

STATEMENT OF INTENT 2011–14

New Zealanders in need
have access to the right
house, in the right place
and at the right time, for
as long as that need exists.

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A fairer, more efficient and tightly focused state housing system.

This is my first Statement of Intent as Housing New Zealand Corporation's Board Chair. I have joined the Corporation as it faces the challenges of stretched resources and extraordinary events, including the Christchurch earthquakes.

The Government's response to these challenges is clear. In order to meet the country's growing housing needs in this environment, a new approach is needed. The Government aims to increase the role of the third sector in developing and supplying affordable and particularly social housing. The Corporation will become part of a community of social housing providers – a very significant part. This will help provide more housing and more certainty for those who need social housing.

The Government has asked the Corporation to focus on developing a fairer, more efficient and tightly focused state housing system that uses more of its resources to help those who need them most.

This has given the Corporation a sharply defined purpose: to house those in greatest need, for their duration of need, and to earn an appropriate return for the Crown from the \$15.1 billion state housing network.

For the Corporation to do this fairly while making the best use of taxpayers' resources, the Corporation will need to change the way it works.

This Statement of Intent describes new policies that enable the Corporation to focus on its core business, beginning with adjustments to the allocation and management of state tenancies.

A state 'house for life' is no longer sustainable for those who have other options. In future, state housing will be available for a time in a person's life when they most need help. When that time passes, the Corporation will help people find their way back to independent housing and, in doing so, free up a state home for others in greater need.

This means the Corporation will need a deeper understanding of tenants' needs and the barriers they face in independently managing a home in the community or private sector. The Corporation is building this understanding and designing ways to help tenants progress to independence when they can or move to other providers better qualified to meet their specific needs.

At the same time it is protecting the vulnerable and elderly who still need a state home and making sure suitable homes are available in the right place to meet demand from those in the greatest need for the duration of that need.

This is a significant task. Roughly a third of existing state housing is mismatched to demand or in need of an upgrade to suit modern households. The Corporation intends to make significant progress in reorganising and improving its asset portfolio over the next decade.

It will buy, build and lease properties in areas of high demand and reduce its presence in areas of lower demand. It will also refurbish tens of thousands of homes. This provides an opportunity for the Corporation to work with the private sector, and provides opportunities for other social housing providers to grow.

“The Government has asked the Corporation to focus on developing a fairer, more efficient and tightly focused state housing system that uses more of its resources to help those who need them most.”

The Corporation’s activities in the coming years will benefit and develop the whole social housing sector.

As it refocuses on its core functions, the Corporation faces significant change. The outcome of that change will be threefold: a more sustainable, fairer and flexible state housing system; a high-performing business that earns a solid return on the taxpayer’s second largest asset; and solid opportunities to develop the third sector.



Dr Alan Jackson
CHAIR



Housing New Zealand manages the tenancies of 69,000 homes. In future, this will be our core role: tenancy management and asset management and development.

Many of the initiatives in this Statement of Intent are about streamlining the state housing system to ensure the Corporation's resources are targeted toward helping those in greatest need, for their duration of need.

The Corporation is re-evaluating who it houses, how long it houses them for and how it will help people move on from state housing when they are ready.

The focus is on housing as many of those in the greatest need as possible. To achieve these changes, innovation is needed across all parts of the Corporation's business.

We will be doing things differently. We will stop activities that are better aligned with the responsibilities of other agencies and other providers in the social housing sector.

The result will be a more efficient state housing system that fulfils a specific function in the broader government and social housing sector, while also delivering greater value to the Crown.

In 2011–12, the Corporation will continue taking critical steps on this journey.

We are shifting from providing a state 'house for life' to a state house tenancy that responds to a need, for as long as that need exists. While some people will still need a state house for life, this won't be the case for all.

We will become more sophisticated about how we help some of our tenants achieve greater housing independence or move to a home more appropriate to their circumstances.

We are learning more about our customers and investing in research and improved service design to help us tailor our approach to individual customers, their circumstances and their capabilities.

Our presence in the community will begin to change. The Corporation will begin to deliver some functions within our business differently, providing greater value for money, making better use of technology, improving the mobility of our staff and enabling us to provide more efficient and effective services to both applicants and tenants.

To support these changes, the Corporation has developed a suite of Key Performance Indicators that provide a clear view of how effectively housing assistance is being delivered to those in greatest need, to the appropriate standard and in the right location, within existing resources.

“We are learning more about our customers and investing in research and improved service design to help us tailor our approach to individual customers, their circumstances and their capabilities.”

This Statement of Intent demonstrates our commitment to providing access to state housing for those in greatest need, for as long as that need exists, and I look forward to working with staff on its delivery in what will be a very exciting year for state housing in New Zealand.



Dr Lesley McTurk
CHIEF EXECUTIVE



ROLE AND FUNCTIONS

Our purpose

Housing New Zealand is a Crown entity. The Housing Corporation Act 1974 sets out the Corporation’s functions to provide housing and housing-related services to support the Crown’s social objectives.

Our role

The Corporation’s role is to facilitate housing solutions for those most in need, for the duration of that need. The Corporation achieves this by:

- allocating and managing tenancies, including matching applicants with available houses, administering the Income-Related Rent Subsidy and providing specialised housing support for tenants with multiple or complex needs – this guidance is limited to accommodation matters.
- managing assets to provide a suitable and affordable house to those with the greatest housing needs, including acquiring, maintaining, upgrading and divesting state houses.

The primary relationship between the Government and the Corporation is between the Minister of Finance and Minister of Housing, and the Corporation’s Board.

The Corporation has the following Responsible Ministers:

MINISTER OF HOUSING (SERVICE)	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 works closely with the Department of Building and Housing who monitor the Corporation’s performance on behalf of the Government.

Part one

MEDIUM-TERM INFORMATION

Housing New Zealand's core role is to manage the state housing portfolio and provide tenancy services for those with the greatest and most urgent need, for the duration of that need.

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A tighter focus on housing those in greatest need, for the duration of that need

State housing is one of the social services provided by government for New Zealanders in need, particularly for those people and families with high and complex needs.

One of the decisions made by the Government as part of the Social Housing Reform Programme in December 2010 was that the Corporation is to focus on its core role of providing state housing to people in need, for the duration of that need. The underlying change is a shift from 'providing a state house for life' to 'providing a state house for those in need, for as long as that need exists'. While many people will need a state house for life, that is not so for all.

The Government supports increasing the role of the third sector in developing and supplying social housing. Wherever possible, the Corporation will assist the growth of alternative housing providers to increase the amount of social housing available to New Zealanders. The Corporation will also contribute to government initiatives and pursue opportunities to work with others in developing housing solutions.

This Statement of Intent presents the Corporation's programme to sharpen its focus on housing those in greatest need, for their duration of need.

Canterbury earthquakes

Like many other New Zealand organisations, the Corporation has been severely affected by the earthquakes in the Canterbury region. The Corporation has 6,122 properties in Christchurch housing approximately 18,000 people. Most of these properties have been damaged to some degree, with approximately three-quarters sustaining substantial damage.

The Corporation has developed a Recovery Plan to define its medium to long-term response to the Canterbury earthquakes, encompassing both state housing and civil defence responsibilities. It identifies and harnesses asset and tenancy management opportunities, including redevelopment work. These opportunities are key components of the Corporation's 2011–12 work programme.

The Corporation will continue to work with other government agencies at both local and national levels to maximise earthquake recovery efforts and ensure that its tenants are supported during this time.

Operating in a business-like manner

Operating efficiency and cost control continue to be a focus for the Government and a priority for the Corporation. The Crown's surplus distribution policy for the Corporation requires it to become more efficient, cost conscious and commercially focused, while also contributing to the Government's social housing objectives.

The Corporation must deliver an appropriate commercial return balanced against its role as a provider of state housing to those in greatest housing need. The Government has indicated that no additional funding will be available in the medium term and that it expects the Corporation to deliver ongoing operational efficiencies, to make capital improvements to the portfolio and at the same time, to fund increased financial returns. To do this, the Corporation is changing the way its business is run. This includes changing the approach to asset and tenancy management, supported by essential new systems.

The programmes that the Corporation will implement in order to fulfil this expectation are outlined in detail later in this document.

Improve operating performance and reporting

As the current fiscal environment remains constrained, the Corporation needs to continue to adopt a more focused approach to managing its resources and delivering more to tenants from within existing resources. The Corporation will facilitate these changes compassionately and considerately, collaborating positively with tenants, other social agencies, housing providers and the private sector to deliver them.

Refocusing the Corporation on its core business of tenancy management and asset management has required it to revise its set of performance indicators. The new indicators will provide a clearer view of how effectively the Corporation is delivering on its refocused mandate.

Challenges facing the Corporation

The Corporation faces a number of challenges in meeting the demand for its services in an environment of fiscal constraint. These challenges include:

- high demand for housing assistance, particularly from people with high and complex needs in a very tight housing market
- the current distribution, concentration and standard of the Corporation's housing portfolio, which does not match demand and the changing needs of its customers
- high demand in urban areas – in order to better meet this demand, a collaborative approach across government, social and commercial housing providers is required
- responding to the repair and redevelopment of state housing following the Canterbury earthquakes and the corresponding increase in demand in other locations as a result
- the need to transfer non-core activities to other agencies working in the housing sector
- the need to build capability and improve performance if the Corporation is to meet demand and achieve its strategic goals

- the need to focus on results during a time of significant change in the housing sector and the entities within it
- ensuring the Corporation operates as effectively and efficiently as possible to deliver an acceptable return on the Crown's investment in state housing.

Specific actions the Corporation will take in response to these challenges are outlined in the Medium-term Operating Intentions section of this Statement of Intent.

“The Corporation has developed a Recovery Plan to define its medium to long-term response to the Canterbury earthquakes, encompassing both state housing and civil defence responsibilities. It identifies and harnesses asset and tenancy management opportunities, including redevelopment work. These opportunities are key components of the Corporation's 2011–12 work programme.”

The Corporation has revised its 2011–14 Outcome Framework to align with the Government's intentions for the housing sector, social housing and the role of the Corporation as signalled in the annual Letter of Expectations.

The Government's social objectives for the housing sector and for the Corporation are presented in this section. The Corporation's overarching Outcome and the Impact statements that will give effect to these objectives are also outlined.

The Corporation's Performance Story on page 14 demonstrates how the Corporation has defined the various components of its overarching outcome. It also provides an overview of the relationship between the Overarching Outcome, the business activities the Corporation will undertake and the series of Key Performance Indicators (KPIs) that will measure the Corporation's progress toward achieving the outcome.

These KPIs are a component of a suite of measures that include performance metrics listed in the Statement of Forecast Service Performance by Output Class (Part Two of this Statement of Intent), and a number of operational measures for 2011–12 presented in a supplementary Output Agreement entered into between the Minister and the Corporation.

Overall Government expectations

In late 2010, the Government announced the Social Housing Reform Programme to transform the delivery of social housing. It was responding to the challenge of providing social housing that meets the needs of a growing number of households, while remaining affordable for the Government.

Crown social objectives for the housing sector

The Government's vision for the social housing sector is to provide housing assistance to those most in need, for as long as the need exists, and to achieve these outcomes in the most cost-effective way.

It is expected that New Zealanders will have access to housing that meets their needs and is affordable through the creation of an environment that encourages investment in affordable housing, including participation by not-for-profit entities.

For the foreseeable future, the Corporation will continue to be the predominant provider of social housing. However, the Government has indicated that it wishes to increase and improve the availability of social housing and that it be supplied by a diverse range of providers.

The Ministers of Finance and Housing have developed a set of social objectives, both relating to the social housing sector (to which the Corporation contributes as one of many partners) and specific to the Corporation.

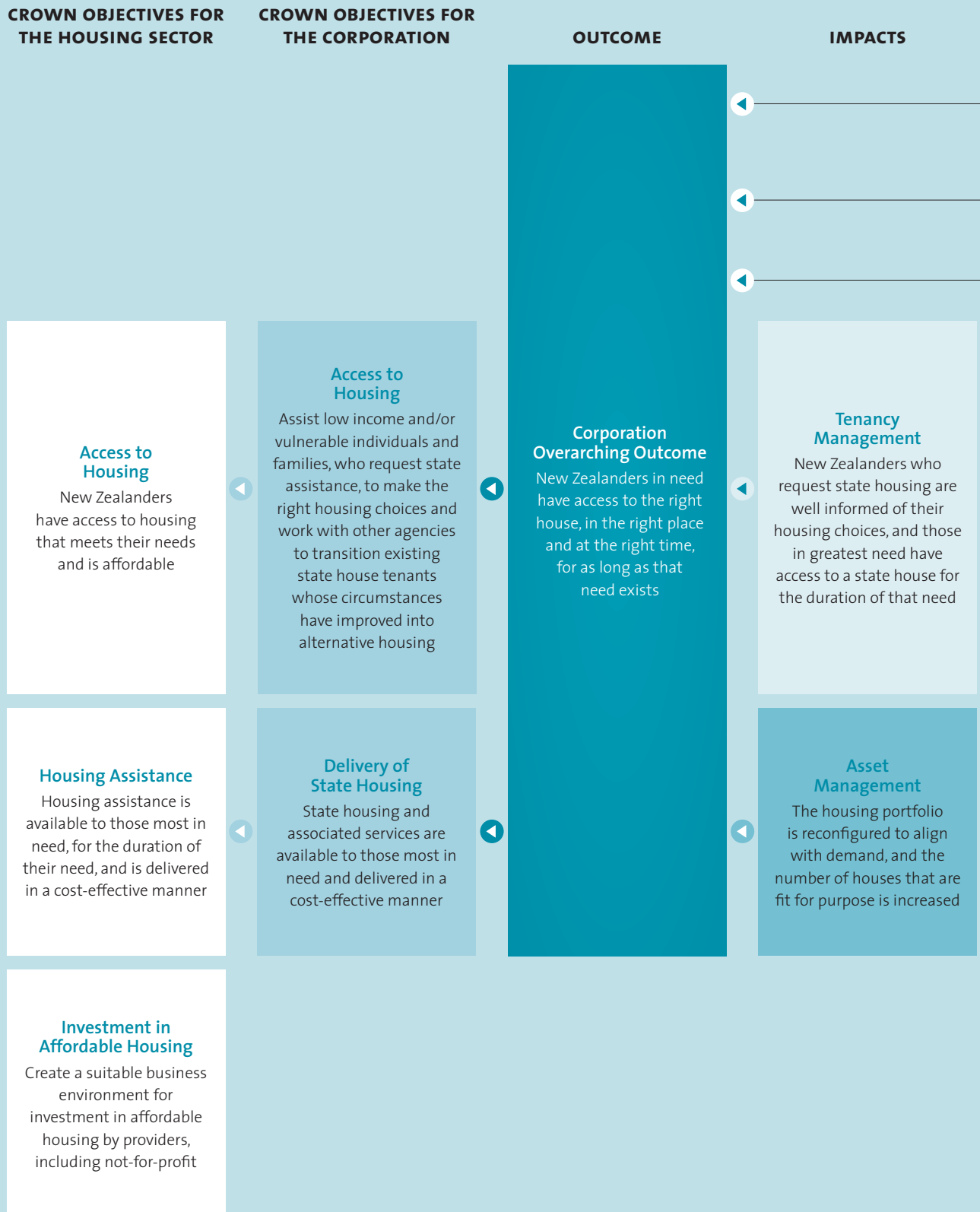
Crown objectives for the Corporation

To help the Crown meet its social objectives, the Government has identified two key objectives for the Corporation. These are to:

- assist low-income and/or vulnerable individuals and families, who request state assistance, to make the right housing choices, and work with other agencies to transition existing state house tenants whose circumstances have improved into alternative housing
- provide cost-effective state housing and associated services (as agreed by Ministers) to those most in need, for the duration of their need.

To support these objectives, the Corporation will continue reconfiguring its housing portfolio to deliver more of the right kind of housing that is of the right standard in locations with the greatest need. The Government has provided the Corporation with greater scope and flexibility to reconfigure its portfolio while at the same time ensuring the Crown's investment in the state housing asset is maintained.

OUTCOME FRAMEWORK



CONTRIBUTION

OUTPUT

KEY INDICATORS

		<p>The percentage of the portfolio occupied by tenants who have high and complex housing needs increases</p> <p>The variance between the supply of state houses and demand from high need applicants decreases</p> <p>Return on Equity</p>
<p>New Zealanders requesting housing assistance are well informed of their housing choices</p> <p>Applicants in greatest need are housed in state housing</p> <p>State houses are occupied for the duration of need</p> <p>Tenants' changing needs are understood</p> <p>Low need households transitioned out of state housing</p>	<p>OPTIONS AND ADVICE SERVICE</p> <p>ALLOCATE AND MANAGE TENANCIES</p>	<p>The percentage of Options and Advice Service customers who are better informed of their housing choices increases</p> <p>The turnaround time (down time) between tenancies decreases</p> <p>The percentage of high-need applicants that are housed within the target number of days to house increases</p>
<p>Better alignment between supply of state housing and demand</p> <p>Houses in the portfolio are reconfigured to better meet demand</p> <p>Houses in the portfolio are of an appropriate standard</p>	<p>MANAGE AND IMPROVE THE STATE HOUSING PORTFOLIO</p>	<p>The percentage of the portfolio that aligns with demand increases (location)</p> <p>The percentage of the portfolio where configuration meets demand increases (typology)</p> <p>The percentage of the portfolio that meets the defined property quality standard increases</p>

EBITDAL

HOUSING NEW ZEALAND'S PERFORMANCE STORY

Operating Environment

- Balancing high need demand and the ability to supply state houses
- The Crown's fiscal constraints
- The Government's new direction for social housing, informed by its Social Housing Reform Programme

Response

- A portfolio of assets and services that is positioned to respond to demand for state housing (need to be adaptable and responsive to change)
- Reconfiguration of the portfolio to better align with demand as outlined in the Corporation's 10-year Asset Management Strategy and Strategic Plan

The Corporation will focus on

- housing those in high need, for the duration of that need
- supporting individuals and households to find appropriate housing solutions
- matching high-need demand with supply, by improving utilisation of the portfolio

THIS STATEMENT OF INTENT IS A TRANSLATION OF THE CORPORATION'S STRATEGIC PLAN, BASED ON A 3 YEAR OUTLOOK

OVERARCHING OUTCOME

New Zealanders in need have access to the right house, in the right place, and at the right time, for as long as that need exists

DEFINITIONS

New Zealanders in need

A person or household who requests housing assistance

For as long as that need exists

The length of time that tenants remain eligible for state housing

Access

Provision of housing in and outside of state housing

BUSINESS ACTIVITIES

Provide state houses for those most in need, for the duration of that need

Assist transition to housing independence as tenants' circumstances change

Support customers to identify appropriate housing solutions

KEY PERFORMANCE INDICATORS

The percentage of the portfolio occupied by tenants who have high and complex housing needs increases

The percentage of Options and Advice Service customers who are better informed of their housing choices increases

The percentage of high need applicants that are housed within the target number of days to house increases

The turnaround time (down time) between tenancies decreases

Right house and right place

Appropriate to need

The Corporation efficiently assesses and matches those in high need to a state house

The Corporation has the right houses in the right place – location and configuration matched to high need demand

The Corporation is effective at placing those in high need into appropriate houses

The percentage of the portfolio that meets the defined property quality standard increases

The percentage of the portfolio that aligns with demand increases (location)

The percentage of the portfolio where configuration meets demand increases (typology)

Achieving outcomes in a cost-effective manner

Resources are managed effectively and efficiently
An acceptable return is made on the Crown's investment in state housing

The variance between the supply of state houses and demand from high need applicants decreases

Earnings Before Interest, Tax, Depreciation, Amortisation and Leasing (EBITDAL)

Return on Equity (ROE)

HOUSING NEW ZEALAND'S OVERARCHING OUTCOME

New Zealanders in need have access to the right house, in the right place and at the right time, for as long as that need exists.

The Corporation's housing portfolio of around 69,000 houses, with an estimated value of \$15.1 billion, is a large government asset that must be managed effectively and efficiently to make the greatest difference it can, in a way that New Zealand can afford. The Corporation's goal is to deliver a sustainable state housing portfolio that has the ability to meet changing patterns of demand, where the Corporation funds improvements and additions to the housing portfolio.

The Corporation's core role is to house people with the greatest and most urgent need, for the duration of that need.¹ The Corporation currently provides housing for 200,000 people, but at any given time, there are around another 3,900 households (approximately 8,000 people) who are priority applicants and that require state housing assistance.

The Corporation's ability to house priority applicants is constrained by the number of state houses available in the portfolio and their match to demand. While the Corporation has been able to house priority applicants through a combination of purchasing, leasing and reconfiguring the portfolio, it has previously lacked the mandate to move tenants on who no longer have the greatest housing need. While these tenants occupy state houses, there are priority applicants on the waiting list who are unable to access a state house and are forced to live in inadequate temporary conditions.

At the same time, the Corporation recognises that the configuration of its portfolio does not always adequately meet demand. As part of a 10-year Asset Management Strategy, the Corporation will improve the configuration of the housing portfolio to ensure

that the majority of the Corporation's housing stock is of the right type, is located in the areas of highest demand and is occupied by those households in greatest need.

How will the Corporation demonstrate success?

The Corporation is focused on housing more people in high need without increasing expenditure. This is a significant challenge that requires a bold approach and a change in the way New Zealanders think about state housing. The perception of a state house for life for all tenants is no longer sustainable. The Corporation is redefining how it operates in order to provide housing for those most in need for the duration of that need. The Corporation must also help its tenants who are able to access independent housing, such as private rental or ownership, to do so.

The Corporation's focus over the next 3 years is to ensure *New Zealanders in need have access to the right house, in the right place and at the right time, for as long as that need exists.*

The Corporation will demonstrate progress toward achieving this outcome by:

- supporting customers in need to make the right housing choices (whether that be in state housing or in the private market)
- effectively managing the waiting list for state housing
- reconfiguring the portfolio to ensure that the location of its houses is better aligned to high need demand and to ensure that more of its houses are fit for purpose to meet that demand.

¹ 'Housing need' refers to households lacking their own housing or living in housing that is inadequate or unsuitable or unaffordable and who are unable to meet their housing needs without assistance.

HOUSING NEW ZEALAND'S OVERARCHING OUTCOME CONTINUED

The Corporation will measure this progress through the following Key Performance Indicators:

PURPOSE	MEASURE	CURRENT PERFORMANCE	2011-12	2012-13	2013-14
State housing is occupied by those in greatest need	The percentage of the portfolio occupied by tenants who have high and complex housing need increases ²	New measure – targets to be developed			
The ability to meet demand improves	The variance between the supply of state houses and demand from high need applicants reduces ³	New measure – targets to be developed			
A satisfactory return is made on the Crown's investment in state housing	Return on equity (ROE) ⁴	1.2% ⁵	1.5%	1.7%	1.7%

² This is based on the current customer segment classification of a sample of tenants and could differ from the classification when they were originally housed. Over time, classifications will be updated, reviewable tenancies will take effect, and the percentage of tenants meeting the 'high need' criteria will rise.

³ Expressed as the net percentage increase or decrease in the confirmed waiting list.

⁴ Return on Equity is defined in the Financial Performance Measures section on p.46.

⁵ This ROE figure excludes the financial impact of asset impairment and insurance revenue proceeds arising from earthquake damage.

HOUSING NEW ZEALAND IMPACTS

IMPACT STATEMENT

1

New Zealanders who request state housing are well informed of their housing choices, and those in greatest need have access to a state house for the duration of that need.

What is the impact the Corporation is seeking to make?

The Corporation's goal is to ensure that the households being offered state housing are the ones that need it most and that this housing is adequate to meet their needs, for the length of time that those needs exist.

To achieve this goal, the Corporation is refocusing its business to house more people in high need, for the duration of that need, and to support those who no longer have a high need into housing options appropriate to their circumstances.

Current state

The Corporation determines an applicant's eligibility for state housing based on an assessment of their need when they apply. While ongoing eligibility for rent assistance is frequently reviewed, the Corporation does not assess whether the tenant still meets the eligibility criteria for a state house during the course of their tenancy or whether there might be other, more suitable options available to them⁶. The circumstances of many people currently in state houses have improved to a point where they could move out of state houses into either the private rental market or home ownership.

Currently, there are approximately 3,900⁷ priority applications for state housing, many of whom are in greater housing need than some of those who currently occupy state housing.

Why is this outcome important?

The Corporation anticipates that demand for housing assistance is likely to grow over the next decade, particularly from people with high and complex needs. The unmet demand from high-priority applicants remains strong in urban areas, particularly Auckland. The Corporation must use its limited resources cost-effectively to help meet this growing demand. This includes developing new policies and procedures to house tenants with high housing needs, for the duration of that need. This means a shift in thinking from a 'state house for life' to providing a house for as long as the need exists.

The Corporation has a better understanding of both its current and future customers and the barriers these households face to achieving housing independence. This understanding is informing how and what the Corporation needs to focus on to effectively position its housing portfolio to respond to demand. The Corporation better understands the current circumstances of its tenants and is able to determine what, if any, alternative housing options are appropriate.

Planning for significant change to the existing customer delivery model is well advanced. Business processes have been fundamentally reviewed, and new ways of working with a strengthened focus on customer service and delivering value are being developed. The review of business processes includes an emphasis on removing some of the administrative functions from frontline staff, which

⁶ A **social housing customer** is an individual who requires assistance, now or in the future, with housing. In the government context, they require social assistance, which can be delivered by the Corporation or other providers or via an accommodation supplement administered by the Ministry of Social Development.

A **Housing New Zealand Corporation customer** is:

1 an individual who receives products and services directly from the Corporation (for example, advice, a house)

2 an organisation that receives and uses products and services directly from the Corporation (for example, Community Group Housing).

(Note: Organisations that deliver products and services with or on behalf of the Corporation are considered partners, for example, Kiwibank.)

⁷ This statistic includes Corporation tenants who need to move to a more suitable state house.

will enable a more efficient and effective service to both applicants and tenants.

What will the Corporation do to achieve this?

On 1 July 2011, the Corporation will introduce reviewable tenancies for all new tenants. This programme will enable the Corporation to periodically reassess tenants’ ongoing need for a state house and shift tenants’ expectations of state housing to one that is based on duration of need. Tenants whose review shows that they no longer need state housing will be supported by the Corporation to find suitable alternative housing. The Corporation is currently considering ways to help these tenants into alternative housing solutions.

The Corporation will also use revised criteria when people apply for a state house from 1 July 2011. This will help to ensure state houses are allocated to those in greatest need, and will give those not eligible greater clarity.

The Corporation will continue to provide the Options and Advice Service to applicants requesting state

housing. The service supports individuals and households to find housing solutions that are appropriate to their needs. In many cases, this is by not placing individuals and households on the Corporation’s waiting list, but instead helping them into alternative accommodation outside of state housing.

The Corporation will also introduce a new suspensions policy. Where tenants lose their state house because of anti-social behaviour (or a serious breach of their tenancy obligations including fraud) that cause serious problems, a new stand-down period will be introduced. Such tenants will not be eligible for another state house for the next 12 months.

In addition to the initiatives above, the Corporation will:

- work with other agencies to ensure support for those who do not qualify for a state house
- use the Household Action Plan (HAP)⁸ as a tool to work with customers to address barriers to independent living
- partner with public and private organisations to achieve its objectives.

How will the Corporation demonstrate success?

The Corporation will measure progress toward its tenancy management Impact Statement through the following Key Performance Indicators:

PURPOSE	MEASURE	CURRENT PERFORMANCE	2011-12	2012-13	2013-14
Applicants are well informed of their housing choices	The percentage of Options and Advice Service customers who are better informed of their housing choices increases	New measure	>72%	>75%	>80%
High need applicants are housed promptly	The percentage of high need applicants that are housed within the target number of days to house increases ⁹	75%	75%	80%	85%
	The turnaround time (down time) between tenancies decreases	42 days	Within 30 days (average)	Within 20 days (average)	Within 15 days (average)

⁸ A ‘Household Action Plan’ is used to assist high needs tenants, who require formal case management, sustain the tenancy. It is envisaged that the Household Action Plan will also be used in a reviewable tenancy setting.

⁹ Measures relating to the target number of days to house high need applicants are included within Output Class 2 of the Statement of Forecast Service Performance section.

IMPACT STATEMENT

2

The state housing portfolio is reconfigured to align with demand, and the number of houses that are fit for purpose is increased.

What is the impact the Corporation is seeking to make?

The Corporation will actively manage its housing portfolio so that housing supply better matches demand and provides the right house, in the right location and in the right condition.

Key initiatives defined in the Corporation's Asset Management Strategy will increase the number of houses in areas of growing demand. It will also develop and reconfigure existing properties in the portfolio to reflect the demand for more smaller and larger homes.

The Corporation will also direct significant resources to repairing and rebuilding properties in Canterbury following the earthquakes.

Current state

At present, the Corporation's housing portfolio does not align with growth in demand or the changing needs of its customers. There is an over-supply of state housing in some areas, reflecting a level of historical demand that no longer exists. Demand for state housing has shifted to the larger centres of Auckland, Wellington and Christchurch, with particularly strong and growing demand in Auckland.

Changing family composition and household size are also affecting housing demand, shifting from nuclear family arrangements to housing for single people, one-parent families and also larger families. 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 has. This changing nature of demand has an impact on the Corporation's housing portfolio and its service delivery.

Around 42,000 of the properties currently in the portfolio are of the right bedroom configuration, in the right place and in the right condition. However, the other 27,000 properties need upgrading or are mismatched to demand. Over the next 10 years, the Corporation plans to reduce its presence in areas of low demand and build, acquire and/or reconfigure properties in high-demand areas with the number of bedrooms most commonly requested.

Why is this outcome important?

State housing can change lives, but to achieve this, it must be appropriately configured and located where it can do the greatest good.

Demand projections indicate that over the next decade approximately 10,700 more houses will be required in high-demand areas to better meet demand from priority applicants.

The Corporation's Asset Management Strategy responds to these projections and will provide 7,000 of these properties through a mix of leases, purchases, redevelopment of current properties and new builds. The balance of supply will need to be addressed through other initiatives that increase the social housing stock including that supplied by other social housing providers.

The Government has given the Corporation greater scope and flexibility to reconfigure its housing portfolio by agreeing to replace stock volume as a measure of performance with performance-based measures. The revised Key Performance Indicators will demonstrate the extent to which the Corporation is providing state housing in the right location, of the right type and to an agreed standard.

The scale of change required is significant and will take time to achieve. Because the Corporation needs to focus its activity in locations with the highest

demand, its presence in locations of low demand may be reduced (where appropriate). This will be done in a planned way that takes account of the existing and future needs of tenants.

The Corporation will also pursue opportunities to enable others to grow the supply of social and affordable housing. For example, this could include releasing under-utilised land or the transfer of properties to stimulate increased participation by other social housing providers.

What will the Corporation do to achieve this?

The following programmes will contribute to the achievement of this Impact Statement and help the Corporation reconfigure and increase its housing portfolio to align with demand.

Reconfigure the housing portfolio to better meet demand

In June 2010, the Corporation adopted its Asset Management Strategy (AMS): A 10-Year View 2010–19. The AMS provides the Corporation’s response to changing demand for state housing amid a changing operating environment. It sets out the broad strategic goals and principles for managing the asset portfolio on a national basis over the next 10 years. The AMS sets out the Corporation’s plan for realigning the asset portfolio to meet the growing and changing demand for state housing. The AMS has been developed within a number of settings, based on a desired rate of change and the availability of funds. The mix of programmes identified will largely be funded through rental income and depreciation over the 10-year cycle of the AMS.

Tactical Plan: A 5-Year Action Plan

The Tactical Plan begins the implementation of the AMS. The Plan sets out how the Corporation intends to achieve the goals of the Strategy over the next 5 years. The Corporation has identified options that translate the strategic direction of the AMS into a national work programme. This programme has a regional set of projects and programmes. These will comprise the asset portfolio workstream for the next 5 years and will define the disposal, acquisition, redevelopment and upgrade of specific properties. Planning at this level allows the Corporation to

determine the interventions required for each region (divestments, purchases, leases, redevelopments or new builds) in a way that responds to local demand based on market conditions and demographics and reflects the current mix and condition of the portfolio in those areas.

The Tactical Plan also specifies how the Corporation will spend \$283.4 million (excluding redevelopments) during 2011-12 on the maintenance and upgrade of its properties, upgrading them to new amenity and condition standards where necessary. The maintenance and renewal work programmes are critical to ensuring that tenants have a home that is fit for purpose while also maintaining the value of the housing portfolio.

Specific delivery targets for 2011-12 reflecting the overall changes sought in the portfolio are set out in the Statement of Forecast Service Performance and in the Corporation’s Output Agreement with the Minister of Housing.

Auckland

Auckland is New Zealand’s largest metropolitan area and plays a central role in the national economy. In the next 2 decades, population growth and housing demand are forecast to increase faster in Auckland than in the rest of New Zealand. This high growth will increase the pressure on available housing.

Auckland represents a significant and growing part of the Corporation’s business. At present the Corporation has approximately 31,000 houses in Auckland, which represents 45 percent of the total state housing portfolio. Applicants for state housing in the Auckland region make up around half of the total national waiting list.

“The Corporation will also pursue opportunities to enable others to grow the supply of social and affordable housing. For example, this could include releasing under-utilised land or the transfer of properties to stimulate increased participation by other social housing providers.”

Auckland spatial plan

The new Auckland Council is developing an Auckland spatial plan that will illustrate how Auckland will develop over the next 30 years. The Plan is due to be adopted in December 2011. As a major landowner and the largest social housing provider in the region, the Corporation will be actively engaged in the development of Auckland.

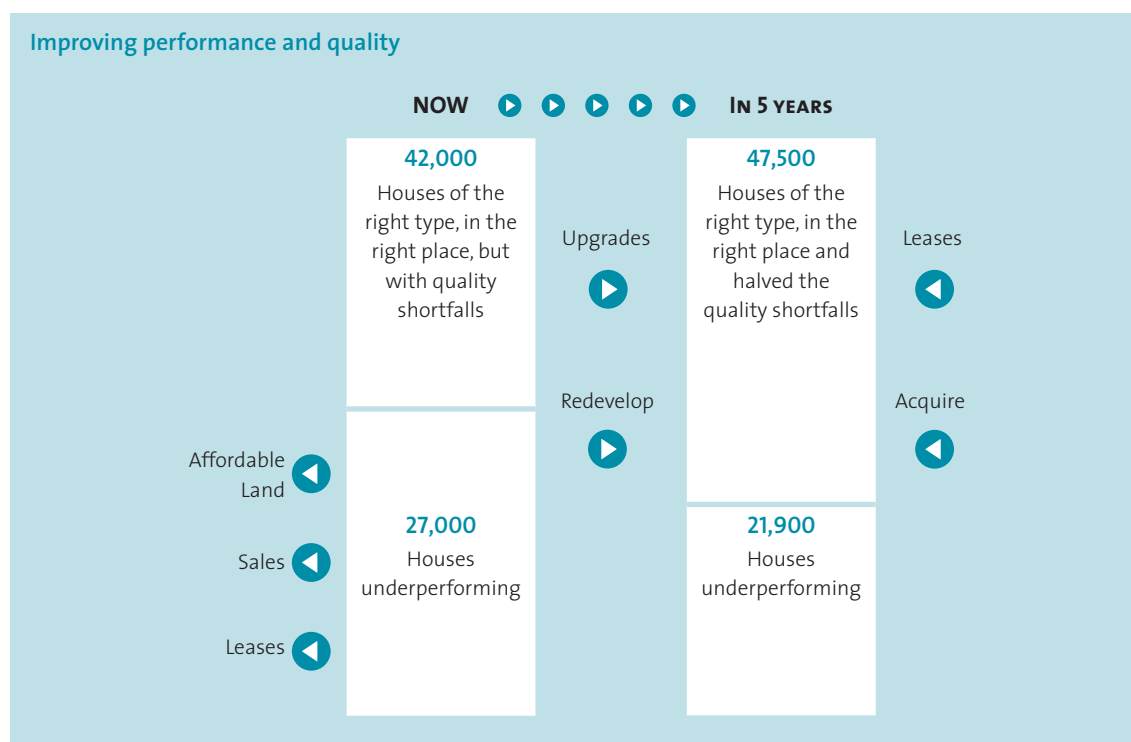
The Corporation will work with the Auckland Council

to ensure that the Corporation's business priorities for Auckland are aligned with the Council's spatial plan. This work will focus primarily on the efficient management of assets and the alignment of supply and demand.

How will progress be measured?

Progress will be measured by demonstrating that the Corporation is providing more homes of the right type and in right location as shown below.

Housing New Zealand Portfolio activity 2011-16



The AMS sets out how the Corporation will manage its asset portfolio over the next 10 years. This Statement of Intent outlines the Corporation's focus for the next 2-3 years. During this period, there will be an emphasis on building a pipeline of projects to reconfigure and renew the Corporation's housing portfolio.

The targets above have been informed by the AMS. They reflect an approach that builds momentum over time and the significant level of activity required to make even small changes in the overall portfolio of 69,000 properties.

How will the Corporation demonstrate success?

The Corporation will measure progress toward its asset management Impact Statement through the following Key Performance Indicators:

PURPOSE	MEASURE	CURRENT PERFORMANCE	2011-12	2012-13	2013-14
The location of the housing portfolio better aligns with demand	The percentage of the portfolio that aligns with demand increases (location)	80%	81%	81%	82%
More houses are maintained to the agreed standard	The percentage of portfolio that meets the defined property quality standard increases	92%	94%	New property quality measure to be developed	New property quality measure to be developed
The bedroom configuration of houses in the portfolio better aligns with the number of bedrooms required by those on the waiting list	The percentage of the portfolio where configuration meets demand increases (typology)	76%	76%	76%	77%

HOUSING NEW ZEALAND OBJECTIVES

Housing New Zealand’s internal objectives are implicit within its tenancy and asset management activities.

OBJECTIVE 1: The Corporation optimises its return to the Crown by managing its resources effectively and efficiently

The Government expects the Corporation to deliver an appropriate return balanced against delivering the Crown’s social objectives in its role as a provider of state housing. The Corporation must do this as cost-effectively as possible, operating in a business-like manner with sound financial oversight and stewardship of the Crown’s second largest asset. This means operating with commercial discipline and demonstrating efficiency and effectiveness to deliver a social return that represents the best value for Responsible Ministers and taxpayers.

What is the impact the Corporation is seeking to make?

The Corporation aims to improve transparency between achieving its social objectives (as identified by the Impact Statements of the Outcome Framework) and operating in a business-like manner, making any trade-offs explicit. This will support the Corporation in adopting a business-like approach to managing its asset and financial management functions, while at the same time providing an optimal return on the Crown’s investment.

The Corporation is also making a significant investment in technology, such as its Enterprise Transformation Programme, with the objective of improving efficiency and reducing costs. Introducing world best-practice systems and technology will enable the Corporation’s front-line staff to be more mobile and able to access the information required about particular properties or tenants from a single, national source and thereby improve the service it is able to provide to applicants and tenants. The Enterprise Transformation Programme will be implemented during the second quarter of 2012.

Since 2008, the Corporation has increased its return to the Crown through improved efficiency in delivery of services and by undertaking a range of initiatives that enable the Corporation to achieve more without increasing costs.

The Corporation is forecasting an increase in the net surplus after tax to be returned to the Crown in the 2011-12 financial year. Forecast surpluses on the investment in state housing that will be available to the Crown in out years are presented below.

Forecast surpluses to be returned to the Crown

	2010-11	2011-12	2012-13	2013-14
Net Surplus after Tax	\$72m	\$122m	\$144m	\$143m

Capital management

The following table presents the Corporation's forecast capital expenditure on infrastructure assets over the next 5 years:

FORECAST CAPEX SPEND \$'000'S	2011-12	2012-13	2013-14	2014-15	2015-16
Motor Vehicles (Net)	750	1,000	1,000	1,000	1,000
Hardware	3,000	3,000	3,000	3,000	3,000
Office Equipment	400	400	400	400	400
Furniture	350	350	350	350	350
Leasehold Improvements	1,000	750	750	750	750
Enterprise Transformation	22,975	-	-	-	-
Software – Business	10,356	8,705	8,000	8,000	8,000
Total Infrastructure	38,831	14,205	13,500	13,500	13,500

Value for money programme

The Corporation continues to focus on its value for money programme in response to the Government's concerns regarding public spending and improving public sector performance.

The value for money programme established within the Corporation is focused on *achieving greater efficiency and effectiveness in delivering the Corporation's business in the short to medium term* by:

- continuously reviewing business operations through a programme of business improvements. Examples include a motor vehicle optimisation review, a mobile telephony review and establishing a performance improvement forum to discuss and test efficiency improvement ideas
- supporting a broader culture of performance excellence and continuous improvement, in alignment with the Corporation's Performance Excellence Framework.

The Corporation has undertaken a significant programme of investment during the past 3 years, which has impacted both capital and operating expenditures. These programmes are expected to be delivered through 2011-12, and the flow-on benefits will be realised from 2012-13, ramping up progressively through to 2014-15.

Significant projects due for delivery in 2011-12 include:

- completing the Enterprise Transformation Programme and implementing the new customer service delivery model
- introducing further cost-savings initiatives in fleet optimisation, mobile telephony and procurement initiatives
- reviewing core support services, seeking opportunities for greater efficiency and effectiveness that arise from the Better Administration and Support Services (BASS) benchmarking report.

Approach to the 2011-12 financial year

The Corporation has established a budget for the 2011-12 financial year based on:

- delivering a minimum \$178 million operating surplus before tax and 1.5 percent Return On Equity (ROE) target
- maintaining expenditure levels of 2010-11 as a baseline and deducting cost savings derived from the implementation of value for money initiatives and adjusting for material one-off items and known changes
- updating 2010-11 financial assumptions to reflect movements in values and independent current market data and modifications to significant cost categories based on environmental conditions and accounting treatment.

How will the Corporation demonstrate success?

The Corporation will measure progress toward its financial objective, alongside the Return on Equity measure included as an Overarching Outcome KPI, through the following Key Performance Indicator:

PURPOSE	MEASURE	CURRENT PERFORMANCE	2011-12	2012-13	2013-14
Resources are managed effectively and efficiently	EBITDAL to income ¹⁰	52.8%	53.2%	55.5%	54.8%

OBJECTIVE 2: The Corporation delivers programmes on behalf of the Crown effectively and efficiently

The Corporation currently delivers Crown-funded programmes that improve housing affordability and deliver tailored housing assistance. These programmes help low-income New Zealanders along their pathway towards housing independence in a range of ways, including providing home ownership advice or expertise and the delivery of home ownership products.

Crown-funded programmes

For the 2011-12 financial year, the Corporation will receive Government appropriation to deliver the Welcome Home Loan programme, a mortgage insurance product incorporating Kainga Whenua lending, the KiwiSaver Housing Deposit Subsidy and the Community Group Housing portfolio.

In line with previous years' forecasts, specific funding of the Healthy Housing Programme will cease from 1 July 2011. The Corporation will receive \$3.5 million appropriation to implement the Energy Efficiency Warm Homes programme. Both programmes will also receive internal funding to support their delivery.

Once decisions regarding the transfer of remaining Crown programmes have been taken by the Government, the Corporation will develop a transition programme that defines accountabilities, timelines and funding transfers for these programmes.

Hobsonville Land Company

Hobsonville is an example of an affordable housing development making use of existing Crown-owned land, in conjunction with private sector partnerships.

The Corporation will continue to implement the Government stated objectives regarding the development of land at Hobsonville.

How will the Corporation demonstrate success?

The performance measures used to determine whether the Corporation is meeting service volume and quality standards of Crown funded programmes are listed on page 35 of this Statement of Intent.

¹⁰ EBITDAL is an internationally recognised financial reporting metric. It stands for Earnings Before Interest, Tax, Depreciation, Amortisation and Leasing. EBITDAL to rental income as a percentage provides an indication of how efficiently the Corporation is managing its costs.

Housing New Zealand's goal is to be a proactive, results-focused and high-performing organisation. If the Corporation is to achieve the outcomes identified within this Statement of Intent, it needs to develop its capability and improve performance.

Delivering change requires focus, capable leadership, adaptable and skilled people, a commitment to delivery, and systems and processes that enable success. For staff, this involves working in new ways, acquiring new skills and strengthening the focus on customer service and delivering value.

Focusing on performance improvement

Performance Excellence

The Corporation adopted Performance Excellence as its continuous improvement framework. Performance Excellence is an internationally recognised business model that illustrates what high performance looks like and allows the Corporation to gauge progress in becoming a results focused and high performing organisation. It also allows the Corporation to benchmark itself against international best practice on an ongoing basis.

Development of a Strategic Planning Framework, portfolio governance and Performance Measurement Framework were improvement actions identified within the initial performance excellence baseline assessment to improve capability and performance.

The Corporation has begun planning for the next phase of performance improvement including designing an organisation wide business process management methodology and undertaking an external assessment against the criteria for performance excellence.

The external assessment will enable the Corporation to gauge progress made since the implementation of improvement actions and assist in identifying future opportunities for improvement in its performance. The assessment will also encompass the State Service Commission's Performance Improvement Framework (PIF) review criteria.

The Corporation's Strategic Planning Framework provides the basis for planning decisions; the portfolio management outlines the change actions

to take us there; and the Performance Measurement Framework measures how successful the Corporation is in improving performance.

Strategic Planning Framework

In 2010, the Corporation developed its 2010-15 Strategic Plan to set out the longer-term context and organisational strategy over the next 5 years. It was designed to identify the actions needed to respond to the Corporation's key challenges and deliver a fit for purpose organisation. It began a journey of transforming the Corporation to better provide for those with high needs and deliver improved economic and social value.

2011-12 represents year 2 of the Strategic Plan, and while it remains robust, the Corporation must remain flexible to change as it operates in an environment of increasing financial pressures and extraordinary events, such as the Canterbury earthquakes. Deployment of the Strategic Planning Framework provides opportunities to regularly reassess the Corporation's direction, its business plans and its priorities.

Embedding an enterprise portfolio approach

The Corporation is investing in portfolio management capability to help it towards becoming a high performing organisation. The Corporation has standardised an approach to prioritising and managing programmes and projects and assist with managing the portfolio of change. In doing so, it helps improve:

- delivery through consistency of approach
- strategy deployment through effective project management
- visibility and ability to govern and make the right investment decisions
- value from investments through full realisation of promised benefits.

Governance of the portfolio occurs at several levels, with the Board having ultimate oversight.

Strategic work programmes

To successfully implement the direction presented in this Statement of Intent, the Corporation needs to build on the progress it has made in developing processes, capabilities, organisation structure and management to support organisational change.

The Corporation has organised its key initiatives into core programmes of work that focus its efforts on the most critical things to transform the organisation. The programmes, once implemented, will deliver new capabilities and facilitate the changes necessary to achieve its strategic objectives. These programmes have a high level of interdependency. The purpose of the portfolio approach is to bring this all together as a group of changes and ensure delivery of benefits and core service in an integrated way.

People capability

The Corporation will be working to ensure staff have the necessary tools, capability and skills. The Corporation will be seeking to have a highly engaged workforce with the appropriate training to support the change being undertaken. To do this, the Corporation's leaders need to be skilled change managers, able to motivate a highly engaged and productive workforce to achieve results.

A number of organisation development initiatives continue to be delivered to support the Corporation's commitment to improving employee engagement and to effectively manage change. A range of change leadership support and resources are available for Corporation leaders, managers and staff, with targeted change leadership training programmes available for managers in tiers 3–5. These programmes are intended for those who are either going through change, about to go through change, or will be embedding new processes and building effective teams after a change has been put in place.

A series of staff forums and manager workshops will ensure all employees are kept informed of key changes and provide an opportunity for discussions with the Corporation's Executive Team and Senior Leaders. Underpinning the forums and

capability development are the Corporation's new values: working as one team/kotahitanga, with integrity, to achieve excellence. The Corporation will seek to further integrate the values and behaviours into key processes such as talent identification, recruitment and performance management.

Health and safety

Aligned with its values, the Corporation is committed to providing employees and contractors with a safe and positive working environment and promoting the prevention of harm whilst at work.

The Corporation's goal is to move towards a more proactive safety culture. It has adopted a structured approach through the implementation of a Health, Safety and Security Management System Framework. The deployment of the Corporation's Health, Safety and Security Management System has been reviewed and then reset into a 3-year plan (starting from July 2010) to better align it with the Corporation's strategic direction, Performance Measurement Framework and Safety System/ACC Workplace Safety Management Programme criteria.

Performance Measurement Framework

As part of the Performance Excellence approach, the Corporation is deploying an internal Performance Measurement Framework (PMF). The PMF is built on best practice and provides the Corporation with a balanced 'whole-of-organisation' measurement framework. The PMF focuses on the areas needed to manage performance. It has been individualised for the Corporation to monitor areas specific to the Corporation such as asset management, housing advice, housing solutions and Crown satisfaction.

The Corporation has developed a set of measures that quantify the service it provides and ascertain whether it is timely, of good quality against our business purpose and of good value. A subset of these measures is used by the Board and Responsible Ministers to measure key areas of performance of the business (for example tenancy management, asset management and financial performance). These measures are contained within this Statement of Intent.

How will the Corporation demonstrate success?

The Corporation will measure progress against its Organisational Health and Capability objectives by monitoring the following Performance Indicators:

PURPOSE	MEASURE	CURRENT PERFORMANCE	2011-12	2012-13	2013-14
The Corporation has an engaged workforce, and the impact of change on staff is monitored	Employee engagement (Gallup Q12TM Employee Engagement Survey) relative to other New Zealand state sector organisations	2010-11: Target: 3.83* <i>*Survey results due by 30 June 2011</i>	3.93	4.03	4.13
The Corporation provides a safe working environment, and the frequency at which staff are being harmed in the workplace reduces	Total Recordable injury frequency rate ¹¹	21.84	19.66	17.70	15.93
Performance Excellence – improving our Performance Excellence maturity	Improvement in maturity rating from 2009 baseline assessment (Baldrige)	Continued improvement in external assessment results			

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 risk 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 Corporation’s goal is to move towards a more proactive safety culture. It has adopted a structured approach through the implementation of a Health, Safety and Security Management System Framework.”

¹¹ Total Recordable injury frequency rate measures the frequency at which staff are being harmed in the workplace. It is expressed as a 12 month rolling average that records the frequency rate of recordable harm injuries per million hours worked.

CONSULTATION AND REPORTING TO THE MINISTER

Housing New Zealand 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 has reviewed its performance monitoring and reporting structure culminating in the development of 10 'Key Performance Indicators' listed in Part One of this Statement of Intent.

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

- progress against the ten 'Key Performance Indicators' relating to the impact of the Corporation's activities
- delivery against the Statement of Forecast Service Performance measures set out in Part Two
- performance against all the main financial and non-financial performance measures set out in the Statement of Intent
- the measures specified in the Output Agreement entered into with the Corporation.

The Corporation will also report progress on:

- remediation of the Corporation's housing stock in Christchurch
- implementation of the Asset Management Tactical Plan for 2011-12
- the long-term capital plan, including expenditure associated with the Corporation's information technology investment (Enterprise Transformation Programme).

The Corporation will also:

- respond promptly and fully to requests from Ministers for information about the Corporation
- 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 in the 2011-12 Output Agreement.

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 2012.

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 (2011-12 Estimates) Bill.

Signed:

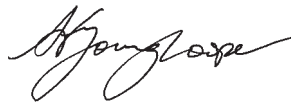


Dr Alan Jackson

CHAIR

21 June 2011

Countersigned:



Adrienne Young Cooper

DEPUTY CHAIR

21 June 2011

STATEMENT OF FORECAST SERVICE PERFORMANCE

In November 2010, Cabinet agreed to consolidate housing policy advice to Ministers in the Department of Building and Housing from 1 July 2011. This means the policy advice function currently provided by the Corporation will transfer on this date. The output class Policy Advice which was previously included in the Corporation's output class structure, has been disestablished from 2011-12 to reflect this change.

Apart from this, the Corporation's output classes are unchanged from 2010-11.

Output Class 1: Advisory Services

DESCRIPTION		
<p>The scope of this Output Class is limited to advisory support for individuals/households 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, 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 2011-12
ADVISORY SERVICES – HOUSING OPTIONS		
Timeliness – preliminary assessments for customers with at-risk housing needs completed	Fewer than 7 working days	Fewer than 7 working days
EDUCATION SERVICES		
The number of participants who complete the Welcome Home First Steps Home Ownership Education programme	New measure for 2011-12	1,700-1,850

Revenue and output expenses

	BUDGET 2011-12 \$ MILLION	COMMENT
Revenue Crown	2.400	Revenue of \$2.4 million from the Crown is provided for the Welcome Home First Steps Home Ownership Education programme. Other activities within this Output Class are funded by the Corporation.
Revenue Other	0	
Expenses	15.636	
Net surplus/(deficit)	(13.236)	

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 assessing need, 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 providing specialised support for tenants with multiple or complex needs. The Output Class relates 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 2011-12
TENANCY ALLOCATION		
Timeliness		
Time to house at-risk (priority A) applicants once the priority assessment is confirmed	Within 25 days (average)	Within 10 days (average)
Time to house at-risk (priority B) applicants once the priority assessment is confirmed	Within 30 days (average)	Within 15 days (average)
Utilisation		
Properties allocated to applicants are best matched to bedrooms required	At least 70 percent	At least 75 percent
TENANCY MANAGEMENT		
Customer satisfaction – customers satisfied with tenancy management service level ¹²	At least 70 percent	At least 72 percent
Accuracy		
Correct Income-Related Rent Subsidy assessments (for tenants with verified income)	At least 95 percent	At least 95 percent
Debt management (Corporation) – rental debt older than 7 days as a percentage of monthly rental income	Revised measure	Less than 7 percent
Debt management (Crown) – percentage of Income-Related Rent debt under recovery action	At least 75 percent	At least 75 percent
Planned volume – community group tenancies assisted with rent relief	650–700	650–700
Percentage of new tenants taking up Household Action Plan	New measure for 2011–12	At least 60%

¹² During 2011-12, this measure will be revised to include a broader range of the tenancy related services delivered such as tenancy and maintenance services, interaction with the national contact centre and will capture a larger number of the Corporation's total interactions with tenants. The current performance result relates only to the tenancy service component.

STATEMENT OF FORECAST SERVICE PERFORMANCE **CONTINUED**

Revenue and output expenses

	BUDGET 2011-12 \$ MILLION	COMMENT
Revenue Crown	606.863	Revenue Crown includes the Corporation's Income-Related Rent Subsidy (IRRS) forecast of \$597.213 million. This contrasts with the Operating Appropriations table on page 58 which represents the Estimates of Appropriation figure for IRRS of \$587.115 million.
Revenue Other	403.381	
Expenses	817.212	The Estimates of Appropriation figure is net of debt establishments forecast at \$8.255 million. The gross appropriation able to be paid to the Corporation is \$595.370 million. Due to the nature of the appropriation, the value of the IRRS is reforecastable to align with the Corporation's estimates.
Net surplus/(deficit)	193.032	

Asset Management

To support the State House Tenancies outputs in particular, it is essential that the Corporation effectively and efficiently undertakes property management and development services in relation to land and buildings owned by the Corporation.

DESCRIPTION

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

Managing and upgrading existing houses (Corporation)

Maintaining the portfolio's current amenity value, including:

- meeting routine/ongoing holding costs
- meeting legislative requirements
- undertaking planned maintenance programmes
- setting (and reviewing) market rents.

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
- upgrading internal service areas to provide improved amenity.

Reconfiguring 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. 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.

PERFORMANCE INFORMATION		
MEASURE	STANDARD 2010-11	STANDARD 2011-12
MAINTAINING AND UPGRADING EXISTING HOUSES (CORPORATION)		
Significant planned maintenance (over \$5,000 per unit) on properties is delivered according to work programme	New measure for 2011-12	≥8,000 maintenance actions
Energy Efficiency Retrofits to properties and heater installations (funded by appropriation)	900-1,100	1,350-1,450
Total number of planned upgrade interventions on the portfolio	7,500-8,000	7,500-7,800
HOUSING REDEVELOPMENT PROJECTS (CORPORATION)		
Tamaki development project:		
• Strategic acquisitions completed	6	6
• Properties refurbished	40	40

Output Class 3: Financial Assistance – Housing

DESCRIPTION		
The scope of this Output Class is limited to the management of financial products ¹³ 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 2011-12
LOANS AND GRANTS		
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 ASSURANCE¹⁴		
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 (including Kainga Whenua lending)	A minimum of 1,750	1,400-1,900

¹³ The quality standard of the portfolio is measured against two criteria: (a) amenity and (b) condition. The amenity component is currently under development, and reporting will be enabled with the implementation of the Enterprise Transformation Programme.

¹⁴ Activity information relates to external influences that are outside the Corporation's control.

STATEMENT OF FORECAST SERVICE PERFORMANCE CONTINUED

Revenue and output expenses

	BUDGET 2011-12 \$ MILLION	COMMENT
Revenue Crown	16.778	The reduction in revenue and expenses compared to the 2010-13 Statement of Intent reflects the cessation of a number of Crown appropriated programmes previously delivered by the Corporation including the Rural Housing Programme and the Housing Innovation Fund. In addition, funding of the Wellington City Council Social Housing Assistance Programme transfers to the Department of Building and Housing from July 2011. As part of Budget 2011, additional Crown funding has been appropriated for the legacy programme costs so these are fully funded. Under the Mortgage Insurance Scheme, premiums are received at the time the loan is advanced but any claims are likely to occur in subsequent financial years. Part of the premium received is transferred to reserves to be recognised in future years in proportion to the risk of default. Offsetting these transfers, some premium income provisioned in earlier years is transferred from the reserves and recognised in the current year, again in proportion to the risk of default.
Revenue Other	8.739	
Less Net-transfer to Unearned Premium Provision	(6.598)	
Expenses	19.494	
Net surplus/(deficit)	(0.575)	

Output Class 4: 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 are owned directly by the Crown and are 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 Output Agreement between the Corporation and the Minister of Housing.</p>		
PERFORMANCE INFORMATION		
MEASURE	STANDARD 2010-11	STANDARD 2011-12
MANAGEMENT OF EXISTING PROPERTIES (CROWN)		
Housing quality – percentage of the portfolio that meets the defined property quality standard		New measure – baseline to be developed
HOUSING DEVELOPMENT PROJECT – HOBSONVILLE (CROWN)		
<p>Major milestones – Hobsonville development project managed in accordance with the work programme in the Housing Agency Account Output Agreement:</p> <ul style="list-style-type: none"> • Comprehensive development plan for Sunderland/Hudson approved by Auckland City Council • Coastal consents for ferry wharf approved and construction under way • Earthworks and civil infrastructure under way on stage two of Buckley Precinct • Construction under way on Hobsonville Point Road 	Milestones achieved	Milestones achieved

Revenue and output expenses

	BUDGET 2011-12 \$ MILLION	COMMENT
Revenue Crown	0	The Property Management Agency Services output class relates to the provision of services by the Corporation to the Crown in its role as an agent administering properties held by the Crown under the Housing Act 1955.
Revenue Other	1.687	
Expenses	2.682	
Net surplus/(deficit)	(0.995)	

STATEMENT OF FORECAST FINANCIAL PERFORMANCE

FORECAST FINANCIAL HIGHLIGHTS FOR 2011-12

The Corporation manages a portfolio of more than 69,000 houses, and this is forecast to grow in 2011-12. The value of the owned portion of this portfolio is estimated to be \$15.1 billion at 30 June 2011.

In 2011-12, the Corporation expects to receive \$1,033 million in income, consisting of \$998 million in rental income, \$27 million in other operational funding for Crown programmes and \$8 million in interest and other income.

In 2011-12, the Corporation expects to spend \$855 million in operating expenses, consisting of \$190 million in depreciation and amortisation, \$117 million in interest, \$6 million in grants to agencies¹⁵, \$377 million on repairs and maintenance, leases, and rates, and \$165 million on personnel and other expenses.

The forecast net surplus before tax of \$178 million for 2011-12 is an increase on previous years and equates to a return on equity of 1.5 percent.

To ensure that the Corporation's forecast return on equity achieves targets, the Corporation has reduced its other expenditure forecast in 2011-12 by \$10 million, 2012-13 by \$12 million and 2013-14 by \$23 million. Plans on how to achieve these savings will be developed 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 2011-12, the Corporation forecasts a total shareholders return (using comprehensive income) of 3.63 percent.

In 2011-12, the Corporation expects to spend \$240 million on housing asset purchases and improvements and receive \$50 million from the sale of housing assets.

Total distributions to the Crown of \$120 million relating to 2011-12 are forecast, consisting of income tax of \$56 million and \$64 million of 2010-11 net operating surplus (after accounting for deferred taxation) that is available to be returned to the Crown.

Canterbury earthquakes

The September 2010 and February 2011 earthquakes have caused damage to approximately three-quarters of the Corporation's 6,117 Canterbury properties. The financial impact of asset impairment and estimated insurance revenue proceeds will be assessed and taken up in the Corporation's 30 June 2011 financial statements. For financial forecasting purposes, the Corporation has estimated asset impairment and associated insurance revenue proceeds at 30 June 2011 of \$250 million in total for both earthquakes. The \$250 million is assumed as a receivable in the Balance Sheet as at 30 June 2011. Costs for land remediation are generally not covered by the Corporation's insurance policy. These costs are unknown at this time.

For 2011-12 and out years, the impact will include a lower starting asset value for the property portfolio as the impairment is recognised in 2010-11. The asset rebuilding programme will commence in 2011-12, with cash receipts from insurance recovery matched by cash payments utilised to repair and rebuild the Canterbury property portfolio. For forecast cash flow purposes, it has been assumed the Corporation will receive in 2011-12 cash insurance proceeds of \$100 million and a cash outlay of \$100 million for earthquake repair work. For 2012-13 the Corporation has assumed cash insurance proceeds of \$150 million and a cash outlay of \$150 million for earthquake repair work.

¹⁵ These grants relate to KiwiSaver first home buyer grants and the administration of legacy Rural Housing Programme grants as opposed to the administration of new grants.

FORECAST COMPREHENSIVE INCOME STATEMENT

Statement of Intent 2011-12

	PARENT FORECAST	GROUP FORECAST	GROUP FORECAST	GROUP FORECAST
	2011-12 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
REVENUE				
Rental income from tenants	17	401	416	432
Rental income from income related rent subsidy		597	633	659
Rent Relief Fund Income	4	4	4	4
Interest income	4	6	6	6
Crown appropriation income	16	16	5	5
Mortgage Insurance Scheme	7	7	5	5
Other income	217	2	9	14
Total operating revenue	265	1,033	1,078	1,125
EXPENSES				
Repairs and maintenance	8	181	186	189
Rates	3	126	132	139
Third party rental leases	9	70	76	75
Depreciation and amortisation	6	190	203	210
Personnel	93	94	93	93
Interest costs	14	117	117	120
Asset impairment expense	1	10	12	38
Grants	6	6	6	11
Other expenses	60	61	44	31
Total operating expenses	200	855	869	906
Operating surplus/(deficit) before tax	65	178	209	219
Income tax expense/(benefit)	23	56	65	76
Net surplus after tax	42	122	144	143
OTHER COMPREHENSIVE INCOME				
Revaluation reserve gains/(losses)	8	247	411	588
Hedging reserve gains/(losses)	(1)	97	8	(7)
Income tax on items of other comprehensive income		(36)	(44)	(74)
Other comprehensive income net of tax	7	308	375	507
Total comprehensive income net of tax	49	430	519	650

FORECAST BALANCE SHEET

Statement of Intent 2011-12

	PARENT FORECAST	GROUP FORECAST	GROUP FORECAST	GROUP FORECAST
	2011-12 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
ASSETS				
Current assets				
Cash and cash equivalents	28	65	72	104
Mortgage advances	9	9	9	9
Receivables and prepayments	13	185	37	37
Interest rate derivatives		5	4	1
Investments	59	58	66	74
Properties intended for sale	1			
Total current assets	110	322	188	225
Non-current assets				
Property, plant and equipment	467	15,430	16,009	16,608
Mortgage advances	47	47	44	40
Investments in subsidiary companies	3,522			
Available-for-sale financial assets	2	2	2	2
Interest rate derivatives	2	15	10	4
Intangible assets	69	81	74	61
Total non-current assets	4,109	15,575	16,139	16,715
Total assets	4,219	15,897	16,327	16,940
LIABILITIES				
Current liabilities				
Rent in advance	1	25	25	25
Accounts payables and other liabilities	19	99	106	106
Income tax	(21)	12	35	90
Loans	112	243	220	278
Provisions	10	11	11	11
Employee entitlements	6	6	6	6
Interest rate derivatives		11	9	8
Total current liabilities	127	407	412	524
Non-current liabilities				
Loans	198	1,608	1,631	1,570
Deferred tax liability	60	1,767	1,757	1,777
Interest rate derivatives	1	30	19	19
Mortgage Insurance Scheme	37	37	44	52
Provisions	6	6	6	6
Employee entitlements	1	1	1	1
Total non-current liabilities	303	3,449	3,458	3,425
Total liabilities	430	3,856	3,870	3,949
Net assets	3,789	12,041	12,457	12,991
EQUITY				
Equity attributable to the parent	3,800	3,800	3,805	3,810
Retained earnings	(149)	(378)	(301)	(256)
Revaluation reserve	138	8,634	8,963	9,452
Hedging reserve		(15)	(10)	(15)
Total equity	3,789	12,041	12,457	12,991

FORECAST CHANGES IN EQUITY

Statement of Intent 2011-12

	PARENT FORECAST	GROUP FORECAST	GROUP FORECAST	GROUP FORECAST
	2011-12 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Total equity at 1 July	3,792	11,663	12,041	12,457
Revaluation of property, plant and equipment				
Revaluation gains/(losses/transfers) taken to equity	8	247	411	588
Deferred tax property, plant and equipment revaluations		(9)	(42)	(76)
Financial assets at fair value through other comprehensive income				
Hedging reserve gains/(losses)	(1)	97	8	(7)
Deferred tax on financial assets		(27)	(2)	2
Net surplus after tax	42	122	144	143
Total comprehensive income for the period	49	430	519	650
Contributions from and distributions to the Crown equity				
Capital contributions from the Crown	12	12	5	5
Payment of dividends to the Crown	(64)	(64)	(108)	(121)
Total contributions from and distributions to the Crown	(52)	(52)	(103)	(116)
Total changes in equity	(3)	378	416	534
Total equity at 30 June	3,789	12,041	12,457	12,991
Equity attributable to the Crown				
Opening balance	3,788	3,788	3,800	3,805
Contributions from the Crown	12	12	5	5
Closing equity attributable to the Crown	3,800	3,800	3,805	3,810
Retained earnings				
Opening retained earnings	(127)	(469)	(378)	(301)
Net surplus/(deficit) for the year	42	122	144	143
Net transfers from asset revaluation reserve on disposal		33	41	23
Annual distribution	(64)	(64)	(108)	(121)
Closing retained earnings	(149)	(378)	(301)	(256)
Revaluation reserve				
Opening revaluation reserve	130	8,429	8,634	8,963
Asset revaluations – property, plant and equipment	8	247	411	588
Deferred tax property, plant and equipment		(10)	(41)	(76)
Net transfers from asset revaluation reserve on disposal		(32)	(41)	(23)
Closing revaluation reserve	138	8,634	8,963	9,452
Hedging reserve				
Opening hedging reserve	1	(85)	(15)	(10)
Fair value gains/(losses)	(1)	97	8	(7)
Hedging reserve deferred tax		(27)	(3)	2
Closing hedging reserve	0	(15)	(10)	(15)
Total equity at 30 June	3,789	12,041	12,457	12,991

FORECAST CASH FLOW STATEMENT

Statement of Intent 2011-12

	PARENT FORECAST	GROUP FORECAST	GROUP FORECAST	GROUP FORECAST
	2011-12 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Cash flows from/used in operating activities				
Rent receipts – tenants	17	399	415	431
Rent receipts – income related rent subsidy		597	632	658
Rent Relief Fund Income	4	4	4	4
Other receipts from Crown	11	11	6	6
Mortgage Insurance Scheme (MIS) income	12	12	13	13
Interest received from customers and investments	4	6	6	6
Canterbury earthquake insurance proceeds		100	150	
Other receipts	152	7	8	13
Payments to suppliers and employees	(180)	(540)	(531)	(538)
Income tax paid		(90)	(95)	(75)
Interest paid	(15)	(116)	(116)	(119)
Net cash flows from operating activities	5	390	492	399
Cash flows from/used in Investing activities				
Sale of rental properties and management assets	10	50	76	143
Mortgage and other lending repayments	3	3	4	4
Dividend received from subsidiaries	70			
Purchase of rental property assets	(15)	(240)	(287)	(379)
Canterbury rebuild		(100)	(150)	
Purchase of management assets		(5)	(6)	(6)
Purchase of intangible assets	(23)	(33)	(10)	(3)
Change in short term investments	(5)	(5)	(8)	(8)
Net cash flows from investing activities	40	(330)	(381)	(249)
Cash flows from/used in financing activities				
Capital contributions	12	12	5	5
Crown borrowings		(4)	(1)	(2)
Operating dividends paid	(64)	(64)	(73)	(90)
Capital dividends paid			(35)	(31)
Net cash flows from financing activities	(52)	(56)	(104)	(118)
Net cash flows	(7)	4	7	32
Opening cash and cash equivalents	35	61	65	72
Closing cash and cash equivalents	28	65	72	104

STATEMENTS OF UNDERLYING ASSUMPTIONS

These statements have been compiled on the basis of government policies at the time they were finalised. They comply with NZ IFRS 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 2011.

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
Canterbury Earthquakes	Significant information is unavailable to accurately assess the earthquake cost and recovery for appropriate provision in the 2010–11 financial statements	High	Impact on the Corporation is primarily limited to cash flows generated from insurance proceeds and flowing to payment for property repairs and rebuilds. It is assumed that the insurance excess for the earthquakes will be taken up in the 2010–11 financial statements. The Corporation expects that any damage to properties and business interruption expenditure incurred (less insurance excess) will be claimed from the insurers. Costs for land remediation are generally not covered by the Corporation's insurance policy. These costs are unknown at this time.
Optimisation of Corporation equity The forecasts are based on no increases in debt.	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.	Medium	Rebalancing debt to equity would result in additional debt of approximately \$850 million. This would reduce the Corporation's net surplus before tax by an estimated \$50 million. It would also constrain the Corporation's ability to take on additional debt to reconfigure the housing portfolio.

SIGNIFICANT FORECASTING ASSUMPTIONS	RISK	LEVEL OF UNCERTAINTY	REASONS AND FINANCIAL EFFECT OF UNCERTAINTY
<p>Expected interest rates on investment</p> <p>Interest rates on investments are consistent with the 3-month bank bill rate.</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 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>
<p>Expected interest rates on borrowings</p> <p>Interest rates on new borrowings are consistent with estimated interest rates for the 3-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 up front 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>

STATEMENTS OF UNDERLYING ASSUMPTIONS CONTINUED

SIGNIFICANT FORECASTING ASSUMPTIONS	RISK	LEVEL OF UNCERTAINTY	REASONS AND FINANCIAL EFFECT OF UNCERTAINTY
<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>Inflation is affected by external economic factors outside the Corporation's control and influence.</p>
<p>Price adjusters (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 adjusters may be significantly different from the projected inflation rates.</p>	<p>Low</p>	<p>Inflation adjusters 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>
<p>Revenue from rents</p> <p>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 likely level of variance will not have a material effect on the financial forecasts.</p>
<p>Asset revaluations</p> <p>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>Property values can be volatile, depending on the state of the economy.</p> <p>The impact of volatility on the Corporation's operating surplus would be relatively low and manageable.</p> <p>However, the impact on other comprehensive income would be large.</p>

Assumptions

	2011-12	2012-13	2013-14
	%	%	%
Financing indices			
Average floating rate	5.0	5.2	6.2
Average fixed rate (new debt)	6.7	7.1	7.1
General price inflation			
CPI	2.9	2.6	2.1
Price adjusters			
Rates	5.0	5.0	5.0
Maintenance	0	2.6	2.1
Leased rental properties	2.9	2.6	2.1
Taxation adjusters			
Goods and Services Tax (GST)	15%	15%	15%
Income tax	28%	28%	28%
Deductibility of depreciation on housing assets	0%	0%	0%
Revenue adjusters			
Rent ¹⁶	4.0	3.5	3.5
Property revaluations			
Land	0.50	1.00	1.50
Buildings	0.50	2.12	3.72

The forecasting assumptions published in the 2010–11 Statement of Intent have not been reused in the 2011–12 Statement of Intent. Although the 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.

¹⁶ Rental income is forecast to grow at a lower rate from 2012–13. This forecast is based on the weighted average of higher Auckland regional growth and a lower rate for the rest of New Zealand. The rental income for the 2011–12 year also includes a 0.3% increase arising from an extra days rental income (leap year).

Financial performance measures

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

<p>RETURN ON EQUITY</p>	<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 (i.e. it does not take into account the increasing value of the housing stock).</p> <p>(3) Comprehensive income (including revaluations)/average total assets (rolling 7-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>
<p>FINANCIAL RETURN TO THE CROWN</p>	<p>The dividend paid to the Crown.</p>
<p>EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND LEASING (EBITDAL)</p>	<p>EBITDAL to rental income as a percentage provides an indication of how efficiently the Corporation is managing its costs.</p>
<p>THE AVERAGE COST OF PROVIDING STATE HOUSING ASSISTANCE</p>	<p>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.</p>
<p>COST OF STATE HOUSE TENANCIES OVER TOTAL COST</p>	<p>Recurrent cost divided by total cost. This contextualises the cost of the State House Tenancies Output Class compared to other outputs.</p>
<p>OPTIMAL EQUITY</p>	<p>The Corporation will seek to maintain an optimal equity structure. The indicators will be the gearing ratio (total debt divided by debt plus equity) and interest coverage (the ratio of EBIT to net interest).</p>
<p>EFFICIENT DEBT MANAGEMENT</p>	<p>Tenant rental debt as a percentage of monthly rental income.</p>
<p>CREDIT RATING</p>	<p>This is Standard & Poor's annual assessment of the Corporation's financial strength – its ability to pay its debts.</p>

The Group's financial performance measures and targets

INDICATOR	2010-11 FORECAST	2011-12	2012-13	2013-14
Return on Equity:				
(1) Net operating surplus before tax/average total shareholder equity	1.20% ¹⁷	1.50%	1.70%	1.70%
(2) Net operating surplus before tax/average injected shareholder equity	3.68%	4.70%	5.49%	5.73%
(3) Comprehensive income/average total assets	6.00%	3.21%	1.99%	1.16%
Agreed dividend	\$64 million	\$108 million	\$121 million	\$88 million
EBITDAL to income	52.8%	53.2%	55.5%	54.8%
Net recurrent cost per housing unit	\$8,883	\$9,076	\$9,209	\$9,156
Recurrent costs/Total cost	92.9%	96.4%	94.1%	93.4%
Interest cover – EBIT/net interest ratio	4.71	2.61	2.89	2.93
Gearing ratio	13.6%	13.3%	12.9%	12.5%
Rental debt as a percentage of monthly rental income	7%	6%	6%	6%

Managing the Crown's investment

The Corporation is forecast to have total assets of \$15.9 billion at 30 June 2012, funded by liabilities of \$3.9 billion and equity of \$12.0 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 2012	AS AT 30 JUNE 2013	AS AT 30 JUNE 2014
\$m	\$m	\$m
12,041	12,457	12,991

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

Aside from capital appropriations, the Corporation's capital expenditure programme is funded by cash flows generated from operations and short-term borrowings.

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 in the following financial year. For the purposes of calculating the dividend, all taxation in the current year is deducted, including deferred tax. The following table highlights the adjusted net surplus after all taxation payable has been deducted, to arrive at the forecast distribution to the Crown.

¹⁷ Return on Equity is defined in the Financial Performance Measures section on p.46. The measure here excludes the one-off insurance proceeds in 2010–11 from the Canterbury earthquakes.

STATEMENTS OF UNDERLYING ASSUMPTIONS CONTINUED

ADJUSTED NET SURPLUS AFTER TAX	GROUP BUDGET	GROUP BUDGET	GROUP BUDGET
	2011-12 \$m	2012-13 \$m	2013-14 \$m
Net surplus after tax	122	144	143
Less deferred tax benefit	49	54	55
Dividend distribution to Crown in the following year	73	90	88
Capital Dividend distribution to the Crown	35	31	0

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 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 Entity) operating under the Housing Corporation Act 1974 (as amended). The core business of the Corporation and its subsidiaries is to give effect to the Crown's social objectives by providing housing and housing-related services in a businesslike manner and to ensure the Minister of Housing receives appropriate advice and information on social housing and housing-related services.

The Parent and its subsidiaries are Public Benefit Entities, 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 Level 10, 80 Boulcott Street, Wellington.

Basis of preparation

The prospective financial information is prepared based on NZ IFRS 42 Prospective Financial Statements as appropriate to Public Benefit Entities. The financial statements constitute a projection for the years ending 30 June 2012, 30 June 2013 and 30 June 2014.

As a projection, the financial information is prepared on the basis of one or more hypothetical but realistic assumptions, that reflect possible courses of action for the prospective financial information period as at the date this information has been prepared. The prospective financial information may vary from actual results. The prospective financial information is forward looking and should be read in conjunction with the assumptions set out on pages 42 to 48. Because such statements involve risks and uncertainties, actual events may differ materially from those expressed or implied in forward-looking statements.

The prospective financial information has been prepared on the assumption that accounting policies will remain the same as those applied in the preparation of the financial statements for the year ended 30 June 2010.

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).

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 initially 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 use. Any gain or loss is included in the net surplus/(deficit) for the year in which the item is derecognised. Gain or loss on sale is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

Rental property and land

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

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

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

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

Any revaluation surplus is recognised in the asset revaluation reserve in other comprehensive income except to the extent that it offsets a previous revaluation deficit for the same asset class that was recognised in the net surplus/(deficit) for the year. Therefore, the surplus is recognised in the net surplus/(deficit) for the year.

Any revaluation deficit is recognised in the net surplus/(deficit) for the year except to the extent that it offsets a previous revaluation surplus for the same asset class that was recognised in the asset revaluation reserve. Therefore, the deficit is offset to the extent of the credit balance existing in the revaluation reserve for that asset class.

An item of property is derecognised upon disposal or when no future economic benefits are expected

to arise from the continued use of this asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Any gain or loss arising on derecognition of an asset is included in the net surplus/(deficit) for the year, in the period the item is derecognised. Gain or loss on derecognition is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

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

- Rental property 40 years

Work in progress

Construction work in progress 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 but now being sold as it is no longer required is classified as a property held 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 (selling price less costs to complete and sale costs). Any write-downs to net realisable value are expensed in the net surplus/(deficit) for the year.

HNZC Property Developments Limited's (PDL) business is to subdivide large pieces of land, where the Group does not intend to retain the resulting titles. PDL will not retain any properties for the long term. As PDL property is held for the purpose of development prior to 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 Corporation has computer software, which is a non-monetary asset without physical substance, and therefore is classified as an intangible asset. Intangible assets include software that has been externally purchased as well as software that has been internally developed. Software is developed to meet Board-approved changes and improvements to the Corporation's way of working, structures, processes, products and systems.

Computer software is capitalised at cost, and the capitalised cost is amortised over a 4-7 year period. Following initial recognition, it is carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation is taken to the net surplus/(deficit) for the year.

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

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

Impairment

All assets, except for assets held at fair value through the net surplus/(deficit) for the year, are assessed for impairment at least annually.

Where there are indicators of impairment for an asset, 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 to ensure 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, and then the portion of the loss greater than the asset revaluation reserve is recognised as an expense in the net surplus/(deficit) for the year, in the period it arises. Any gain or loss arising on disposal of the asset calculated is included in the net surplus/(deficit) 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 recoverable amounts 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 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 net surplus/(deficit) for the year.

Investments

All investments that are classified as available for sale are measured at fair value with any gain or loss being recognised through other comprehensive income as required under NZ IAS 39 Financial Instruments: Recognition and Measurement.

Current investments are bank registered certificates of deposit that have been set aside to support the provisions under the Mortgage Insurance Scheme, the Housing Innovation Fund and sold mortgage loans.

The Group and Parent have elected to recognise investments in subsidiaries at cost.

Shared Equity

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 balance date.

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

Reversals in fair value are recognised in net surplus/(deficit) for the year to the extent of previous impairments. Fair value movements above the amount advanced are recognised in other comprehensive income. Upon repayment, any fair value gains recognised through other comprehensive income are recorded in the net surplus/(deficit) for the year.

Mortgages and housing-related lending

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

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

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 up to 90 days, held specifically for working capital purposes.

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 rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Gains and losses are recognised in the net surplus/(deficit) in the year when the liabilities are derecognised. Gains and losses are recognised on an ongoing basis.

Mortgage insurance liabilities

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

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

The outstanding claims liability represents the liability for claims incurred at reporting date. These may include those claims incurred but not yet reported. It can take a significant period of time before the ultimate claims cost can be established with certainty. The liability is determined at reporting date using a range of actuarial valuation techniques. Any liability is derecognised when the contract expires, is discharged or is cancelled. The 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 net surplus/ (deficit) for the year by establishing the provision for liability adequacy.

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

Provisions

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

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

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

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.

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 (for example, rent, insurance premiums and interest subsidies), to pay for services provided to the Crown (for example,

policy advice, Government relations, research and evaluation) or to reimburse the Group for expenses incurred by operating various programmes (for example, home ownership education courses). All Crown appropriation revenue is recognised 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 outstanding claims liability during the year are recognised in the net surplus/(deficit) for the year. Premiums, including premium subsidies from the Crown, are realised over the estimated period of the contract in accordance with the pattern of the incidence of risk expected under the contract, which is an estimate when the premium is earned.

Interest income

Interest revenue on mortgages, including interest subsidies from the Crown and short-term investments, is recognised as the interest accrues (using the effective interest 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 net surplus/ (deficit) for the year 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 conditions have been breached or are likely to be breached the Group will disclose, but not recognise, a contingent asset, as there will be a possibility that resources will flow to the Group in the future.

Income tax

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

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

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

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

Other taxes

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

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

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

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

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.

Fair value

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

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

Hedge accounting

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

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

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

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

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

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

Financial guarantees

When the Corporation entered agreements 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 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 to ensure interest is added and it will be sufficient to meet expected future payments. The rate of interest used is that obtained by holding New Zealand Government Bonds.

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

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

Significant accounting judgements, estimates and assumptions

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

Management has identified the following critical accounting policies, which attract significant judgements, estimates and assumptions. Actual results may differ from these estimates under different assumptions and conditions and may

materially affect financial results or the financial position reported in future periods.

(a) Impairment of non-financial assets

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include technological, economic and political factors and future expectations. If an impairment trigger exists, the recoverable amount of the asset is determined. If no impairment is stated, management do not consider that the triggers for impairment testing have been significant enough, and as such, these assets have not been tested for impairment in this financial period.

(b) Actuarial liabilities

Mortgage Insurance Scheme (MIS)

The Mortgage Insurance Scheme is assessed 6-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 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.

Westpac Banking Corporation mortgage sale provisions

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

(c) Rental properties

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

(d) Derivatives

The Corporation's interest rate derivatives are fair valued on a daily basis using current market interest rates (bank bill mid rate, swap pricing curve). There is no additional impairment adjustment on these interest rate derivatives as the Corporation's counterparties are highly creditworthy.

(e) Long-service leave

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

- After 10 years' continuous service, a staff member is entitled to 2 weeks' long-service leave.
- After 15 and 20 years' continuous Corporation service, a staff member is entitled to 1 week's long-service leave.

The Corporation values the long-service leave provision based on economic assumptions advised by Treasury, salary inflation and employee leaving probability tables determined with reference to Public Service leaving statistics.

(f) Classification of assets and liabilities as held for sale

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

(g) Taxation

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

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These include future house prices, rents, housing volumes, operating costs, maintenance costs, rates, capital expenditure and

dividends. Judgements are also required about the application of income tax legislation.

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

(h) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(i) Make-good provision

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

(j) Estimation of useful lives of assets

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

An incorrect estimate of the useful life or residual value will impact the depreciation expense recognised in the net surplus/(deficit) for the year and the carrying amount of the asset in the Balance Sheet.

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

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

(k) Effects of the Canterbury earthquakes

The Corporation has assessed the damage caused by the earthquakes and those properties identified as beyond repair will be demolished. This has been recognised as a charge to the net surplus/(deficit) for the 2010–11 financial year.

For properties damaged, but not beyond repair, a provision for impairment is made to reflect the estimated cost of repairs to restore the properties to the state that existed prior to the earthquakes. This provision is charged against revaluation reserve in other comprehensive income.

Estimated insurance claims are recognised as income from insurance proceeds in net surplus/(deficit) for the 2010–11 financial year and as a receivable in the Balance Sheet. This is after deducting the insurance excess of \$10 million for each event.

For 2011–12 and out years, the impact includes a lower starting asset value for the property portfolio as the impairment is recognised in 2010–11. The asset rebuilding programme will commence in 2011–12, and cash receipts from insurance recovery will be matched by cash payments utilised to repair and rebuild the Canterbury property portfolio.

APPROPRIATIONS

The following tables set out the appropriated funding the Corporation expects to receive from the Crown in 2011–12. This funding is shown by appropriation and programme and is aligned with the Corporation's Output Classes.

Output Table: Operating Appropriations 2011-12

APPROPRIATION AND PROGRAMME	\$m	CORPORATION'S OUTPUT CLASSES			
		ADVISORY SERVICES	STATE HOUSE TENANCIES	FINANCIAL ASSISTANCE – HOUSING	PROPERTY MANAGEMENT AGENCY SERVICES
Contracted Housing Support Services					
Home Ownership Education	2.400	2.400			
Total Contracted Housing Support Services	2.400	2.400	-	-	-
HNZC Housing Support Services					
Community Group Housing	5.500		5.500		
Mortgage Insurance Scheme (Welcome Home Loan)	9.100			9.100	
KiwiSaver Housing Deposit Subsidy – Administration	0.743			0.743	
Total HNZC Housing Support Services	15.343	-	5.500	9.843	-
Housing Assistance					
Community Owned Rural Rental Housing Loans interest subsidy	0.497			0.497	
Housing Innovation Fund Interest Subsidy	0.400			0.400	
Other Legacy Loan costs	0.700			0.700	
Sold Loans interest subsidy	0.100			0.100	
Special Housing Zones interest subsidy	0.032			0.032	
Total Housing Assistance	1.729	-	-	1.729	-
Purchase of Housing and Related Services for Tenants Paying Income Related Rent					
	587.115		587.115		
KiwiSaver Deposit subsidy	5.200			5.200	
Community Housing Rent Relief Programme	4.150		4.150		
Total Operating Appropriations	615.937	2.400	596.765	16.772	-

Output Table: Capital Appropriations 2011-12

APPROPRIATION AND PROGRAMME	\$m	CORPORATION'S OUTPUT CLASSES			
		ADVISORY SERVICES	STATE HOUSE TENANCIES	FINANCIAL ASSISTANCE – HOUSING	PROPERTY MANAGEMENT AGENCY SERVICES
Acquisition and Improvement of HNZN State Houses					
Energy Efficient Warm Homes	3.500		3.500		
Community Housing Standard Acquisitions	5.800		5.800		
Total Acquisition and Improvement of HNZN State Houses	9.300	-	9.300	-	-
Refinancing of HNZN and HNZN Debt¹⁸	175.496		175.496		
Capital Injections to HNZN for housing activities	0.027			0.027	
Total HNZN Capital Appropriations	184.823	-	184.796	0.027	-

¹⁸ This appropriation is required to roll over existing Corporation debt with the Debt Management Office.

Asset Management Strategy (AMS) Goals

The Corporation is working to provide the right houses in the right location to meet demand and Corporation standards. The Corporation will optimise the value of the \$15.1 billion housing portfolio through the following six AMS goals. These goals will help the Corporation achieve its overall objective of a 'fit for purpose' housing portfolio aligned with priority demand that delivers improved value.

The six goals of the AMS are outlined below:

1. Provide housing to the agreed specifications and standards

The Corporation has developed a comprehensive set of amenity and condition standards for its houses. The Corporation will upgrade existing properties and deliver new properties to these standards.

2. Maintain the housing portfolio in a cost-effective manner

The Corporation will base its maintenance expenditure on the stage that a property is at in its lifecycle and the intended future use of the property. The Corporation is currently surveying the condition of all its properties and will use the information to help it develop better coordinated and targeted work programmes that can be delivered at lower cost.

3. Reposition housing stock to better meet priority demand in high-priority areas

The Corporation will work with the private sector to reposition the portfolio to better meet demand and to realise value that is tied up in poor-performing stock. The Corporation will do this by rebuilding to use land more intensively in areas of high demand.

4. Reduce areas of high concentration of state housing to improve community outcomes

The Corporation will work to reduce the number of properties it has in areas where there are currently high concentrations of state housing. This will involve actively working with developers and local government to create well planned communities with different types of housing tenure. This will result in healthier, safer environments for its tenants and others in the community.

5. Optimise the value of the portfolio

The Corporation will improve the value and financial performance of the portfolio by making sure it has the right houses in the right places to meet demand, and managing those assets more efficiently. This may include selling some properties that provide a low return, leasing more properties in areas where it makes economic sense to do so or making better use of Corporation land.

6. Develop a robust asset funding strategy

The Strategy will be delivered from funding currently available to the Corporation, without additional borrowing or appropriation from the Crown. To do this, the Corporation will develop and use long-term plans and effective decision-making tools to identify and prioritise work on the portfolio. The Corporation will then make sure that all work is phased to align with available funding.

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