, and efficiently and effectively manage its assets and liabilities and the Crown's investment.

The Government has made it clear that the public service must deliver operating efficiencies and expects the Corporation to similarly achieve such efficiencies over the next few years. As the Government's second largest asset, it expects that the Corporation should deliver an appropriate return, balanced with the Corporation's role as provider of state housing to those most in need. The Government is expecting delivery of a significantly higher financial return, but this must not come at the expense of delivery of the Government's social objectives return. The Government believes that the Corporation should be capable of achieving both.

This outcome has been introduced to improve the transparency between achieving our social objectives (as identified in Outcomes One and Two) and operating in a businesslike manner, making any trade-offs more explicit. This outcome will support the Corporation in adopting a more commercial approach to managing its asset and financial management functions, ensuring optimal return on the Crown's investment and economic benefit for the community.

What is the impact we are seeking to make?

Leveraging private sector investment

While the Corporation has a key role to play in achieving the Government's vision for the social housing sector, it is one of a number of different contributors. Both public and private sector organisations contribute to achieving the Crown's social objectives for housing, and services related to housing.

In an environment of tightly constrained resources, the Corporation needs to focus on the way it collaborates with both the private and not-for-profit sectors to leverage investment in the social housing sector.

The Corporation will actively link with the private sector to encourage the supply and affordability of sustainable private rental accommodation and improve home ownership opportunities for first-home buyers. Innovative partnership arrangements with the private sector will also be used to support the delivery of the Corporation's emerging asset management strategy and reconfiguration programme, by minimising capital requirements and development risk to the Government.

Improving transparency of funding

A proportion of the Corporation's expenditure is not appropriated. The Corporation receives subsidised (through the government-funded Income-Related Rent Subsidy) rental income to manage its asset portfolio to help those in need. It does receive appropriation from Government to deliver specific programmes, but a number of social services and products delivered by the Corporation as a Crown agent are only partially funded by appropriations, and therefore require cross-subsidisation from the yield on the state housing portfolio.

Based on the work to date, the Corporation estimates that approximately \$46 million of appropriated Crown programme cost is cross-subsidised from the yield on the state housing portfolio. These appropriated Crown programmes include the cost of providing ministerial support and policy advice, the Welcome Home Loan scheme, the Housing Innovation Fund, the Welcome Home First Steps Home Ownership Education and Rural Housing programmes, and initiatives around community housing.

Ministers have agreed that there should be a transition to Crown programmes being fully funded through appropriations. In the first half of 2010/11, the Corporation intends to provide information on the full cost of Crown programme delivery, along with the outputs, to allow Ministers to make informed decisions about the future level of service delivery. This information will also allow decisions about fully funding these services to progress.

Social/commercial costs

The Corporation is expected to provide its social housing services in a commercial manner, and is measured on the level of its financial return to the Crown (via return on equity targets). The Corporation's return on its \$14.5 billion asset portfolio is forecast in this Statement of Intent to be in the range of 1.17 percent to 1.37 percent over the three years to 2013. From a commercial perspective, this return appears significantly lower than a commercial landlord would expect to achieve.

However, besides the appropriated Crown programmes above, the Corporation also undertakes a range of services in providing state house tenancy services that a commercial landlord would not perform. This includes:

- facilitating improvement in communities where state housing dominates
- providing advice about the range of options available to those who approach the Corporation for assistance and to existing tenants
- supporting higher-needs occupants of social housing including Community Group Housing
- specialised tenant support.

The rate of return calculation does not take into account capital gains which a commercial landlord would recognise.

Implementing a sustainable dividend policy

Despite managing a large asset on behalf of the Crown, the Corporation has not been required to pay a capital charge (or alternatively, provide a reasonable return to the Crown, other than return surplus capital as per section 40(1) of the Housing Corporation Act 1974). Ministers have recently reviewed the dividend policy for the Corporation and agreed to set stretch return on equity targets of 1.1 percent, 1.2 percent and 1.3 percent (for 2010/11, 2011/12 and 2012/13 respectively).

The stretch targets were agreed before changes to taxation (Income Tax and Goods and Services Tax (GST)) were announced in Budget 2010. These taxation changes have impacted on the Corporation's financial performance as follows:

GST

The Corporation is mainly an exempt supplier in relation to GST, which means the GST paid on the majority of inputs cannot be reclaimed and is, therefore, included in expenditure. The impact of the higher rate of GST is increased expenditure of \$7.7 million, \$7.6 million and \$7.9 million (for 2010/11, 2011/12 and 2012/13 respectively). To ensure that return on equity targets still meet Ministers' expectations, the Corporation is targeting stretch savings equivalent to the GST increases each year. These stretch savings targets are recognised in the forecasts for Other expenses.

Income tax

From 1 July 2011, the Corporation will no longer be eligible for tax deduction for housing depreciation. In order to account for this under International Financial Reporting Standards, the Corporation has to recognise (in 2009/10) a reduction in total equity equivalent to the lost tax deductions. This has reduced equity by \$740 million.

As a result of the reduction in equity, the Corporation's return on equity will increase. Accordingly, the Corporation is forecasting return on equity of 1.17 percent, 1.27 percent and 1.37 percent (for 2010/11, 2011/12 and 2012/13 respectively). These forecasts exceed the targets agreed on by Ministers.

Further work will be required to agree a sustainable longer-term dividend policy designed to support an agreed asset management strategy and the achievement of social and financial outcomes.

A credible set of key performance indicators

Previous accountability arrangements required the Corporation to report on a large range of individual performance measures relating to both the Crown-funded programmes and other outputs provided by the Corporation. Apart from requiring significant resources for reporting, the micro-level specification of some of these measures creates unintended consequences and adversely restricts the ability of the Corporation to operate in a commercial manner.

The Government recognises that a credible set of meaningful key performance indicators is crucial for the Board (and Ministers) to assess the Corporation's

performance over time. The Corporation has worked with the Department of Building and Housing in the development of a smaller set of meaningful indicators that focus on the Corporation's core business of tenancy management and asset management; demonstrate greater financial discipline; and allow the Corporation to operate with the commercial flexibility required to respond to the challenges in the current environment. These measures are reflected in this Statement of Intent. The results of monitoring and reporting against these indicators will inform programme prioritisation and investment in initiatives by the Crown and Corporation.

Additionally, as per the Terms of Reference of the Housing Shareholders' Advisory Group, it is likely that the Group may suggest performance measures that the Government considers appropriate to adopt.

Maintaining an ongoing focus on value for money

In 2009, Departments and Crown entities were requested to compile "performance improvement actions" for discussion and agreement with Responsible Ministers. The outcome of that dialogue (refer page 12) has shaped the key actions outlined in this Statement of Intent.

To date, the Corporation has identified significant savings. In Budget 2009, line-by-line reviews identified savings of approximately \$70 million over three years, while subsequent baseline updates identified further savings in appropriations. Non-appropriated expenditure has also been reduced. Savings of approximately \$5 million were made in 2009/10 through implementing a new travel policy, reviewing communications costs, and close management of contractors and vacancies.

For the 2010/11 budget, the Corporation has included targeted savings of approximately \$30.7 million. These savings will be driven by changes to the way the Corporation manages its vacant upgrade and house painting processes, reducing its expenditure on professional services and consultants, savings in procurement through re-negotiating contracts, and continually focusing on managing within the established headcount cap.

The value for money principle has been incorporated into the Corporation's business and operations, and it will be looking to make further efficiency gains over the medium term. Many of the medium-term initiatives arising from the value for money programme are discussed in other parts of this document, including the implementation of a new customer service delivery model and the Options and Advice Service.

The Corporation is also one of 11 agencies participating in the Treasury-led benchmarking study (BASS) of back office functions that is being conducted in 2010.

Undertaking developments on behalf of the Crown (Hobsonville)

Outside of its core business, the Corporation also undertakes developments on behalf of the Crown to improve the supply of affordable housing. In relation to Crown land, the Government expects the Corporation, in consultation with Ministers, to pursue appropriate partnering options in order to minimise capital requirements and development risk to the Crown.

Hobsonville is an example of an affordable housing development making use of existing Crown-owned land, in conjunction with private sector partnerships, to provide an integrated housing development incorporating a range of housing and other objectives on ex-Defence land in north-west Auckland. The delivery model is similar to government-led private sector partnerships seen in Australia, with the Hobsonville Land Company (HLC) – a 100 percent subsidiary of the Corporation – formed as the facilitator. HLC is already working in partnership with the private sector, with appropriate staging to manage risk. Work is well advanced, with earth works having commenced on 1 October 2009. The future option for how the development should be delivered is currently being reviewed in line with decisions of Ministers.

What will we do to achieve this?

The Corporation will:

- agree with Ministers the right balance between social and financial outcomes
- deliver on Cabinet's agreed performance improvement actions within the context of this Statement of Intent and plan for ongoing value for money efficiency gains. Initiatives expected to bring significant benefits over coming years include:
 - continuing to review the asset management programme to identify more efficient ways to maintain the housing stock (currently considering standardisation of components and efficiencies from using single suppliers)
 - implementing the Enterprise Transformation Programme (ETP), which is forecast to deliver efficiencies for the Corporation of approximately \$70 million per annum, including tax savings, once fully implemented
 - implementing a new procurement strategy with a focus on a reduced number of contractors and higher performance standards, improved subcontractor management, and a relationship framework that supports quality, continuous improvement, and gain sharing
 - redeveloping the information, communication, and technology infrastructure to deliver a fit-for-purpose infrastructure, new external data centre facilities, and a rationalised set of applications
- develop a longer-term sustainable funding strategy based on an agreed asset management strategy, and work with the Department of Building and Housing on the Corporation's dividend policy and a plan to improve transparency of Crown-funded programmes (eliminating cross-subsidisation)
- develop and implement a performance measurement framework that informs balanced decision making and agreed reporting, and embeds processes for delivering transparent cost and benefit (financial and social) information
- investigate innovative partnership and delivery models for development to help minimise capital requirements and development risks for the Crown and the Corporation
- continue to progress the Hobsonville development on behalf of the Crown to improve the supply of affordable housing
- develop organisational capability that enables the organisation to balance good commercial practices with achieving the social and public value objectives.

How will we demonstrate success?

DESIRED IMPACT	INDICATORS OF SUCCESS	DESIRED RESULT/TREND
Satisfactory return on the Government's equity	Return on equity (ROE): (1) net operating surplus before tax/ average total equity (2) net operating surplus before tax/ average equity attributable to the Crown (3) comprehensive income (including revaluations)/ average total assets (rolling seven-year average) (Trend since 2004)	Achievement of targets for 2010/11 and improving for the next two years
Financial return to the Crown	Agreed dividend paid to the Crown	Achieving ROE measure (1) target of 1.1 percent for 2010/11 and increasing for the next two years
Efficient management of costs	Earnings Before Interest, Taxation, Depreciation, Amortisation and Leasing (EBITDAL) to income percentage	Increasing from 2008/09 base of 41.5 percent
Average cost of providing state housing assistance	Net recurrent cost per housing unit (total recurrent expenses including administration and operational costs but excluding depreciation and cost of capital/ number of housing units (Trend since 2004)	Stable or decreasing from 2008/09 base of \$9,226
Cost of state house tenancies over total cost	Recurrent cost/total cost (trend since 2004)	Stable or reducing over time from 2008/09 base of 89.1 percent
Optimal equity	Interest cover – Earnings Before Interest, Taxation and Depreciation (EBIT)/net interest ratio	Within agreed range of 1.3–1.7. ⁴ 2008/09 Actual: 1.4
	Gearing ratio – Total debt divided by total assets	Stable or decreasing from 2008/09 base of 12.1 percent
Credit rating	Standards & Poor's annual assessment of the Corporation's financial strength	Maintain current AAA rating

Annual performance targets for the next three years and definitions are detailed on page 62.

⁴ The Statement of Intent sees the Corporation operating outside this desired range (refer page 62), pending decisions on the capital structure to support the Asset Management Strategy, and in the longer term optimal equity ratios may be amended. The optimal equity ratio and financial return measures are inter-related. Any future amendment to the optimal equity ratio will also impact the financial return measures.

PART B:

A state house portfolio that is fit for purpose by type and location

Why does this matter?

The Government has an expectation that the Corporation will deliver an appropriate commercial return balanced against delivering the Crown's social objectives in its role as a provider of state housing to those most in need. Implicit in this expectation is that the Corporation provides the right housing in the right place and at the right time to those most in need, for as long as the need exists; it does this in the most cost-effective manner, recognising that people's circumstances change over time, as does demand for social housing across the country.

The Corporation is changing the way its business is run. This includes a changed approach to asset and tenancy management to enable the Corporation's assets (buildings, land and skilled staff) to be used more effectively to provide housing for the most vulnerable.

Asset challenges

The Corporation faces a number of challenges to develop the housing portfolio to match current and future demand in an environment of tightly constrained resources. The current distribution, concentration and standard of our housing portfolio do not match demand growth and the changing needs of our customers.

The scale of change required is significant and will take time to achieve. However, change needs to begin now to develop a housing portfolio that is fit for purpose by type and location for the long term.

Mismatch of housing to current and future demand

The Corporation needs the right types of houses where they can do the greatest good. The state built large numbers of three-bedroom houses at the

same time in the same locations in the 1950s and 1960s for low-income workers and families. The nature and location of demand have changed significantly since then. Demand is projected to grow and change even further into the future in terms of levels of need, location and house size.

An ageing housing stock

The state housing stock is ageing. Many state houses need significant upgrading to reflect a modest but reasonably current standard so that homes are suitable for modern-day living.

A backlog of repairs remains, and the Corporation is working to reduce this. Part of the reason for the backlog has been the priority given to acquiring new stock in recent years. The additional allocation of \$124.5 million in the Government's 2009/10 Jobs and Growth Economic Stimulus Package has helped to address some of the backlog and has been used to progress the Corporation's upgrade programme and healthy housing interventions. The current portfolio of houses still requires a further \$1.7 billion⁵ approximately in upgrading expenditure to bring the amenities up to a decent standard.

Addressing legacy issues – housing renewal in areas of state house concentrations

A large proportion of state housing is concentrated in certain areas of Auckland and Wellington. The effect of targeting under the Social Allocation System for state houses has been to concentrate deprivation in these areas, resulting in poorer outcomes, including lower educational attainment, poor health, overcrowding and crime.

The Corporation's current and historical presence in these communities means it has a role in showing leadership in whole-of-government efforts to address the deprivation. The Corporation also has a responsibility as a social landlord and government agency to develop mixed-tenure communities to ensure the issues are not exacerbated. The costs of redeveloping major urban areas in Auckland and Wellington are substantial, with the housing component of Tamaki alone estimated to be between \$1 billion and \$2 billion over 20 years.

⁵ Based on Corporation estimates of costs to meet legislative compliance (\$135 million), costs to provide amenities expected in a modern house (\$620 million) and costs to improve amenity condition to an acceptable level of service (\$902 million).

Addressing legacy issues will require more than an asset response. Deprived areas pose challenges for social services. Improving outcomes requires a concerted approach from government and non-government agencies, and support for determined action by the communities themselves.

Coordinating the social response to need is often difficult and may require changes to systems and information flows. However, the costs of these changes are low compared with the potential costs of the negative impacts of increasing concentrations of deprivation to the local community and society as a whole, and the costs to government.

What is the impact we are seeking to make?

The Corporation needs to support its tenancy management strategies with an approach to managing the housing portfolio that better matches demand growth and the changing needs of our customers.

Strategy-driven asset management

Completion of the Asset Management Strategy by 30 June 2010 will help set the direction of the Corporation's asset portfolio management planning activities and assist better long-term funding decisions to be made. The aim is to take a more outcome-focused approach with sufficient flexibility to enable the Corporation to progressively reconfigure the portfolio to better meet demand. The Corporation will be looking to take advantage of partnering options in order to minimise capital requirements and development risks for the Crown.

Improving houses in the portfolio to an appropriate standard

During 2009/10, the Corporation has been developing a framework to define a Decent Home Standard along with a framework to define how to benchmark the portfolio. The Decent Home Standard will provide clarity around the amenities to be provided in houses in the portfolio and the expected level of performance and conditions required of the amenities in order to meet an agreed standard. The Corporation's Board is progressing this work and expects to make recommendations to Ministers by June 2010

about the Decent Home Standard, including amenity provision and expected conditions.

A new property survey was launched in December 2009. A total of 23,000 Corporation properties throughout New Zealand will be assessed using a new survey tool. Unlike the previous inspection, which only looked at the general condition of a property and the number of property defects, the new survey provides more detailed information. This will help in costing and planning future maintenance and upgrade work and provide the Corporation and the Government with comprehensive information concerning the quality of state housing to enable effective investment decisions. The Corporation will complete the assessment of a further 23,000 properties in 2010/11, with the remaining 23,000 properties to be surveyed in 2011/12.

Reconfiguration of the portfolio to best meet demand, including reducing concentrations of state housing in key communities

Reconfiguration of the housing portfolio to better meet housing need is a priority and requires refocusing the Corporation's performance from delivering a set number of houses, to matching housing supply to housing need. It supports the Corporation's changing tenancy management focus on working with tenants on an individual basis, considering their changing circumstances and seeking sustainable housing alternatives where appropriate. Homes that are freed up can be rented out to people with high housing needs, or disposed of and the capital used for redevelopment in high-needs areas.

In line with Government expectations, the Corporation will focus its portfolio management activity to increase resources in locations with high demand, and, where appropriate, reduce resources in locations with low demand in a planned way that takes account of existing and future tenants' needs and circumstances. The Corporation has identified 20,285 assets with potential for redevelopment, reconfiguration, outright disposal, or disposal and replacement for economic and functional reasons.

The Corporation will also identify opportunities to increase the number of housing units relative to its existing land holdings to improve the efficiency and effectiveness of the asset and provide more housing for those in need. Given a capital constrained environment, this represents opportunities to enter into arrangements with private sector partners who are able to bring capital and other specialist skills to the table.

This is likely to be most successful in areas where there are significant concentrations of older state housing, where the value of the land has experienced significant uplift, and the local authority zoning allows for higher-density housing. These criteria are satisfied by some of the state housing assets most in need of renewal in close proximity to central Auckland in suburbs such as Mt Albert, Mt Roskill, Onehunga, Takapuna, Grey Lynn and Tamaki, and in Wellington, and where a reduced concentration of state housing would improve social outcomes through the provision of more mixed-tenure developments. (See *Transforming Tamaki together*, page 35.)

The Corporation will continue to upgrade its state houses at an accelerated rate including undertaking Healthy Housing and Energy Efficiency Retrofit interventions.

What will we do to achieve this?

We will progressively reconfigure the portfolio to more closely fit the need for state housing in New Zealand's social housing market. The Corporation will:

- continue to improve asset portfolio management planning processes following the 30 June 2010 completion of the Asset Management Strategy
- implement changes to systems and processes to enable a significant increase in the rate of reconfiguration of dwellings
- deliver on the Crown commitments to continue to grow the overall size of the portfolio to achieve the goal of a net increase of 1,550 dwellings over four years by 2011/12
- target and exit low-demand areas, and premium suburbs in high-demand areas. This includes increasing the rate of asset disposal of houses made vacant as a result of the tenancy management changes outlined under Outcomes One and Two, and using sale proceeds to reinvest in areas of high demand
- develop new housing supply initiatives with other partners (Māori and iwi, community groups, investors, local authorities, and third party providers)
- develop 10-year strategies to reduce state housing concentration for key communities where the Corporation has high levels of housing.

We will progressively reduce the gap between the agreed standards and the current state of the Corporation's stock. Looking out three years the Corporation will:

- identify redevelopment areas where the Corporation can either renew aged or under-performing housing stock, or add to the portfolio by intensifying new development to increase the utilisation of valuable land. In some areas development will also be accompanied by undertaking joint ventures, either with other social housing providers or the private sector, in order to reduce overall concentration of state housing tenants
- finalise and implement the Decent Home Standard started in 2009/10
- continue the first cycle of a comprehensive detailed property amenity condition survey (completed over three years)
- using the Decent Home Standard and the results from the first year of the property amenity condition survey, develop a property quality index against which we can rate each individual property and the housing portfolio as a whole
- increase the rate of upgrade of properties that will be retained in the portfolio but do not meet standards.

How will we demonstrate success?

DESIRED IMPACT	INDICATOR	DESIRED RESULT/TREND
Housing portfolio is configured to best meet demand	Degree to which the regional state housing supply aligns to regional waiting lists	Increasing percentage over time from current base of 81 percent. New measure
	Degree to which bedroom configuration of the houses in the portfolio aligns to the number of bedrooms required by those on the waiting list	Increasing percentage over time from current base of 76 percent. New measure
Houses in the portfolio are of an appropriate standard	Houses maintained to agreed Decent Home Standard (trend)	Increasing percentage over time from base to be established in 2010/11. New measure
	Financial cost to get portfolio to agreed Decent Home Standard	Reducing percentage over time from base to be established in 2010/11. New measure
	Tenant satisfaction with standard to which the Corporation maintains the dwelling	Target (at least 55 percent) or more. New measure
Optimisation of the value of the housing portfolio	Reduction in the concentration of state housing in identified high-concentration areas (Tamaki, Mangere, Mt Roskill, Otara, Porirua, Naenae and Titahi Bay), with an immediate focus on Tamaki	Reducing percentage over the next 20 years [Tamaki currently 56 percent]
	Rent return versus asset value	Comparison with market return. 1 July 2009 Actual: 5.65 percent

The Corporation will update key performance indicators in this area during 2010/11 as it completes work on the Decent Home Standard and obtains information from the survey of all state house properties due to be completed in 2011/12.

Housing portfolio capital expenditure intentions

The Corporation has developed its capital intentions by examining a number of options.

The scenarios being considered look at a range of tactical options to overcome this difficulty, including the potential for releasing surplus land for private development where it is feasible to do so and also considering how the cost of new houses and overall additions to the portfolio can be managed in order

to maximise the number of new houses being added. The sale of some strategic high-value assets is also feasible, but not over the longer term as the number of these assets in relation to the overall portfolio is low.

The future scenario included in this Statement of Intent acknowledges both the goal of a net increase of 1,550 dwellings over four years to 30 June 2012 and also the constrained capital environment, which assumes no additional appropriation or borrowing over the period.

Housing portfolio capital operating intentions

	2010/11 FORECAST	2011/12 FORECAST	2012/13 FORECAST
	\$m	\$m	\$m
Adding to the Corporation portfolio (including redevelopment projects)	136	136	200
Upgrading existing houses	100	112	109
Divesting houses that no longer meet needs	(39)	(51)	(110)

Adding to the portfolio

The Corporation will continue to focus on adding to the portfolio in the two years to 30 June 2012. Adding new houses will involve purchase of existing houses, building new houses and leasing privately-owned houses. Some land may be acquired for the purpose of building new houses, but in the main the Corporation will focus on redeveloping its own land with the intention of improving the rate of utilisation and the rate of return on land holdings.

This activity will include the redevelopment of aged state housing on our own land. In some urban areas this process will also free up land to be used by other sectors in order to reduce concentration of state home tenure where it is appropriate to do so.

Upgrading the portfolio

Upgrade activity will also continue where assets are already of the right type and in the right location to meet demand. This activity will include upgrades associated with the Healthy Housing programme.

Divestment intentions

It is expected that sales of homes will accelerate during the three-year period with the addition of homes in high-demand areas largely occurring through a mixture of redevelopment projects and leasing. The sales programme will reflect the principles of selling in low-demand areas, as well as selling houses and land to enable a better reconfiguration approach to the portfolio. Some high-value housing will be sold in urban high-demand areas where it is appropriate to do so and where those funds can be better invested in homes which will more appropriately meet demand. The proceeds of sales of homes to tenants will also be reinvested in high-demand areas.

Housing portfolio maintenance intentions

	2010/11 FORECAST	2011/12 FORECAST	2012/13 FORECAST
	\$m	\$m	\$m
Managing existing houses	183	186	189

Managing the existing portfolio of houses owned by the Corporation to maintain its current amenity value includes: meeting routine/ongoing holding costs; meeting legislative requirements; undertaking planned maintenance programmes; and setting (and reviewing) market rents. Management of the existing portfolio includes the ongoing management of leased houses and meeting the Corporation's obligations under lease agreements. The cost of the Corporation's maintenance intentions includes planned and responsive (or demand-driven) repairs and maintenance, damage repairs (including the net cost of tenant damage repairs), and property management expenses for leased houses. Of the total amount, \$125 million to \$133 million per annum is spent on planned maintenance programmes.

Managing existing houses is undertaken up to the point where a decision is made to divest, or change the status or configuration of specific assets, at which time management of the asset transfers to upgrading existing houses, divesting properties, or housing redevelopment projects.

Detailed housing portfolio outputs

To support the State House Tenancies outputs in particular, it is essential that the Corporation is effectively and efficiently undertaking property management and development services in relation to land and buildings owned by the Corporation, given this has an asset value of \$14.5 billion. To provide transparency for these intermediate outputs, and the annual expenditure set out above, additional information is set out in the Statement of Forecast Service Performance section on pages 51–52.

Transforming Tamaki together

The Tamaki Transformation Programme (the Programme) is an urban regeneration initiative encompassing the east Auckland suburbs of Panmure, Point England and Glen Innes ('Tamaki'). Programme activities are managed by a project team through a Programme Board representing a network of agencies, including the Corporation.

The Board comprises a network of interests from:

- central government agencies: Department of the Prime Minister and Cabinet, Ministry of Education, Housing New Zealand Corporation (the Corporation), Ministry of Pacific Island Affairs, Ministry of Social Development, Te Puni Kōkiri, New Zealand Police
- Auckland City Council
- Auckland District Health Board
- Auckland Transition Agency
- Mana whenua (Ngāti Whātua o Ōrākei and Ngāti Paoa)
- members of the Tamaki community
- the private sector.

Tamaki currently faces challenges as a community. It is characterised by high levels of socio-economic disadvantage and concentrated and degraded state housing – the Corporation owns 56 percent of the local residential housing stock, representing 166 hectares of land in the area. Significantly, the Government's investment in health, housing, education and social services in Tamaki is twice the national household average, yet social indicators are going backwards.

The Government's key challenge to the Programme is for agency partners to develop new ways of working together to deliver both better value and outcomes in a key growth area of New Zealand's largest regional economy. Over the next 20 years the Programme aims to achieve ambitious improvements in housing, infrastructure, social services and economic performance goals for the area.

What is the programme seeking to achieve?

The urban regeneration approach aims to reverse economic, social and physical decline. In Tamaki this approach will be focused on building on the area's strengths, including a desirable geographical location, and a community with strong local networks and commitment to change, by:

- upgrading residential, commercial and public places and spaces
- improving the flexibility and targeting of government services
- promoting business development and enterprise
- giving people the skills to progress.

It is planned that the upgrade of physical assets in Tamaki will catalyse broader social transformation by:

- attracting private sector investment (physical upgrade provides a premise for private sector interest in Tamaki)
- providing employment, training and economic development opportunities
- improving the overall look and feel of the area.

How will the Corporation contribute?

The Corporation's key contributions to the Programme are in the redevelopment and reconfiguration of state housing assets (dwellings and land) to deliver improved living conditions, a healthier community, a more mixed population and an attractive urban environment. Over the next three years we will:

- modernise and upgrade 120 state houses
- replace 15 run-down pensioner units with a new 40-unit pensioner/disabled persons complex
- support a range of Programme-wide neighbourhood development initiatives leveraging off investment in state housing
- trial new ways of working (under the Tamaki Transformation umbrella) in partnership with agencies, the private sector and members of the Tamaki community to deliver improved outcomes for residents and generate operating efficiencies
- develop asset management approaches that will support the provision of first-home buyer private housing on more intensively developed Corporation land.

How will others contribute?

A range of Programme activities are underway. The priority areas in the Programme's foundation period, 2009/10 to 2010/11, are:

- that children enter school healthy and ready to learn
- that literacy levels among children are raised
- that families are strong, healthy and well supported
- to build capacity for employment
- that neighbourhoods are safe, healthy and well designed.

Programme partners are contributing to these priorities through a range of short-term activities. These activities will provide a 'proof of concept' for new ways of working. Beyond the Corporation's contributions to the Programme, other key activities in this period include:

CONTRIBUTING PROGRAMME PARTNER	ACTIVITIES
Ministry of Education	Evaluation of pre-school need in the Tamaki area and establishment of five new play groups
Auckland District Health Board and Ministry of Social Development	Health training and employment opportunities for up to 300 Tamaki community members (with a focus on Māori and Pacific residents)
Auckland City Council and Tamaki schools cluster	Acceleration of e-learning activities (the 'Manaiakalani' or 'learning hook' initiative) designed to target every year 5 to 13 student in the school cluster, including the provision of access to school-based internet services from students' homes

Organisational health and capability

The Corporation's goal is to be a proactive, results-focused and high-performing organisation. If we are to meet demands for our services and deliver on the outcomes identified for the organisation, we need to build capability and improve performance.

Delivering change will require focus, capable leadership, adaptable and skilled people, a commitment to delivery, and systems and processes that enable success. The Corporation has developed a Strategic Plan to set out the longer-term context and direction for the organisation over the next five years. The Strategic Plan is our organisational strategy. It is designed to identify the actions needed to respond to our key challenges and deliver organisational change. It will help the Corporation manage internal change processes and deliver improved economic and social value.

Focusing on performance improvement

In 2008/09, the Corporation adopted Performance Excellence as its continuous improvement framework. Performance Excellence provides a strategic management framework based on best practice, which, over time, will enable the Corporation to align, manage and evaluate what it does, to achieve better results. It will also allow the Corporation to benchmark itself against international best practice on an ongoing basis.

An initial baseline assessment in May 2009 identified a number of Corporation strengths and some priority areas for improvement:

- Developing a strategic segmentation of customers/stakeholders based on their capability and aspirations
- Consolidating the vision of the future state of the Corporation in five years' time
- Implementing an executive governance process to manage delivery of the strategic plan and progress towards the vision of the future state
- Reviewing and improving the planning process and cycle for 2010/11
- Developing a performance measurement framework to monitor organisational performance.

The Corporation has undertaken work throughout 2009/10 to address these issues which has provided

the basis for this Statement of Intent. Associated work is underway to communicate this to staff and refine our planning, reporting and executive governance processes. These improved processes will be implemented for 2010/11 and involve management and staff having key performance indicators clearly linked to the Corporation's strategic goals.

Ensuring effective change management

To successfully implement the strategic direction set out in the Statement of Intent, we need to have effective management processes and the ability to undertake continuous improvement.

We will be looking to further align the Corporation's core values and organisational culture to embed a customer focus and support the change we are seeking to achieve.

The Corporation will build on the progress it has made to date in developing processes, capabilities, organisation structure and management to support the planned organisation change and undertake benchmarking against other organisations. It will also continue to implement its workforce development plan and organisation change management programme to allow it to deliver on the strategic and operational changes required.

Developing our people

Leadership

To continue to provide exceptional customer service and policy advice in a changing environment, the Corporation's leaders need to be skilled change managers, able to motivate a highly engaged and productive workforce to achieve results. Senior leaders have been actively involved in developing and testing the agreed strategic direction for the organisation. We will be looking to them to lead change and ensure performance objectives are aligned with the strategy and staff understand what is expected of them and why.

During 2009/10, the organisation has undertaken an exercise to identify the core leadership competencies that are important for the organisation. For 2010/11, we have planned a number of leadership training initiatives that will involve core leadership and management development modules and assessment procedures to help build capability in the organisation.

Staff

The agreed strategic direction will require us to fundamentally review our business processes. For frontline staff in particular, this will involve working in new ways with a strengthened focus on customer service and delivering value. The Corporation will be working to ensure staff have the necessary tools, capability and skills. We will be seeking to have a highly engaged workforce with the appropriate training to support the change being undertaken. A key enabler to support this is the Enterprise Transformation Programme (ETP), which seeks to redesign key processes and provide staff with the tools and technology they need to deliver customer-focused services.

A review of current workforce capability will be carried out so the Corporation can effectively implement new initiatives while continuing to deliver ongoing services. This will be staff intensive in the short term but is expected to deliver efficiency gains over the longer term. The Corporation will continue to operate within the full-time equivalent cap agreed with the Government in December 2008 and the priority will be on frontline services that directly benefit New Zealanders.

Best practice systems and processes and leveraging technology

The Corporation has begun a significant programme of investment to improve business outcomes through improvements to its information technology systems and processes. The Corporation's computer systems are past their expected lifespan and require significant investment to ensure current business processes and computer systems do not constrain a more customer-focused, flexible and effective delivery approach. For example, the Corporation's tenant record system and asset management system are both 18 years old.

In order to support its objectives, a programme of work is underway to assess and re-align the Corporation's business processes and replace ageing core computer applications. The ETP is a key enabler to achieve the Corporation's outcomes. The ETP aims to ensure the Corporation is able to meet Government requirements and improve delivery of services to its customers. It will identify and implement necessary changes to business processes and procure the integrated software to support this change. The programme is designed to help the organisation become more customer-centric, improve efficiency and mitigate risks.

In the next 12 months the Corporation will finalise the design of the ETP and complete the first stages of implementation, as well as redesign the processes that create value. It is forecast that the ETP could deliver up to approximately \$70 million per annum (including tax) in savings. The figure of \$70 million represents the maximum value of performance improvements available from investment in the options identified to improve systems and processes.

How will we demonstrate success?

The Corporation has a number of measures that it will monitor on an ongoing basis.

DESIRED IMPACT	INDICATORS OF SUCCESS	DESIRED RESULT/TREND
Engaged workforce	Employee engagement (Gallup Q12™ Employee Engagement Survey) relative to other New Zealand state sector organisations	By 2013, the Corporation will be positioned at or above the 75th percentile of New Zealand state sector organisations (May 2009 baseline of 3.59 out of 5, against public sector average of 3.68)
Performance improvement	Improvement in maturity rating from 2009 Baseline assessment (Baldrige)	Achievements against targets and agreed benchmarks
Continued state sector trust and confidence	Percentage of the public that have full trust and confidence in the Corporation (Quarterly <i>Research New Zealand Public Sector Trust and Confidence Poll</i>)	Stable or increasing from 2008/09 result of 60 percent
Ministerial confidence in the quality of policy advice	Policy advice – level of satisfaction assessed quarterly by the Minister of Housing	Rated as meeting and frequently exceeding expectations or better. New measure for 2009/10
Achievement of benefits from implementing an integrated technology solution (ETP)	Strategic and financial benefits achieved	Increase from 2012/13

Capital Management

The following chart highlights the forecast capital expenditure on infrastructural assets over the next three years. The most significant expenditure is for the Enterprise Transformation Programme detailed earlier in this section.

FORECAST CAPITAL EXPENDITURE	2010/11	2011/12	2012/13
	\$m	\$m	\$m
Motor Vehicles (Net)	1.70	1.00	1.00
Hardware	7.70	3.00	3.00
Office Equipment	0.40	0.40	0.40
Furniture	0.50	0.35	0.35
Leasehold Improvements	4.00	0.75	0.75
Enterprise Transformation Programme	26.30	22.31	4.86
Software	6.80	5.00	5.00
Total	47.40	32.81	15.36

Risk management

Risk is inherent in everything we do. Our operating environment is dynamic and the risks we face are continually changing. We are committed to achieving an organisational culture where effective risk management is an integral part of all efficient business activities.

The Corporation has adopted a ‘risk-smart’ culture that includes the early identification and analysis of risks to inform planning decisions. The key approaches of the Corporation’s risk management culture are:

- having a risk-smart culture where risks are systematically identified, assessed, evaluated, monitored and regularly reported on
- operating in an environment of few surprises and having risk-reporting systems that provide early warning and are forward thinking
- having managers who practise cost-effective risk management with risk-tolerance integrated into decision making and resource allocation
- having a common risk language across the Corporation that is readily understood and an awareness among all staff of the need to identify and escalate appropriate risk issues
- being respected by stakeholders for having an effective risk management approach.

The following table outlines these risks.

RISK	MANAGEMENT STRATEGIES
1	<p>The Corporation does not have the capability to implement the commitments outlined in the Statement of Intent</p> <ul style="list-style-type: none"> • Improve management processes, for example: <ul style="list-style-type: none"> – continue implementation of staff engagement and training (page 38) – implement the Enterprise Transformation Programme (page 38) – put change management programme into operation (page 37)
2	<p>The Corporation does not have the capacity to manage and maintain core service delivery</p> <ul style="list-style-type: none"> • Improve organisational health and capability strategies to effectively implement new initiatives, for example: <ul style="list-style-type: none"> – redesign processes, technology and tools as part of Enterprise Transformation Programme (page 38) – deploy performance measurement framework (page 27) – prioritisation of customers (page 18) – undertake workforce capability assessment (page 38)
3	<p>The Corporation fails to deliver its strategic direction because the private and third sector is not able to provide the partnership support envisaged</p> <ul style="list-style-type: none"> • Improve relationship building in common areas of strategic and operational interest to communicate: <ul style="list-style-type: none"> – Corporation’s operating intentions (pages 16–36) – partnerships initiated to broaden social housing supply (pages 24–27), housing supply initiatives (page 31) and affordable rental home ownership (page 22), and leverage private sector investment (page 24)
4	<p>The Corporation fails to gain and retain the trust, confidence and support of Government</p> <ul style="list-style-type: none"> • Continue implementation of leadership oversight to improve management performance (page 37) • Continue quarterly reporting to the Minister of Housing and Minister of Finance (page 42)
5	<p>The Corporation’s ability to deliver the strategic goals is adversely impacted by funding and financial constraints</p> <ul style="list-style-type: none"> • Continual improvement and refinement of processes, systems and financial management (pages 37–38) • Increase focus on the right balance between the Crown’s social and financial objectives (page 24) • Improve strategic planning and monitoring of performance (page 37) • Continue to focus on value for money (pages 26–27) • Leverage private sector investment opportunities (page 24)

RISK	MANAGEMENT STRATEGIES
<p>6 The public and stakeholders perceive a lack of fairness on the Corporation's part as it implements its strategic direction</p>	<ul style="list-style-type: none"> • Continue to provide Options and Advice Service (pages 20–21) • Review the Social Allocation System (page 18) • Continue to focus on value for money (pages 26–27)
<p>7 The Enterprise Transformation Programme does not deliver the agreed business benefits</p>	<ul style="list-style-type: none"> • Implement effective governance plan to: <ul style="list-style-type: none"> – prioritise monitoring of information technology systems and processes (page 38) – track benefit realisation of the programme (page 38) – ensure effective change management (page 37)
<p>8 The Corporation is unable to change its strategic direction due to external changing expectations, for example:</p> <ul style="list-style-type: none"> • Ministers' decisions from Housing Shareholders' Advisory Group (HSAG) • new government programmes 	<ul style="list-style-type: none"> • Improve engagement and consultation with monitoring agencies and Ministers (page 42) • Implement planned improvements to strategic planning and monitoring of performance (page 27)

Consultation and reporting to the Minister

As an advisor to the Government on housing and housing-related services, the Corporation regularly engages with the Minister of Housing, the Minister of Finance and the Corporation's monitoring agency, the Department of Building and Housing.

The Corporation will report quarterly to the Minister of Housing and the Minister of Finance on:

- delivery against the Statement of Forecast Service Performance
- performance against all the main financial and non-financial performance measures set out in the Statement of Intent
- the Corporation's organisational capacity and capability.

The Corporation will also report progress on:

- the housing component of the Tamaki Transformation Programme
- the upgrade of Wellington City Council social housing
- the Asset Management Strategy for 2010/11
- the long-term capital plan, including expenditure associated with the Corporation's information technology investment (Enterprise Transformation Project).

The Corporation will also:

- respond promptly and fully to requests from Ministers for information about the Corporation
- meet deadlines for planned reports from the policy work programme (attached to the 2010/11 Accountability Agreement) and the Statement of Forecast Service Performance
- report on New Zealand and international housing trends and developments
- prepare and provide a Statement of Intent to Ministers, with the content and process in line with sections 138 to 149 of the Crown Entities Act 2004
- provide a list of information requested by Ministers and reports identified in the schedules to the 2010/11 Accountability Agreement
- consult with the Minister if any action is contemplated under section 141(h) of the Crown Entities Act 2004.

Part two

Annual information

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Statement of Responsibility

The information in this Housing New Zealand Corporation Statement of Intent is for the year ending 30 June 2011.

In signing this statement, as the Corporation's Chair, I acknowledge my responsibility for information contained in it.

The forecast service performance for each Output Class is agreed with the Minister responsible for Vote: Housing, administered by the Department of Building and Housing.

The forecast financial performance statements are as agreed with the Minister of Housing, who is responsible for the Corporation's financial performance.

The information contained in this Statement of Intent is consistent with existing appropriations, and with the appropriations set out in the Appropriation (2010/11 Estimates) Bill.

Signed:

Countersigned:



Pat Snedden
CHAIR

10 June 2010



Adrienne Young Cooper
DEPUTY CHAIR

10 June 2010

Statement of Forecast Service Performance

Output Class 1: Advisory Services

DESCRIPTION		
<p>The scope of this Output Class is limited to advisory support for individuals/households, community groups and community housing providers on options available for accessing appropriate housing solutions and sustaining their existing housing, and on associated housing-related matters including through education services. Advisory support may focus on general housing needs, including the specific needs of individuals with mental, physical or sensory disabilities, developing the capability of community housing providers to undertake housing-related projects, and establishing links between local community members in areas of high social need and appropriate agencies focused on building stronger communities.</p> <p>Housing solutions may be available through the Corporation, territorial authorities, the private rental market, and other community organisations that provide housing and housing-related services.</p>		
PERFORMANCE INFORMATION		
MEASURE	STANDARD 2010/11	STANDARD 2009/10
Advisory Services – Housing Options		
Customer satisfaction – customers satisfied with the Options and Advice Service	At least 60 percent	At least 70 percent (Pilot)
Timeliness – preliminary assessments for customers with at-risk housing needs completed	Fewer than seven working days	Fewer than seven working days
Advisory Services – Modified Housing		
Planned volume – customers requiring modified housing that have written management plans in place	More than 95 percent	More than 95 percent
Advisory Services – Capability Building		
Planned community development milestones achieved	At least 90 percent for each project	At least 90 percent for each project
Education Services		
Percentage of the Welcome Home First Steps Home Ownership Education programme participants who purchase a home within 12 months	More than 5 percent	New measure

Revenue and output expenses

	BUDGET 2010/11 \$ MILLION	COMMENT
Revenue Crown	2.667	The Corporation has re-allocated resources to its Options and Advice (O&A) Service from the State House Tenancy output class. No revenue has been allocated to cover this service. However, the Options and Advice Service is one of the initiatives that the Corporation has instigated which helps manage demand and will lead to more efficient use of the state house asset.
Revenue Other	0	
Expenses	19.061	
Net surplus/(deficit)	(16.394)	

Output Class 2: State House Tenancies

DESCRIPTION		
<p>The scope of this Output Class is limited to the allocation and management of tenancies with individuals/households and community groups. The service includes any actions integrally linked with tenancy management, such as matching applicants with available houses, administering the Income-Related Rent Subsidy, undertaking urgent repairs and maintenance in response to tenants' requests, debt management and legal actions, and specialised support for tenants with multiple or complex needs. The Output Class relates only to properties owned by the Corporation or where the Corporation holds a lease for privately-owned properties.</p>		
PERFORMANCE INFORMATION		
MEASURE	STANDARD 2010/11	STANDARD 2009/10
Tenancy Allocation		
Accuracy (individuals/households) – confirmed assessment decisions meet the criteria	At least 95 percent	At least 95 percent
Timeliness – <ul style="list-style-type: none"> time to house at-risk (priority A) applicants once the priority assessment is confirmed time to house at-risk (priority B) applicants once the priority assessment is confirmed 	Within 25 days (average) Within 30 days (average)	Within 25 days (average) New measure
Utilisation – <ul style="list-style-type: none"> properties allocated best match bedrooms available turnaround time between occupancy and re-let 	At least 70 percent Establish benchmark	At least 80 percent New measure
Tenancy Management		
Customer satisfaction – customers satisfied with tenancy management service level	At least 70 percent	At least 70 percent
Tenancy satisfaction with standard to which the Corporation maintains the dwelling	At least 55 percent	New measure
Value for money – net recurrent cost per housing unit (total recurrent expenses including administration and operational costs, divided by the number of housing units)	Less than \$9,500	New measure
Accuracy – <ul style="list-style-type: none"> correct Income-Related Rent assessments (for tenants with verified income) 	At least 95 percent	At least 95 percent
Debt management (Corporation) – rental debt older than seven days as a percentage of monthly rental income	Less than 7 percent	Revised measure
Debt management (Crown) – percentage of Income-Related Rent debt under recovery action	At least 75 percent	At least 75 percent
Planned volume – Healthy Housing <ul style="list-style-type: none"> joint (Corporation and Ministry of Health) assessments undertaken households assisted 	450–550 450–550	1,900–2,100 1,250–1,350
Planned volume – community group tenancies assisted with rent relief	650–700	700–750
Specialist Tenant Support		
Volume – tenants with specialised support needs have written management plans in place	At least 95 percent	At least 95 percent

Revenue and output expenses

	BUDGET 2010/11 \$ MILLION	COMMENT
Revenue Crown	553.236	Revenue Crown is based on the Corporation's own Income-Related Rent Subsidy forecast of \$548 million. The Operating Appropriations table on page 71 has the current figure from the Estimates of Appropriation of \$559 million.
Revenue Other	402.650	
Expenses	774.925	
Net surplus/(deficit)	180.961	

Output Class 3: Policy Advice

DESCRIPTION		
<p>The scope of this Output Class is limited to policy advice to the Minister of Housing on housing policy and issues related to housing covering:</p> <ul style="list-style-type: none"> • the impact of changes in economic conditions on the housing market and the behaviour of market participants • progress of the sector in implementing government housing strategies • financial assistance for housing and home ownership assistance products, including deposit assistance and co-ownership, to support access to home ownership • social housing provided by the Crown, generally through the Corporation, and through territorial authorities and the not-for-profit sector • demand-side assistance through financial support for all tenures (boarders, tenants and home owners). <p>Policy advice includes ministerial services to support the Minister in meeting the responsibilities of office.</p>		
PERFORMANCE INFORMATION		
MEASURE	STANDARD 2010/11	STANDARD 2009/10
Policy Advice		
Quality – <ul style="list-style-type: none"> • level of satisfaction assessed quarterly by the Minister • demonstrated through independent assessment 	Rated as meeting and frequently exceeding expectations Average rating of papers by NZIER at least 7.5 (on a 1–10 scale)	Rated as meeting and frequently exceeding expectations Average rating of papers by NZIER at least 7.5 (on a 1–10 scale)
Timeliness – the rolling policy work programme delivered with: <ul style="list-style-type: none"> • timeframes agreed with the Minister met • any extensions negotiated well before the required dates 	At least 95 percent At least 95 percent	At least 95 percent At least 95 percent
Ministerial Support		
Quality – acceptance rate on first draft responses	At least 95 percent	At least 95 percent
Timeliness – timeframes set in legislation, by Cabinet or otherwise agreed with the Minister, met	At least 95 percent	At least 95 percent

Revenue and output expenses

	BUDGET 2010/11 \$ MILLION	COMMENT
Revenue Crown	2.558	The cost of providing the Policy Advice output class has increased from 2009/10. This is largely due to a change in the cost and revenue allocation methodology applied for 2010/11. The output class cost now includes the cost of time spent by staff throughout the Corporation on policy advisory services, rather than just the dedicated policy and ministerial support units.
Revenue Other	0.130	
Expenses	17.389	
Net surplus/(deficit)	(14.701)	

Output Class 4: Financial Assistance – Housing

DESCRIPTION		
The scope of this Output Class is limited to the management of financial products that assist individuals/households and community housing providers to purchase houses and maintain houses that they own. Loans and grants issued may be in the Crown's name or in the Corporation's name for different financial products.		
PERFORMANCE INFORMATION		
MEASURE	STANDARD 2010/11	STANDARD 2009/10
Loans and grants		
Accuracy – loans and grants issued meet the eligibility criteria (Corporation and Crown loans)	At least 98 percent	At least 98 percent
Planned volume – Corporation loans:		
• Rural Housing – essential and infrastructure repairs in Northland, East Coast and eastern Bay of Plenty	175–345	232–270
• Rural Housing loans – dwellings repaired	150–175	205–230
Planned volume – Crown loans and grants – Housing Innovation Fund		Revised measures
• Grants – units provided	At least 47	
• Loans – units provided	At least 47	
Resource leverage		
• Grants – Crown contribution as a proportion of the total project cost does not exceed	45 percent	
• Loans – Crown contribution as a proportion of the total project cost does not exceed	45 percent	
Timeliness (monitoring) –		
• Loans and grants – annual confirmation sought from borrowers that conditions are met	At least 95 percent	At least 95 percent
Debt management (Corporation) – total arrears as a proportion of the total loan portfolio	1.2 percent or less	1.2 percent or less
Mortgage Repayment Assurance		
Welcome Home Loan claims management –		
• percentage of loans issued by provider banks meet eligibility criteria	At least 98 percent	At least 98 percent
• claims from provider banks settled consistent with agreements	At least 98 percent	At least 98 percent
Planned volume – new loans with mortgage repayment assurance arrangements underwritten through the Welcome Home Loan programme	A minimum of 1,750	A minimum of 1,150

Revenue and output expenses

	BUDGET 2010/11 \$ MILLION	COMMENT
Revenue Crown	64.885	The unearned premium provision relates to the Mortgage Insurance Scheme, where the premiums are received upfront but the risks of default are greatest over the first 10 years of the loan. Part of the premium received is moved to reserves to be recognised in future years in proportion to the risk of default.
Revenue Other	8.598	
Unearned Premium Provision	8.405	
Expenses	79.797	
Net surplus/(deficit)	(14.719)	

Output Class 5: Property Management Agency Services

DESCRIPTION		
<p>The scope of this Output Class is limited to property management and development services on behalf of the Crown in relation to land and buildings that have been transferred to direct Crown control, accounted for within the Crown's Housing Agency Account. The services are provided under the specific authority and requirements set out in the Housing Act 1955 and the Housing Agency Accountability Agreement between the Corporation and the Minister of Housing.</p>		
PERFORMANCE INFORMATION		
MEASURE	STANDARD 2010/11	STANDARD 2009/10
Management of Existing Properties (Crown)		
Housing quality – houses are maintained to agreed Decent Home Standard	Benchmark to be established	Revised measure
Housing Development Project – Hobsonville (Crown)		
Major milestones – Hobsonville development project managed in accordance with the work programme in the Housing Agency Account Accountability Agreement:		
<ul style="list-style-type: none"> house construction substantially underway for stage one release – 30–40 dwellings linear Park Stage 1–2 completed by 30 June 2011 	Milestones achieved	Milestones achieved

Revenue and output expenses

	BUDGET 2010/2011 \$ MILLION	COMMENT
Revenue Crown	0	The Property Management Agency Service output class relates to the services the Corporation provides to the Crown in its role as an agent administering property held by the Crown under the Housing Act 1955. This is also showing a significant increase in cost and net deficit when compared with the 2009/10 Statement of Intent.
Revenue Other	1.494	
Expenses	2.270	
Net surplus/(deficit)	(0.776)	

Intermediate Outputs: Housing Portfolio (Corporation)

To support the State House Tenancies outputs in particular, it is essential that the Corporation is effectively and efficiently undertaking property management and development services in relation to land and buildings owned by the Corporation, given this has an asset value of \$14.5 billion. The following outputs provide transparency for these intermediate outputs.

DESCRIPTION

The scope of this group of intermediate outputs is limited to property management and development services in relation to land and buildings owned by the Corporation and involves:

Managing existing houses (Corporation)

Maintaining the portfolio's current amenity value, including: meeting routine/ongoing holding costs; meeting legislative requirements; undertaking planned maintenance programmes; and setting (and reviewing) market rents. This includes the ongoing management of leased houses and meeting the Corporation's obligations under lease agreements.

Upgrading existing houses (Corporation)

Upgrading *individual* housing assets to improve the amenity value of houses to a level that is suitable for social housing, for both current and future tenants including changing the number of bedrooms to better meet need, and upgrading internal service areas to provide improved amenity.

Adding to the housing portfolio (Corporation)

Purchasing existing houses (including from new housing developments); building new houses; leasing privately-owned houses; and purchasing land for building houses in the short to medium term.

Divesting properties (Corporation)

Preparing existing properties for divestment, including through sale and demolition, and taking all actions necessary to meet the statutory obligations that the Corporation has with respect to the disposal of surplus properties and the sale of state houses to tenants.

Housing development projects (Corporation)

Managing housing redevelopment projects, which involves the delivery of new or upgraded houses, the development of infrastructure, and managing the impact on the community. Housing redevelopment projects are medium- to long-term projects that have a focus beyond housing, and involve other central government agencies, territorial authorities, private sector entities, non-government organisations and local communities in undertaking comprehensive redevelopment of geographically defined areas.

STATEMENT OF FORECAST SERVICE PERFORMANCE CONTINUED

PERFORMANCE INFORMATION		
MEASURE	STANDARD 2010/11	STANDARD 2009/10
Managing existing houses (Corporation)		
Housing quality – houses are maintained to agreed Decent Home Standard	Benchmark to be established	Revised measure
Corporation meets its obligations under the lease agreement for leased houses	80 percent	New measure
Upgrading existing houses (Corporation)		
• Energy Efficiency Retrofits to properties (funded by appropriation)	900–1,100	1,100–1,250
• Energy Efficiency Retrofits and heater installations (funded by appropriation)	\$6.5 million	\$6.5 million
• Upgrades:		
– Healthy Housing – households assisted	450–550	1,250–1,350
– appropriation and Ministry of Health funding	\$5.7 million	\$15 million
• Number of planned upgrade interventions on the portfolio (funded by the Corporation)	5,475–5,575	New measure
• Total number of planned upgrade interventions on the portfolio	7,500–8,000	New measure
Adding and divesting properties (Corporation)		
Number of additions and divestment changes to the state house portfolio to better meet demand	1,080–1,180	New measure
Net additions to the state housing portfolio		
• new houses available for tenants: by 30 June 2011 including:	242–302 units	245–305 units
• Community Group Housing acquisitions (funded by appropriation)	9–13 units/ \$5.8 million	9–13 units/ \$5.8 million
Housing redevelopment projects (Corporation)		
Tamaki development project:		
• strategic acquisitions completed	6	5
• properties refurbished	40	40

Statement of Forecast Financial Performance

Forecast financial highlights for 2010/11

The Corporation manages a portfolio of more than 69,000 houses, which is forecast to grow by a net of 272 units in 2010/11. The value of the owned portion of this portfolio is forecast to be \$15 billion at 30 June 2010, including a forecast increase in the value of buildings of \$75 million.

In 2010/11, the Corporation expects to receive \$1,027 million in income consisting of \$949 million in rental income, \$62 million in other operational funding for Crown programmes, and \$16 million in interest and other income.

In 2010/11, the Corporation expects to spend \$893 million in operating expenses consisting of \$180 million in depreciation and amortisation, \$118 million in interest, \$56 million in grants to agencies including \$38 million to Wellington City Council for the upgrade of its social housing portfolio, \$373 million on repairs and maintenance, leases, and rates, and \$166 million on personnel and other expenses.

The forecast net surplus before tax of \$134 million for 2010/11 is significantly better than previous years and equates to a return on equity of 1.17 percent. This is higher than the target agreed to by Ministers of 1.1 percent. The higher forecast return on equity is due to a reduction in the value of the Corporation's equity resulting from taxation changes announced in Budget 2010.

A change to the rate of GST also announced in Budget 2010 has increased the Corporation's costs by \$7.7 million in 2010/11. However, to ensure that

the Corporation's forecast return on equity meets Ministers' agreed targets (before the change in the value of equity above), the Corporation has reduced its other expenditure forecast to negate the effect of an increase in GST expenditure of \$7.7 million. Plans on how to achieve these savings will be formed early in the new financial year.

In addition to using return on equity as a measure of financial performance, the Corporation also measures its performance based on a total shareholders' return (or comprehensive income) basis, which recognises the increase in the value of the housing portfolio as part of its return on investment. For 2010/11, the Corporation forecasts a total shareholders' return (using comprehensive income) of 5.01 percent.

In 2010/11, the Corporation expects to spend \$229 million on housing asset purchases and improvements and receive \$39 million from the sale of housing assets.

Total distributions to the Crown of \$134 million relating to 2010/11 are forecast, consisting of income tax of \$72 million and \$62 million of net operating surplus (after accounting for deferred taxation) which is available to be returned to the Crown.

Forecast Comprehensive Income Statement

	PARENT FORECAST	GROUP FORECAST	GROUP FORECAST	GROUP FORECAST
	2010/11 \$m	2010/11 \$m	2011/12 \$m	2012/13 \$m
REVENUE				
Rental income from tenants	16	397	411	424
Rental income from Income-Related Rent Subsidy	4	552	574	607
Interest income	9	9	12	13
Crown appropriation income	62	62	55	47
Mortgage Insurance Scheme	5	5	6	7
Other income	179	2	2	2
Realised gains/(losses)				
Total operating revenue	275	1,027	1,060	1,100
EXPENSES				
Repairs and maintenance	9	183	187	189
Rates	3	122	128	134
Third party rental leases	10	68	76	84
Depreciation and amortisation	6	180	186	199
Personnel	89	90	88	88
Interest costs	18	118	122	123
Loan impairment expense	3	3	3	3
Grants	56	56	50	41
Other expenses	61	73	70	70
Total operating expenses	255	893	910	931
Operating surplus/(deficit) before tax	20	134	150	169
Income tax expense/(benefit)	10	51	47	53
Net surplus after tax	10	83	103	116
OTHER COMPREHENSIVE INCOME				
Revaluation of property, plant and equipment				
Revaluation gains/losses/transfers taken to equity	2	241	398	569
Deferred tax on property revaluations taken to equity	(2)	(54)	(109)	(123)
Financial assets at fair value through equity				
Revaluation gains/losses taken to equity	5	85	23	(12)
Deferred tax on financial asset revaluations taken to equity	(1)	(24)	(7)	4
Other comprehensive income net of tax	4	248	305	438
Total comprehensive income net of tax	14	331	408	554

Forecast Balance Sheet

	PARENT FORECAST	GROUP FORECAST	GROUP FORECAST	GROUP FORECAST
	2010/11 \$m	2010/11 \$m	2011/12 \$m	2012/13 \$m
ASSETS				
Current assets				
Cash and cash equivalents	82	106	92	93
Mortgage advances	4	4	4	4
Receivables and prepayments	43	44	53	56
Investments	46	46	54	60
Properties intended for sale		12	15	22
Total current assets	175	212	218	235
Non-current assets				
Property, plant and equipment	449	15,264	15,672	16,262
Mortgage advances	60	60	63	66
Investments in subsidiary companies	3,447			
Available-for-sale financial assets	1	1	1	1
Interest rate derivatives	2	2	17	9
Intangible assets	45	65	70	64
Total non-current assets	4,004	15,392	15,823	16,402
Total assets	4,179	15,604	16,041	16,637
LIABILITIES				
Current liabilities				
Rent in advance	2	27	32	32
Accounts payables and other liabilities	28	123	124	131
Income tax	(55)	15	18	19
Loans	39	270	285	260
Provisions	1	1	1	1
Employee entitlements	6	7	7	7
Total current liabilities	21	443	467	450
Non-current liabilities				
Loans	271	1,583	1,571	1,594
Deferred tax liability	58	1,856	1,920	1,999
Interest rate derivatives		1		
Mortgage Insurance Scheme	35	35	42	49
Provisions	7	7	7	7
Employee entitlements	1	1	1	1
Total non-current liabilities	372	3,483	3,541	3,650
Total liabilities	393	3,926	4,008	4,100
Net assets	3,786	11,678	12,033	12,537
EQUITY				
Equity attributable to the parent	3,796	3,796	3,806	3,812
Retained earnings	(131)	(705)	(631)	(532)
Revaluation reserve	119	8,586	8,841	9,248
Hedging reserve	2	1	17	9
Total equity	3,786	11,678	12,033	12,537

Forecast Changes in Equity

	PARENT FORECAST	GROUP FORECAST	GROUP FORECAST	GROUP FORECAST
	2010/11 \$m	2010/11 \$m	2011/12 \$m	2012/13 \$m
Total equity at 1 July	3,781	11,356	11,678	12,033
Revaluation of property, plant and equipment				
Revaluation gains/(losses/transfers) taken to equity	2	241	398	569
Deferred tax property, plant and equipment revaluations	(2)	(54)	(109)	(123)
Financial assets at fair value through equity				
Revaluation gains/(losses/transfers) taken to equity	5	85	23	(12)
Deferred tax on financial assets	(1)	(24)	(7)	4
Net surplus after tax	10	83	103	116
Other comprehensive income	4	248	305	438
Total comprehensive income	14	331	408	554
Contributions from and distributions to the Crown				
Capital contributions from the Crown	39	39	10	6
Payment of dividends to the Crown	(48)	(48)	(63)	(56)
Total contributions from and distributions to the Crown	(9)	(9)	(53)	(50)
Total changes in equity	5	322	355	504
Total equity at 30 June	3,786	11,678	12,033	12,537
Comprising:				
Equity attributable to the Crown				
Opening balance	3,757	3,757	3,796	3,806
Contributions from the Crown	39	39	10	6
Closing equity attributable to the Crown	3,796	3,796	3,806	3,812
Retained earnings				
Opening retained earnings	(93)	(770)	(705)	(631)
Surplus for the period	10	83	103	116
Net transfers from asset revaluation reserve on disposal		30	33	40
Payment of dividends to the Crown	(48)	(48)	(62)	(57)
Closing retained earnings	(131)	(705)	(631)	(532)
Revaluation reserve				
Opening revaluation reserve	119	8,429	8,586	8,841
Asset revaluations – property, plant and equipment	2	241	398	569
Deferred tax on asset revaluation property, plant and equipment	(2)	(54)	(110)	(122)
Net transfers from asset revaluation reserve on disposal		(30)	(33)	(40)
Closing revaluation reserve	119	8,586	8,841	9,248
Hedging reserve				
Opening hedging reserve	(2)	(59)	1	17
Hedging reserve revaluations	5	85	23	(12)
Deferred tax on hedging reserve revaluations	(1)	(25)	(7)	4
Closing hedging reserve	2	1	17	9
Total equity at 30 June	3,786	11,678	12,033	12,537

Forecast Cash Flow Statement

	PARENT FORECAST	GROUP FORECAST	GROUP FORECAST	GROUP FORECAST
	2010/11 \$m	2010/11 \$m	2011/12 \$m	2012/13 \$m
Cash flows from/used in operating activities				
Rent receipts – tenants	16	395	408	421
Rent receipts – Income-Related Rent Subsidy	4	552	574	608
Other receipts from Crown	72	72	64	56
Interest received from customers and investments	9	9	12	13
Other receipts	147	6	6	6
Payments to suppliers and employees	(226)	(594)	(591)	(592)
Income tax paid	(12)	(75)	(90)	(95)
Interest paid	(17)	(118)	(122)	(123)
Net cash flows from operating activities	(7)	247	261	294
Cash flows from/used in investing activities				
Sale of rental properties and management assets	7	39	51	110
Mortgage and other lending repayments	(1)	(1)	(3)	(3)
Dividend received from subsidiaries	36			
Purchase of rental property assets	(12)	(232)	(241)	(323)
Purchase of management assets		(14)	(6)	(6)
Purchase of intangible assets	(26)	(33)	(16)	(10)
Mortgage and other lending	(3)	(3)	(3)	(3)
Change in short-term investments	(8)	(8)	(7)	(6)
Net cash flows from investing activities	(7)	(252)	(225)	(241)
Cash flows from/used in financing activities				
Capital contributions	39	39	10	6
Crown borrowings	(3)	22	2	(1)
Dividends paid	(48)	(48)	(62)	(57)
Net cash flows from financing activities	(12)	13	(50)	(52)
Net cash flows	(26)	8	(14)	1
Opening cash and cash equivalents	108	98	106	92
Closing cash and cash equivalents	82	106	92	93

Statements of underlying assumptions

These statements have been compiled on the basis of government policies at the time they were finalised. They comply with FRS-42 Prospective Financial Statements. They are presented to fulfil the Corporation's statutory obligations under the Crown Entities Act 2004.

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

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

Opening balance sheet positions are estimates derived from the best assumptions for the closing balances at 30 June 2010.

Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and reasonable current assumptions. The results of its judgements form the basis of the carrying values for assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions, and may materially affect the financial results or the financial positions reported in future periods.

The significant forecasting assumptions used in developing the financial forecasts in the Statement of Intent are detailed in the table below.

SIGNIFICANT FORECASTING ASSUMPTIONS	RISK	LEVEL OF UNCERTAINTY	REASONS AND FINANCIAL EFFECT OF UNCERTAINTY
<p>Optimisation of Corporation equity</p> <p>The forecasts are based on no increases in debt.</p>	<p>The Corporation may be expected to take on additional debt to rebalance its debt to equity ratio to remain within its target interest coverage ratio.</p>	Medium	<p>Rebalancing debt to equity would result in additional debt of approximately \$550 million. This would reduce the Corporation's net surplus before tax by an estimated \$34 million. It would also constrain the Corporation's ability to take on additional debt to configure the housing portfolio.</p>
<p>Funding for portfolio configuration</p> <p>The forecasts do not include the costs or funding to reconfigure the housing portfolio.</p>	<p>The Corporation may be unable to secure adequate funding to undertake the reconfiguration as planned.</p>	High	<p>The Corporation would be unable to complete the configuration of its housing portfolio.</p>
<p>Expected interest rates on investment</p> <p>Interest rates on investments are consistent with the three-month bank bill rate.</p>	<p>The risk is that prevailing interest rates will differ significantly from those estimated.</p>	Medium	<p>The volatility of the financial markets and the impact of the global economic recovery make the prevailing interest rate levels difficult to predict.</p> <p>The Corporation is expected to plan and respond to any significant change or movement in interest rates as they affect projected investment levels and interest revenue.</p>

SIGNIFICANT FORECASTING ASSUMPTIONS	RISK	LEVEL OF UNCERTAINTY	REASONS AND FINANCIAL EFFECT OF UNCERTAINTY
<p>Expected interest rates on borrowings</p> <p>Interest rates on new borrowings are consistent with estimated interest rates for the three-month bank bill rate and the 10-year borrowing rates.</p>	<p>The risk is that prevailing interest rates will differ significantly from those estimated.</p>	<p>Medium</p>	<p>The volatility of the financial markets and the impact of the global economic recovery make prevailing interest rate levels difficult to predict.</p> <p>The Corporation has an interest rate hedging policy that minimises any significant change to interest rates on projected borrowings.</p>
<p>Credit risk</p> <p>Welcome Home Loans (Mortgage Insurance Scheme)</p>	<p>The Mortgage Insurance Scheme insures low equity mortgage lending with terms averaging 28 years. The premiums for this product are received upfront but the risks of default are greatest over the first 10 years of the loan. Part of the premium received is moved to reserves to be recognised in future years in proportion to the risk of default.</p>	<p>Medium</p>	<p>There is a risk that the portion of the premium recognised as unearned will not be sufficient to recognise defaults in later years.</p>
<p>General price inflation</p> <p>The Corporation has adjusted base financial projections to reflect the estimated impact of inflation.</p> <p>The projections are all in nominal dollars.</p>	<p>The risk is that actual inflation may be significantly different from estimated inflation.</p>	<p>Low-medium</p>	<p>The level of uncertainty is considered low to medium.</p> <p>Inflation is affected by external economic factors, outside the Corporation's control and influence.</p>
<p>Price adjustors (cost indices)</p> <p>It is assumed that the price adjustments for rates and maintenance are higher than the general inflation rates.</p>	<p>The risk is that actual inflation for these adjustors may be significantly different from the projected inflation rates.</p>	<p>Low</p>	<p>The level of uncertainty is considered low.</p> <p>Inflation adjustors are affected by external economic factors, outside the Corporation's control and influence.</p> <p>Individual indices will vary at times from the Statement of Intent.</p> <p>The Corporation will monitor future financial information and assess its impact on the projected financial position.</p>

STATEMENTS OF UNDERLYING ASSUMPTIONS CONTINUED

SIGNIFICANT FORECASTING ASSUMPTIONS	RISK	LEVEL OF UNCERTAINTY	REASONS AND FINANCIAL EFFECT OF UNCERTAINTY
<p>Revenue from rents Inflation rates have been applied, adjusted for real rental growth.</p>	<p>Rental revenue streams are influenced by annual and long-term fluctuations and trends outside the control of the Corporation.</p>	<p>Low–medium</p>	<p>The level of uncertainty is considered low to medium. The likely level of variance will not have a material effect on the financial forecasts.</p>
<p>Asset revaluations Properties are revalued in line with forward forecasts provided by QV.</p>	<p>The risk is that actual revaluation movements will be significantly different from those forecast.</p>	<p>Medium</p>	<p>The level of uncertainty is considered medium as value of property can be volatile, depending on the state of the economy. The impact of volatility on the Corporation’s operating surplus would be relatively low and manageable. However, the impact on other comprehensive income would be large.</p>

Assumptions

	2010/11	2011/12	2012/13
	%	%	%
Financing indices			
Average floating rate	4.3	6.0	6.2
Average fixed rate (new debt)	6.6	7.4	7.5
General price inflation			
CPI (Note 1)	2.4	2.3	2.2
Price adjustors			
Salaries	2.0	2.0	2.0
Rates	5.0	5.0	5.0
Maintenance	0.0	2.6	1.5
Leased rental properties	3.0	3.5	3.4
Taxation adjustors			
Goods and Services Tax (GST)	12.5/15	15	15
Income tax	30	28	28
Tax deductibility of depreciation on housing assets	100	0	0
Revenue adjustors			
Rent	3.5	3.7	4.7
Property revaluations			
Land	0.0	0.50	1.5
Buildings	1.12	2.74	3.72

Note 1: As part of the economic outlook included in Budget 2010, the Treasury is predicting that inflation will hit 5.9% in 2010/11 but will drop away again to just under 2.5% a year from 2012 onwards. Part of the increase is related to the increase in the rate of GST, which the Corporation has already accounted for in its financial forecasts.

The forecasting assumptions published in the 2009/10 Statement of Intent have not been reused in the 2010/11 Statement of Intent. Although assumptions are similar in many areas, items have been reforecast due to changes in Government policy, changes in disclosure, the inclusion of revaluations, forecast changes in market conditions in the economy, and changes to the capital programme.

Cost allocation

The Corporation's output costs in these statements are derived from the cost allocation system outlined below.

Cost allocation policy

All costs are classified into responsibility cost centres, which are identified as direct or indirect costs. Direct costs are charged directly to Output Classes. Indirect costs are charged to an Output Class by way of an allocation process based on cost drivers and related activity use.

Criteria for direct and indirect costs

Direct costs are those costs directly attributed to an Output Class. Indirect costs are all other costs that cannot be linked with a specific Output Class in an economically feasible manner.

Direct costs assigned to outputs

Direct costs are charged directly to the Output Classes. This includes significant costs of personnel, property depreciation, maintenance, rates and some other operating costs. Some personnel and other costs contribute to more than one Output Class. These costs are allocated to Output Classes on the basis of a predetermined ratio, based on time, capacity or volume of expenditure, that has been established through the analysis of business units.

Basis for assigning indirect costs

Indirect corporate costs are assigned to Output Classes on the basis of proportionate expenditure incurred before adding these overheads.

Financial performance measures

The Corporation will use the following indicators to measure its financial performance.

RETURN ON EQUITY	<p>(1) Net operating surplus before tax / average total equity. This measures the accounting return before tax made on the current value of the Crown's investment. The Crown's investment is increased as the value of the housing stock increases</p> <p>(2) Net operating surplus before tax / average equity attributable to the Crown. This measures the accounting return before tax made on the actual investment the Crown has made into the Corporation (ie does not take into account the increasing value of the housing stock)</p> <p>(3) Comprehensive income (including revaluations)/average total assets (rolling seven-year average). This measures the total accounting return before tax made on the current value of the Crown's investment. Included in comprehensive income is the changing value of the housing stock</p>
FINANCIAL RETURN TO THE CROWN	The dividend paid to the Crown
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND LEASING (EBITDAL)	EBITDAL to income as a percentage provides an indication of how efficiently the Corporation is managing its costs
THE AVERAGE COST OF PROVIDING STATE HOUSING ASSISTANCE	The net recurrent cost per housing unit, including administration, operational costs and interest expense, but excluding depreciation and capital costs, divided by the number of housing units. This approximates a measure that can be benchmarked against the Australian Productivity Commission performance measurement suite for social housing
COST OF STATE HOUSE TENANCIES OVER TOTAL COST	Recurrent cost divided by total cost. This contextualises the cost of state house tenancy output class compared with other outputs
OPTIMAL EQUITY	The Corporation will seek to maintain an optimal equity structure. The indicators will be the gearing ratio (total debt divided by total assets) and interest coverage (the ratio of EBIT to net interest)
EFFICIENT DEBT MANAGEMENT	Tenant rental debt as a percentage of monthly rental income
CREDIT RATING	This is Standard & Poor's annual assessment of the Corporation's financial strength – its ability to pay its debts

The Group's financial performance measures and targets

INDICATOR	2008/09 ACTUAL	2009/10 FORECAST	2010/11	2011/12	2012/13
Return on equity:					
(1) Net operating surplus before tax/ average total shareholder equity	0.37%	0.95%	1.17%	1.27%	1.37%
(2) Net operating surplus before tax/ average injected shareholder equity	1.25%	3.32%	4.42%	4.80%	5.22%
(3) Comprehensive income/average total assets	8.93%	7.73%	5.01%	3.88%	2.64%
Agreed dividend	\$132 million	\$48 million	\$62 million	\$57 million	\$73 million
EBITDAL to income	41.5%	46.0%	47.8%	49.3%	51.0%
Net recurrent cost per housing unit	\$9,226	n/a	\$8,748	\$8,949	\$9,294
Recurrent costs/total cost	88.8%	n/a	86.7%	87.6%	88.4%
Interest cover – EBIT/net interest ratio	1.40	2.05	2.23	2.37	2.53
Gearing ratio	12.1%	12.0%	11.9%	11.6%	11.1%
Rental debt as a percent of monthly rental income	5.10%	<8%	7%	6%	6%

Managing the Crown's investment

The Corporation is forecast to have total assets of \$15.6 billion at 30 June 2011, funded by liabilities of \$3.9 billion and equity of \$11.7 billion.

Value of the Crown's investment

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

Figures for the following years based on estimated book values

AS AT 30 JUNE 2011	AS AT 30 JUNE 2012	AS AT 30 JUNE 2013
\$m	\$m	\$m
11,678	12,033	12,537

As a result of the Capital Structure Review in 2003/04, the responsible Ministers agreed that if the Corporation's ratio of EBIT to net interest falls below 1.3:1, or rises above 1.7:1, debt will be adjusted to maintain the capital structure within this band. At the same time, Ministers agreed that capital appropriations should be drawn down in the ratio of 22:78 debt to equity.

All current capital appropriations are drawn down in the ratio of 22:78 debt to equity as agreed during the Capital Structure Review.

Adjusted net surplus after tax

	GROUP BUDGET 2010/11 \$m	GROUP BUDGET 2011/12 \$m	GROUP BUDGET 2012/13 \$m
Net surplus after tax	83	103	116
Less deferred tax	21	46	43
Potential dividend distribution to Crown	62	57	73

Business diversification

The Corporation would obtain the agreement of responsible Ministers before making any material changes to its business.

Agreements that result in compensation from the Crown

The Corporation may enter into contractual arrangements with the Crown as required from time to time. Such arrangements would include

Aside from capital appropriations, the Corporation's capital expenditure programme is funded by cash flows generated from operation.

Financial distribution to the Crown

The Housing Corporation Act 1974 section 40(1) requires the Corporation to 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.

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

The net surplus of the Corporation is paid to the Crown as a dividend each year. For the purposes of calculating the dividend, all taxation payable in the current year is deducted, rather than just current taxation expense. The following table highlights the adjusted net surplus after all taxation payable has been deducted, to arrive at the forecast distribution to the Crown.

agreements in line with section 20B of the Housing Corporation Act 1974. All contractual arrangements will be identified 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 an income-related rent rather than a market rent.

Statement of accounting policies

Corporate information

The Corporation is a statutory corporation (Crown-owned entity) operating under the Housing Corporation Act 1974 (as amended). The core business of Housing New Zealand Corporation (the 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 to ensure the Minister of Housing receives appropriate policy advice, other advice, and information on housing and services related to housing.

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

The registered office of the Corporation is at Level 3, 28 Grey Street, Wellington.

Basis of preparation

The financial statements have been prepared on a historical cost basis, except for rental properties, freehold land, derivative financial instruments, and available-for-sale financial assets, which have been measured at fair value.

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

Statement of compliance

The financial statements comply with FRS-42 Prospective Financial Statements as appropriate for public benefit entities.

Basis of Group

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Subsidiaries have been included in the Group financial statements using the purchase method of accounting, which measures the acquiree's assets and liabilities at their fair value at acquisition date.

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

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

Foreign currency transactions

Transactions in foreign currency are converted at the New Zealand rate of exchange ruling at the transaction date.

Property, plant and equipment

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

- motor vehicles 5 years
- office equipment 5 years
- furniture and fittings 10 years
- computer hardware 4 years
- leasehold improvements the shorter of the period of lease or estimated useful life.

An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on derecognition of the asset is included in the income statement in that year. Gain or loss on sales is calculated as the difference between the net disposal proceeds and the carrying amount.

Rental properties and land

Housing for community groups held by Housing New Zealand Corporation and state housing held by Housing New Zealand Limited is, on purchase or construction, recognised at cost. It is then revalued annually, on a class basis, to fair value.

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

Any surplus arising on the revaluation of freehold land and rental properties is recognised in the asset revaluation reserve in the equity section of the balance sheet. A revaluation deficit greater than the asset revaluation reserve would be recognised as an expense in the income statement in the period it arose. Revaluation surpluses that reversed previous revaluation deficits recognised in the income statement would be recognised as revenue in the income statement. Any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset.

An item of property is derecognised upon disposal or when no future economic benefits are expected to arise from its continued use. Upon disposal, any previous increase in value reflected in the revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Any gain or loss arising on derecognition of an asset is included in the income statement in that year. Gain or loss on derecognition is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

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

- rental property improvements 40 years.

Work in progress

Construction work in progress by Housing New Zealand Corporation and Housing New Zealand Limited is recognised at cost. On completion, the property will be held by the same entity, whereupon it will be accounted for as rental property.

Property intended for sale

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

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

Where property is held for sale or for development for sale, in the ordinary course of business, it is classified as inventory. Such property is recorded at the lower of cost or net realisable value. Net realisable value is the selling price less costs to complete and sale costs. Any write-downs to net realisable value are expensed in the income statement.

The Corporation's property development business (HNZC Property Developments Limited) subdivides large pieces of land, where the Group does not intend to retain all of the resulting titles. After subdivision, it will sell the land to other members of the Group or external entities. HNZC PDL does not retain any properties for the long term. As all PDL property is held for development and subsequently for sale, in the ordinary course of business, it is classified as inventory.

Borrowing costs

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

Intangible assets

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

Computer software is capitalised at cost, and the capitalised cost is amortised over four years. Following initial recognition, it is carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation is taken to the income statement.

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

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

Impairment

All assets are assessed for impairment at least annually.

Where there are indicators of impairment for those assets, the asset's recoverable amount will be determined. Where the recoverable amount is lower than the carrying amount, an impairment loss will be recognised, and the asset written down to the recoverable amount.

Revaluations of property are performed annually so that, generally, property is not carried at an amount materially below its recoverable amount. However, where there are specific indicators of impairment during the financial year, a property will be assessed for impairment. An impairment loss is recognised first against the revaluation reserve for that property, then the portion of the loss greater than the asset revaluation reserve is recognised as an expense in the income statement in the period in which it arises.

Any calculated gain or loss arising on disposal of the asset is included in the income statement in the year the item is disposed of. Gain or loss arising on disposal is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

The carrying values of corporate assets and finite-life intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset or cash-generating units are written down to their recoverable amount.

The recoverable amount of corporate assets and finite-life intangible assets is the greater of fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement.

Investments

All investments are initially recognised at cost, being the fair value of the consideration given.

After initial recognition, investments that are classified as available for sale are measured at fair value. For investments where there is no quoted market price, fair value is calculated based on the expected cash flows of the underlying net asset base of the investment.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the income statement.

The Shared Equity Scheme loan is classified as an available-for-sale investment. Fair value is determined by reference to market-based evidence. Independent valuations are performed annually to ensure the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as loans and receivables and are measured at amortised cost using the effective interest method. Investments intended to be held for an undefined period are not included in this classification. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Under the Shared Equity Scheme, the home buyer holds an option of early repayment of the loan. The loan is adjusted on day one to reflect the prepayment option in the form of an impairment provision in the balance sheet and a grant expense in the income statement.

Mortgages and housing-related lending

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

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

Trade and other receivables

Receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term liquid investments with original maturities of up to 90 days.

Interest-bearing borrowings

All borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

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

Gains and losses are recognised in the income statement when the liabilities are derecognised and through the fair valuing and amortisation processes for liabilities carried at amortised cost. Gains and losses are recognised on an ongoing basis.

Mortgage Insurance Scheme

Mortgage insurance liabilities

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

The unearned premium reserve represents the unrealised amount of premium received that relates to risks that have not yet expired. The unearned premium reserve is determined by apportioning premiums received over the relevant periods of risk underwritten, based on actuarially assessed risk factors. The amount of premiums received that are not recognised as premium income represents the unearned premium reserve.

The outstanding claims liability (if any at reporting date) represents the liability for claims incurred at reporting date. These may include those claims incurred but not yet reported (IBNR). The liability is determined at reporting date using a range of actuarial valuation techniques. Any liability is derecognised when the contract expires, is discharged or cancelled. This liability is discounted for the time value of money.

At each reporting date the Group reviews its unexpired risk and a liability adequacy test is performed as laid out under NZ IFRS 4 Appendix D, to determine whether there is any overall excess of expected claims over the unearned premium liabilities. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the income statement by establishing a provision for liability adequacy.

Mortgage insurance income

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

Mortgage Insurance Scheme (MIS) – critical judgements and estimates

The Mortgage Insurance Scheme is assessed six-monthly by an independent actuary to ensure the provision for claims is based on the best estimate of the present value of future claims. Key assumptions made as part of this assessment relate to the nature of borrowers and the future patterns of loan repayments and defaults under the MIS. The discount rate used in the calculation of the provision for MIS claims was 4.5 percent. The probability of sufficiency and risk margin used is 75 percent.

Provisions

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

The Group has a legal obligation to fund Westpac Banking Corporation for mortgages sold to it that

go to mortgagee sale but generate a shortfall on the loaned amount. Provisions related to those obligations have been recorded based on the present value of a best estimate, actuarially determined assessment of likely losses.

The expense relating to any provision is presented in the income statement.

As the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to the passage of time is recognised as a borrowing cost.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. All of the Group's leases are operating leases.

Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

Make good provisions

Where appropriate, provision is made for the present value of anticipated costs for the future restoration of leased premises to their state at the commencement of a Corporation lease. This calculation requires assumptions such as the costs of materials, labour, fittings and fixtures. These uncertainties may result in future actual expenditure differing from the amounts provided. Provisions recognised for each site are periodically reviewed and updated based on the facts and circumstances available at the time.

Changes to the estimated future costs for sites are recognised in the balance sheet by adjusting the expense and/or asset and provision.

Revenue

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

Crown operating appropriations

The Group receives revenue from the Crown as operating appropriations. Crown appropriation revenue is received to subsidise third party revenue

to bring it to market value (e.g. rent, premium and interest subsidies), to pay for services provided to the Crown (e.g. policy advice, government relations, research and evaluation), or to reimburse the Group for expenses incurred by operating various programmes (e.g. home ownership education courses). All Crown appropriation revenue is recognised as it is earned. Where relevant, the policy for Crown appropriation revenue is included in the accounting policy for its revenue item below.

Rental income

Rental income, including rental income from the Crown (Income-Related Rent Subsidy), is recognised on a straight-line basis over the lease term.

Mortgage insurance income

The premium income realised and the movement in provision for claims during the year are recognised in the income statement. Premiums, including premium subsidies from the Crown, are realised over the estimated period of the contract in accordance with the pattern of the incidence of risk expected under the contract, which is an estimate when the premium is earned.

Interest income

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

Management fees

The Group receives management fees, on a cost recovery basis, from the Housing Agency Account for managing the development of land. The Parent receives management fees from subsidiaries for managing their operations. Management fees are recognised as income in the period the expenses they relate to are incurred.

Dividends

The Parent receives dividends from subsidiaries. Dividends are recognised in the Parent's income statement when the shareholders' right to receive the payment is established.

Contingent assets

The Group has made grants and suspensory loans to third parties, with conditions attached for an agreed period. If the conditions are breached, the grant or suspensory loans will be repayable. If the conditions have been breached, the Group will disclose a contingent asset, as there will be a possibility that resources will flow to the Group.

Income tax

The income tax expense charged to the income statement includes the current year's provision and the movement in the deferred tax liability and asset.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses, can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss

- for deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

From 1 July 2011, the Corporation can no longer claim tax deductions for depreciation on its housing assets. This has been reflected in the financial forecast. Also from 1 July 2011, the income tax rate for the Corporation has reduced from 30 percent to 28 percent.

Other taxes

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

The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as part of receivables or payables in the balance sheet.

From 1 October 2010, the rate of GST has increased from 12.5 percent to 15 percent. This has been reflected in the financial forecast.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, Inland Revenue, is classified as operating cash flows.

Commitments and contingencies are disclosed gross of the amount of GST recoverable from, or payable to, the Inland Revenue Department.

Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Derivative financial instruments

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

The fair value of derivative financial instruments is determined by reference to current rates for similar instruments with similar maturity profiles, and is calculated as the net discounted estimated cash flows of the instrument.

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

For those interest rate swaps that meet the conditions for hedge accounting as cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

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

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the year.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement for the year.

Financial guarantees

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

- House price indices are grouped into 11 geographical areas.
- It is assumed that household income will keep pace with general market inflation.
- A discounted provision is calculated whereby, as interest is added, it will be sufficient to meet expected future payments. The rate of interest used is that obtained by holding New Zealand Government Bonds.

Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortised cost. Due to their short-term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee entitlements

Employee entitlements include wages, salaries, annual leave, long service leave and sick leave. Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave, are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Changes to accounting policies and estimates

Newly developed software will be amortised over seven years. This reflects the expected useful life of new systems that will be implemented.

Since the application of NZIFRS, all accounting policies have been applied on a consistent basis.

Appropriations

The following tables set out the appropriated funding the Corporation expects to receive from the Crown in 2010/11. This funding is shown by appropriation and programme, and is aligned with the Corporation's Output Classes.

Output Table: Operating Appropriations 2010/11

APPROPRIATION AND PROGRAMME	\$M	CORPORATION'S OUTPUT CLASSES				
		ADVISORY SERVICES	STATE HOUSE TENANCIES	POLICY ADVICE	FINANCIAL ASSISTANCE – HOUSING	PROPERTY MANAGEMENT SERVICES
Housing Policy Advice						
Housing Policy Advice	2.184			2.184		
Ministerial Support	0.300			0.300		
KiwiSaver – Joint Evaluation Strategy	0.074			0.074		
Total Housing Policy Advice	2.558	-	-	2.558	-	-
Contracted Housing Support Services						
Home Ownership Education	2.400	2.400				
Rural Housing Programme	5.000	0.267			4.733	
Total Contracted Housing Support Services	7.400	2.667	-	-	4.733	-
Housing Support Services						
Healthy Housing	1.622		1.622			
Financial Assistance to Owners of Non-Weathertight Homes	0.040				0.040	
Mortgage Insurance Scheme (Welcome Home Loan)	9.100				9.100	
KiwiSaver	0.722				0.722	
Total Housing Support Services	11.484	-	1.622	-	9.862	-
Housing Assistance						
Community Owned Rural Rental						
Housing Loans interest subsidy	0.420				0.420	
Sold Loans interest subsidy	0.100				0.100	
Special Housing Zones interest subsidy	0.070				0.070	
Total Housing Assistance	0.590	-	-	-	0.590	-
Purchase of Housing and Related Services for Tenants Paying Income-Related Rent						
	558.566	-	558.566	-	-	-
KiwiSaver Deposit Subsidy	4.200				4.200	
Housing Innovation Fund Grants	6.000				6.000	
Housing Innovation Fund – Māori Demonstration Partnerships	2.000				2.000	
Community Housing Rent Relief Programme	3.968		3.968			
Wellington City Council Social Housing Assistance	37.500				37.500	
Total Operating Appropriations	634.266	2.667	564.156	2.558	64.885	-

Output Table: Capital Appropriations 2010/11

APPROPRIATION AND PROGRAMME	\$M	CORPORATION'S OUTPUT CLASSES				
		ADVISORY SERVICES	STATE HOUSE TENANCIES	POLICY ADVICE	FINANCIAL ASSISTANCE – HOUSING	PROPERTY MANAGEMENT SERVICES
Acquisition and Improvement of HNZC State Housing						
Healthy Housing	5.700		5.700			
Energy Efficient Warm Homes	6.500		6.500			
Community Housing Standard Acquisitions	5.800		5.800			
Total Acquisition and Improvement of HNZC State Housing	18.000	-	18.000	-	-	-
Loans to support Social and Affordable Housing						
Housing Innovation Fund	6.000				6.000	
Housing Innovation Fund – Māori Demonstration Partnerships	2.000				2.000	
Total Loans to Support Social and Affordable Housing	8.000	-	-	-	8.000	-
Refinancing of HNZC Debt	160.757	-	160.757	-	-	-
Capital Injections – KiwiSaver	0.027	-	-	-	0.027	-
Total Capital Appropriations	186.784	-	178.757	-	8.027	-

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