2014/15

OUR ANNUAL REPORT

Housing New Zealand
Housing New Zealand Corporation

B.13

CONTENTS

“We provide high-quality, subsidised rental homes to people in the greatest need, for the duration of their need.”

"Our customers are among the most vulnerable people in New Zealand. Many face significant life challenges such as financial hardship, mental illness or physical disability."

In his annual state of the nation address at the start of the year, Prime Minister John Key outlined the Government's social housing reform objectives and the envisaged future role of Housing New Zealand.

A key goal of the reforms is to encourage a more diverse range of providers of social housing. Housing New Zealand will remain the major provider of social housing, however, and will continue to manage at least 60,000 properties in 2017.

In April this year, the Government announced the transfer of 2,800 Housing New Zealand properties to the Tāmaki Redevelopment Company Limited. The Tāmaki Redevelopment Company Limited is jointly owned by the Government and Auckland Council and is focused on accelerating and assisting regeneration in the Tamaki area.

The transfer of properties in Tamaki is the beginning of a larger programme of transfers to build the diversity of providers in the social housing sector. At this stage, the Government has identified two further groups of Housing New Zealand state house tenancies – in Invercargill and Tauranga – for potential transfer to community housing providers.

The Prime Minister also used his state of the nation address to announce a strategic review of Housing New Zealand. An overview of findings was presented to the Government this June, providing a sound basis for the Board and Ministers to consider options for Housing New Zealand's future shape and role within the social housing sector.

Within this wider context, Housing New Zealand has continued throughout 2014/15 to play an important role in our society by managing more than 67,000 properties and providing homes for more than 190,000 people.

Our customers are among the most vulnerable people in New Zealand. Many face significant life challenges such as financial hardship, mental illness or physical disability. Every day, our people work to find suitable homes for our customers, and support them to manage their home and be good neighbours.

This report outlines our performance in terms of operational and financial measures, and I am pleased to present improvements in a number of areas. The quality of our homes is also incredibly important to us, as recently brought into stark relief by the tragic death of a toddler in one of our homes. The coroner could not rule out the condition of the house as a contributing factor.

We acknowledge some of our older housing stock can be difficult to keep warm and dry due to design issues or construction methods. This winter we have worked to identify vulnerable tenants who find their homes difficult to heat so we can target our maintenance and upgrade programmes more effectively. We have also worked to provide useful material for our tenants on a wide range of methods to help keep their home in a healthy state.

We have invested more than $8 million in our homes this year to upgrade insulation, fit thermal drapes, install new heating appliances and carry out other healthy housing initiatives.

While these initiatives have been important, we can do more to improve the quality of our housing portfolio. This is a key priority for Housing New Zealand moving forward.

Our development programmes are integral to the ongoing transformation of our housing portfolio across the country. We brought new capacity and expertise into this area during the year and are well placed to drive our planned activity of delivering new social homes in the coming year, including major new developments in Auckland and Christchurch.

Our success in Christchurch over the past two years demonstrates what can be achieved when focus and capability are brought to bear. We intend to apply the lessons learnt from our building and earthquake repair programmes across the wider business. Housing New Zealand is a major driver of economic activity in New Zealand, with thousands of suppliers, contractors and builders involved in our activities.

The Board considers that being financially sound and operationally efficient is an important foundation for our role as a social housing provider for the state. This year, we will return a surplus after tax of $107 million and $118 million in taxes to the Crown. Our capital asset base has grown by $2.2 billion in the last 12 months, providing the Crown with a total return on equity of 14.0 percent.

These results have been achieved after absorbing significant costs which are not normally paid by private landlords. For example, we pay tenants' water usage charges, we provide advice on home care, budgeting and debt management to

ADRIENNE YOUNG-COOPER

support tenants in sustaining their tenancy and we manage anti-social behaviour issues. We also pay additional asset-related costs such as the provision of wider halls and doorways to meet tenant needs, and contribute to wider social programmes like creating safe play areas away from driveways, installating child safety devices (for example, anti-tip mechanisms on stoves and child-proof storage), and undertaking initiatives to reduce rheumatic fever.

The Board would like to acknowledge the contribution and commitment of Housing New Zealand's many partners in the public and private sectors in achieving our work during the last year.

We would also like to acknowledge the leadership of Chief Executive Glen Sowry and his Executive Team, and the hard work of all staff in contributing to our strong performance over the year.

With regret, we bid farewell to Board members Whaimutu Dewes and Ian Kearney. Both have provided invaluable advice and guidance to the organisation. Susan Paterson also leaves the Board in the first quarter of the 2015/16 year after more than five years of committed service.

Alick Shaw from Wellington and Sandra Alofivae from Auckland have joined the Board, bringing valuable expertise and community networks with them.

Finally, I would like to thank Allan Freeth for his very committed contribution and leadership as Board Chair over the last two years having resigned in July of this year to take up a new position. I wish him well for the future.

The last year has been both challenging and exciting for Housing New Zealand. This report outlines much of what we have achieved, but also underlines the considerable work ahead as we continue our 'business as usual' role as the country's largest provider of social housing while assisting the Government in its social housing reform programme.

Adrienne Young-Cooper
BOARD CHAIR

We acknowledge some of our older housing stock can be difficult to keep warm and dry due to design issues or construction methods. This winter we have worked to identify vulnerable tenants who find their homes difficult to heat so we can target our maintenance and upgrade programmes more effectively.

WE HAVE INVESTED

$8m

IN OUR HOMES THIS YEAR TO UPGRADE INSULATION AND INSTALL HEATING

"The past year has been one of incredible change for Housing New Zealand. Yet in spite of the challenges we have faced, together we have achieved some outstanding results."

We are in the midst of a period of significant change for the social housing sector and for Housing New Zealand. We are embracing our new role within the sector, which has sharpened our focus on our core functions of tenancy and asset management.

In April 2014 the Ministry of Social Development assumed responsibility for assessing the housing needs of our customers. Over the last year we have worked closely with the Ministry of Social Development to successfully establish new processes for matching customers to our homes once they have been confirmed to the social housing register.

We are at the forefront of the Government's response to the Canterbury earthquakes. At any given time we have had up to 1,000 tradespeople working for us to deliver our ambitious and large-scale asset programme in the region.

With 4,260 earthquake repairs completed as at 30 June 2015, we are well on our way to our target of 5,000 repairs by the end of this calendar year. We have also completed 218 new homes, while the remaining 482 we have committed to will be completed, or near completion, by the end of 2015.

Our commitment to Canterbury is ongoing. We are creating a modern, high-quality and sustainable social housing portfolio in the region that meets the needs of our customers and we will leave future generations with a legacy we can all be proud of.

We are also committed to the reconfiguration of our portfolio across the country. Auckland presents a significant opportunity as our largest city and home to almost half our customers and properties. Our asset programmes there are taking an innovative approach to meet the needs of this fast-growing city.

A great example is our RightSize initiative. Around two-thirds of our Auckland homes are standalone properties, and many are located on large, underutilised sections. RightSize is allowing us to use our land more cost-effectively while also addressing overcrowding, by extending these homes by one or two bedrooms and giving the families more space to spread out.

Building new homes continues to be a top priority, and we are making good progress toward our target of 2,000 new homes by December 2015. As at 30 June 2015 we had completed 666 homes – with 487[1] completed this financial year.

We have 1,359 further homes in development, of which 744 are in Auckland. The majority will have been completed by the end of 2015 and the rest will be under construction by that time.

These homes are configured to meet current and future demand, which is mainly for one- or two-bedroom homes and larger homes with four or more bedrooms. Our new homes are also designed so they cannot be distinguished from privately-owned housing, which allows for better social integration.

Housing New Zealand is the country's single largest consumer of residential specialist trade hours, and approximately 3,500 tradespeople are involved in maintaining our homes. With over 67,000 homes and an average property age of 43 years, we are investing heavily in our ageing portfolio to bring it up to modern standards and set the standard for rental accommodation in New Zealand.

The past year has been one of incredible change for Housing New Zealand. Yet in spite of the challenges we have faced, together we have achieved some outstanding results. For example, we have housed more than 7,100 new tenants, achieved a historic low rent debt level, and reduced the turnaround time between tenancies to an average of just 34 days.

I feel incredibly privileged to lead Housing New Zealand, and I am proud of the difference we make each and every day in the lives of our customers. I am particularly pleased

1. This includes 79 housing units sold into the private market.

GLEN SOWRY

we have seen a significant lift in staff engagement this year. This shows just how strongly our people are committed to Housing New Zealand's mission and purpose.

As the largest provider for the foreseeable future, we have an obligation to set the standard for the social housing sector. We are absolutely committed to performing at the highest possible level, and we will continue to look for innovative ways to reconfigure and modernise our portfolio more effectively, and to deliver better services for our customers.

I would like to acknowledge the contributions that departing Board members Whaimutu Dewes, Susan Paterson and Ian Kearney have made to Housing New Zealand during their time on the Board.

Finally, I would like to thank Allan Freeth for his support and guidance as Board Chair over the last two years and I wish him all the best in his new role.

Glen Sowry
CHIEF EXECUTIVE OFFICER

> Building new homes continues to be a top priority, and we are making good progress toward our target of 2,000 new homes by December 2015.

AS AT 30 JUNE 2015
WE HAD COMPLETED

666

NEW HOMES – WITH 487
COMPLETED THIS FINANCIAL YEAR

"More properties are of the right type, and in the right place, to meet demand."

Crown social objectives

The Crown's social objectives for housing and services related to housing provided by Housing New Zealand for 2014/15 were to:

- provide cost-effective social housing that is of the right size and in the right place, to those most in need, for the duration of their need
- facilitate the development of the social housing sector, by continuing to work openly and transparently with government agencies and the community housing sector to promote:
  - a diverse supply of social and affordable housing, by transferring social houses into the community housing market and redeveloping housing in Tamaki
  - the diversity, capability and capacity of the community housing sector by, among other things, providing tenancy and property management services
  - alignment with the Ministry of Social Development's Purchasing Intentions
- help existing social housing tenants to transition to alternative housing if they are capable of doing so.

Our role

Housing New Zealand provides housing to those New Zealanders who are most in need, for the duration of their need.

Housing New Zealand gives effect to the Crown's social objectives above by providing housing, and services related to housing, in a business-like manner. Housing New Zealand achieves this by:

- matching applicants to appropriate Housing New Zealand homes
- managing our housing tenancies
- acquiring, building, upgrading, maintaining and divesting our housing rental portfolio
- freeing up Housing New Zealand properties for those who need them most.

Housing New Zealand plays a supporting role in the development of the wider social housing sector by working constructively with other government agencies and the community housing sector.

Who we are

Housing New Zealand:

- manages approximately 67,000 homes
- owns approximately 63,000 homes, valued at $20.9 billion
- leases approximately 2,800 homes
- manages approximately 1,500 Community Group Housing properties which we own, valued at $544 million.

Of Housing New Zealand's total housing portfolio:

- 46 percent of the portfolio is in Auckland
- 97 percent of Housing New Zealand homes are tenanted, with around 192,500 occupants
- 95 percent of tenancies are supported by the income-related rent subsidy
- 34 percent of tenants are Māori, 27 percent are Pacific peoples and 37 percent are European.

Our strategic approach

Housing New Zealand's strategy is centred on a vision of being 'the social housing provider of choice'. This means being the preferred social housing landlord by our tenants in areas where they have a choice of providers.

Our strategy focuses strongly on how we deliver this vision, and is built around four goals:

- **Our people deliver on our service commitments to our customers and stakeholders** – creating a greater organisational focus on the customer, with customer experience becoming a stronger driver of organisational performance
- **Our people operate and manage our homes effectively and efficiently** – creating a stronger focus on our role as an asset manager, with good practice stewardship of our assets
- **Our people produce the right mix of quality homes in the right locations** – continuing a focus on aligning our assets, balancing the need to align with demand, while ensuring the financial performance of the portfolio
- **Our people are proactive and results focused, and we are financially viable** – focusing on further developing an agile, effective, performance-oriented organisation that efficiently delivers good quality social housing in a financially sustainable way

HOUSING NEW ZEALAND:

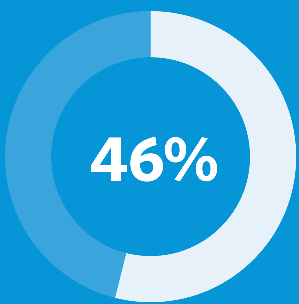
MANAGES APPROXIMATELY
67,000
HOMES

LEASES APPROXIMATELY
2,800
HOMES

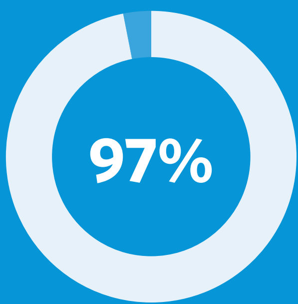
OWNS APPROXIMATELY
63,000
HOMES

VALUED AT
$20.9b

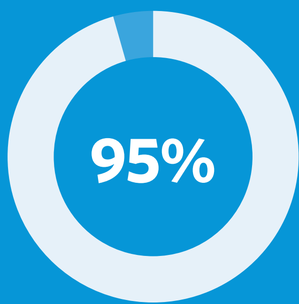
OF THE TOTAL HOUSING PORTFOLIO:



OF THE PORTFOLIO IS IN AUCKLAND

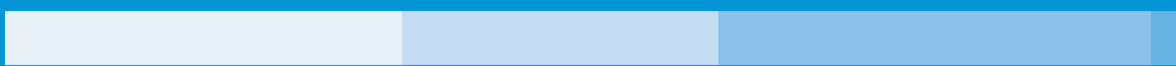


OF HNZ HOMES ARE TENANTED, WITH AROUND 192,500 OCCUPANTS



OF TENANCIES ARE SUPPORTED BY THE INCOME-RELATED RENT SUBSIDY

TENANTS:



34% ARE MĀORI

27% ARE PACIFIC PEOPLES

37% ARE EUROPEAN

"We are committed to improving the quality of our housing portfolio."

Social housing reform

The Social Housing Reform Programme will increase the supply of social housing in New Zealand. It builds on measures taken over recent years to provide more New Zealanders in need with quality and affordable housing. It will:

- increase the number of social houses provided by either Housing New Zealand or other providers
- ensure those homes better meet the needs of tenants
- deliver government assistance in a way that stimulates housing supply
- help more New Zealanders into housing independence when they are capable of making that transition.

In January 2015 the Government announced the next steps for the programme. Over the next few years it has committed to:

- Housing New Zealand and community housing providers collectively providing more social housing places – particularly in Auckland and Christchurch
- Housing New Zealand continuing to be the largest owner of social housing in New Zealand – envisaged at around 60,000 properties by 2017
- transacting properties only where there is a better range of services and providers for tenants in that locality and fair and reasonable value for taxpayers
- tenants in Housing New Zealand properties that are transacted continuing to be housed for the duration of their need
- spending more on income-related rent subsidies.

Progress on social housing reforms

In June 2015 the Treasury and Housing New Zealand completed a strategic review that assessed how Housing New Zealand can operate most effectively within this new environment. The review focused on how to reshape Housing New Zealand to position it better to respond to future social housing demand. Ministers are currently considering the review's recommendations.

The Government also announced it would transfer 2,800 Housing New Zealand properties to the Tāmaki Redevelopment Company by 31 March 2016.

The Tāmaki Redevelopment Company is jointly owned by Government and the Auckland Council. It was set up in 2012 to focus on social transformation and housing regeneration in Glen Innes, Panmure and Point England. The transfer of these properties to the Tāmaki Redevelopment Company aims to increase the pace of regeneration and increase the number of social housing providers in the Auckland region.

During the year, the Government set up the Transactions Unit within the Treasury to oversee the transfer of a proportion of Housing New Zealand's stock to community housing providers. The Government's aim is to grow the portion of social housing delivered by non-government community housing providers. While no firm decisions have been made about how these transactions will occur, the Government has confirmed that it will transfer the ownership of some Housing New Zealand properties in the Tauranga and Invercargill regions to other registered community housing providers. The Transactions Unit is currently working on the procurement processes for these transactions.

During 2014/15 we continued to work closely with the Ministry of Social Development as it embeds the needs assessments and related functions.

We participated in a Ministry of Social Development-run trial in Auckland. The trial tested whether applicants would be housed more quickly and in a more suitable house if a larger pool of social housing providers had access to a common set of information about applicants, and if applicants could choose the provider.

In April 2015 the Ministry of Social Development issued its first social housing purchasing intentions document. This explains where it intends to purchase social housing by region, typology and indicative market rent. These intentions will evolve over time and guide where and what typology of housing we and other providers deliver to meet housing need.

As part of the social housing reforms, the Community Housing Regulatory Authority has developed a regulatory framework for community housing providers, setting out a prescribed set of standards and guidelines that providers should adhere to. At this stage, Housing New Zealand is not required to register as a community housing provider; however, we have been asked to demonstrate the same standards as a Class 1 Community Housing Provider.

We have discussed the requirements with the Regulator for the 2015 submission of this Annual Report, which provides a record of achievement against our performance standards and a narrative of achievement over the year. The Regulator has agreed that the submission of our 2014/15 Annual Report will meet this requirement for this year, with the Regulator reserving the right to follow up with any additional questions.

A growing and changing population

New Zealand's population is expected to grow by between 400,000 and 650,000 by 2025, and increase to around 5.9 million by 2041. Auckland is expected to have the largest population growth and to make up two million of the total population by 2033, an increase of more than 500,000 over the period. Together, Auckland, Hamilton and Tauranga will likely make up 53 percent of the population by 2033. The rest of New Zealand, particularly provincial areas, is expected to experience slower, and possibly, negative growth.

At the same time, the population is getting older, with the percentage of people aged over 65 years expected to make up between 21 and 22 percent of the population in 2032 (or 1.3 to 1.4 million people), up from 14 percent in 2014.[2]

These population changes will impact on the demand for social housing. Our current stock will not meet the demands of the future, so we are focusing our asset management activities on making sure our homes are in the right place and of the right type to meet both current and future demand. We are continuing to reshape our housing portfolio to build more homes in high-demand markets and some homes in lower-demand markets.

Housing affordability

Market trends affecting housing affordability continue to impact us. Affordability issues put pressure on demand for social housing assistance, while supply pressures present ongoing challenges to our development and repair programmes where land and trades are at a premium. Some of these pressures have diminished in the Christchurch market, as an increase in the supply of houses has eased affordability pressures. However, affordability pressures continue to be particularly prominent in Auckland.

Housing New Zealand's subsidiary, the Hobsonville Land Company in Auckland, is making a contribution to providing more affordable homes in the region. The development of this Crown land will see the construction of 3,500 new homes, with 20 percent of these homes to be in the affordable price bracket.

Housing quality

The Government is looking closely at the issue of housing quality and in particular how social housing can be improved and more consistently maintained to deliver good health and social outcomes.

As a result, the Government has decided to introduce regulated minimum standards for insulation and smoke alarms.

We are committed to improving the quality of our housing portfolio and over a number of years we have invested heavily in both maintaining and upgrading our homes. The investment over several years includes significant programmes of work around insulation/heating/healthy homes, exterior paint, driveway safety, earthquake prone buildings and complex remediation, to name a few.

This winter we also undertook a specific 'warm and dry' programme targeting our most vulnerable tenants who may be living in homes that they find difficult to heat. Interventions in these homes included providing thermal curtains, cutting down trees to let in more light, and cleaning guttering to prevent leaks. We also assisted these tenants to ensure they had the appropriate support from the Ministry of Social Development in the form of financial assistance (where they qualified) to pay their power bill or purchase warm bedding or a heat source.

2. Sourced from Statistics New Zealand, National Population Projections: 2014(base)-2068, 28 November 2014, and Subnational Population Projections: 2013(base)-2043, 19 February 2015.

Continuing to rebuild Canterbury

Good progress has been made in the Canterbury Earthquake Recovery Programme over the last year. We are now in the final stages of rebuilding and repairing our earthquake-damaged homes in Christchurch.

As well as repairing structural damage caused by the Canterbury earthquakes, Housing New Zealand has used the opportunity to make other improvements to these homes, including new carpet, curtains, insulation, vinyl, ventilation and other enhancements.

This massive level of activity will be completed in the coming financial year and will restore Christchurch's state housing numbers back to pre-earthquake levels. It will also result in some of the most modern and restored social housing in the country.

Despite working in an environment where there is strong demand for builders and tradespeople, Housing New Zealand attracted about 1,000 tradespeople who focused on delivering the Canterbury Earthquake Recovery Programme.

Strong ongoing relationships with key stakeholders, including consenting authorities, build partners, tenants and the wider community, have also ensured the programme continues to meet its targets.

Summary of 2014/15 operational performance

Housing New Zealand achieved some strong operational performance results in 2014/15, during a period of significant change within the organisation. We are particularly pleased we were able to:

- reduce the turnaround time between tenancies to an average of 34 days (target 45 days) – allowing us to house those tenants most in need more than two weeks sooner than last year; this compares with 50 days achieved in 2013/14
- increase the percentage of our properties that are let to 96.9 percent (target 96 percent); this compares with 96.2 percent achieved in 2013/14[3]
- repair 2,849 of our damaged houses in Christchurch, against the target of 2,400
- maintain the high levels of customer satisfaction with our Customer Services Centre – 87 percent (target 75 percent) and the operational performance of the Customer Services Centre – 74 percent of calls were answered within four minutes (target 70 percent); this compares with 85 percent and 79 percent respectively achieved during 2013/14
- reduce our rental debt older than seven days as a percentage of monthly rental income to an all-time low of just 2.7 percent (target 6 percent); this compares with 3.6 percent achieved in 2013/14[4]
- reduce the number of our tenants in rent debt from 5,122 as at June 2014 to 3,850 as at 30 June 2015 – a 25 percent reduction (target 5 percent).[5]

We also managed to reduce the number of long-term vacant properties from 1,951 as at 30 June 2014 to 1,373 as at 30 June 2015 (a 29.6 percent decrease over the period), as we worked through our Earthquake Prone Building programme or demolished houses to ready the sites for redevelopment or divestment.

We did not achieve six of our performance targets, but three of these were demand driven and largely out of our control to influence.

We did not meet our annual new build targets that contribute to our multi-year goal of building 2,000 new homes by December 2015. It took us longer than we anticipated to ramp up our development programme. We have brought in new capacity and expertise and made improvements to our processes, and are now well placed to have these 2,000 homes completed or under construction by December 2015.

We continue to look for ways to improve our operational performance.

For more information on the performance measurement results for 2014/15, please refer to the Annual information section of this report on page 33.

Summary of 2014/15 financial performance

Key financial results for 2014/15 include:

- achieving Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $506 million, compared with the budget of $484 million, and the 2013/14 result of $473 million
- delivering a Net Operating Surplus Before Tax (NOSBT) of $225 million, compared with the budget of $182 million, and the 2013/14 result of $200 million
- achieving a 18.7 percent return (before tax) on total revenue, compared with the budget of 15.4 percent, and the 2013/14 result of 17.6 percent
- managing a housing stock owned by Housing New Zealand that is now valued at $20.9 billion (compared with $18.7 billion at 30 June 2014)

3. Both are as at 30 June results.
4. Both are as at 30 June results.
5. Tenants in rent debt relates to current tenants with a rental debt and excludes Community Group Housing tenants.

- achieving a comprehensive return on equity (which includes $2.2 billion capital gain on the housing portfolio) of 14.0 percent, compared with the budget of 7.2 percent
- achieving a comprehensive return on contributed capital and retained earnings of 57.1 percent, driven mostly by capital gain, compared with the budget of 29.7 percent
- maintaining strong cash reserves of $620 million as at 30 June 2015, $266 million more than the budget
- reducing the cost of our delivery per housing unit by 6.5 percent to $2,075 (target $2,185).[6]

These results were underpinned by higher than anticipated revenue (particularly investment returns) and lower than anticipated development expenditure.

In achieving these results it needs to be noted that, as a social housing provider, Housing New Zealand absorbs a significant amount of cost to provide free services to tenants that are not normally provided by a private landlord. We:

- pay water usage consumption charges on behalf of our tenants
- provide support services to tenants to help them sustain their tenancy (advice on home care, budgeting support and debt management)
- manage anti-social behaviour issues where a small minority of our tenants impact negatively on a local community
- incur significant additional asset-related costs to ensure all new Housing New Zealand homes meet 'Decent Home Standards' (an agreed set of principles which guide the setting of standards for new and existing homes), including provision of wider halls and doorways, lever door and tap handles, phone and internet outlets, and heaters, and ensuring specialised design standards for housing people with specialist needs are met
- contribute to wider social programmes which include such initiatives as our driveway safety programme (creating safe play areas away from driveways), anti-tip devices on all stoves, child-proof storage, and projects to reduce rheumatic fever.

INCREASING THE PERCENTAGE OF OUR PROPERTIES THAT ARE LET TO

96.9%

(TARGET 96%)

REDUCING TURNAROUND TIME BETWEEN TENANCIES TO

34 days

(TARGET 45 DAYS)

REDUCING THE COST OF OUR DELIVERY PER HOUSING UNIT BY

6.5%

TO $2,075 (TARGET $2,185)

DELIVERING A NET OPERATING SURPLUS BEFORE TAX OF

$225m

(BUDGET $182M)

6. This is a measure of organisational efficiency and only includes costs associated with running Housing New Zealand. It excludes direct costs associated with managing our properties, depreciation and interest costs.

Our outcome framework

MINISTRY OF BUSINESS, INNOVATION AND EMPLOYMENT INTERMEDIATE OUTCOME	MINISTRY OF SOCIAL DEVELOPMENT 4-YEAR STRATEGIC PRIORITY	OUR IMPACTS	OUR STRATEGY
Safer, healthy and more affordable homes and buildings	**Improving access to social housing for those most in need**	More of our customers are satisfied that we are delivering on our service commitments	**Our people deliver on our service commitments to our customers and stakeholders** Our customers understand their entitlements and obligations We work in partnership with our customers to continuously improve our services Our customers and homes integrate with their communities
		Our homes are of good quality and of the right type and in the right place to meet demand	**Our people produce the right mix of quality homes in the right locations** We complete our Canterbury Earthquake Recovery Programme Our build programmes focus on areas of high demand and locations where we need to renew our portfolio We make efficient use of our land holdings We design our homes to optimise their value and use for us and for our tenants
			Our people operate and manage our homes effectively and efficiently We take a planned approach to acquire, maintain, upgrade and divest our homes We have proactive and constructive relationships with our contractors, suppliers and developers We have warm, dry and safe homes
		Our organisational capability improves and we optimise our return to the Crown	**Our people are proactive, results focused and manage our business to be financially sustainable** We continue to improve our support systems and processes for the business Through good stewardship of our assets we maximise their economic and social value We demonstrate agility and focus in an evolving social housing market Housing New Zealand is a place where talented people want to work and grow
		We contribute to a viable social housing sector	
		We deliver programmes and initiatives on behalf of the Crown	

OUR LONG-TERM INDICATORS	2014/15 STATEMENT OF PERFORMANCE EXPECTATION MEASURES
Customer satisfaction with home Customer satisfaction with services	Customer satisfaction with Customer Services Centre Rental debt older than 7 days as a percentage of monthly rental income Percentage of Customer Services Centre calls answered within 4 minutes The number of current tenants in rental debt reduces Reduce the value of residual income-related rent debt (excluding debt written off)
Our rental occupancy rate	Percentage of properties that are let Number of new build houses (including Christchurch) Houses repaired in Christchurch Percentage of properties delivered in high-priority areas Percentage of the portfolio divested during the year
The percentage of surveyed lettable properties that meet or exceed the baseline standard	Average number of days a property remains vacant between tenancies Percentage of customers satisfied with responsive repairs Undertake repairs and maintenance to ensure properties return to the letting pool at a lettable standard Percentage of properties inspected at least annually Average time to respond to urgent health and safety queries Percentage of maintenance spend on planned activity
Organisational running costs per housing unit Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) Total Recordable Injury Frequency Rate Annual employment engagement	
	Number of new loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme Community group tenancies assisted with rent relief Average number of days taken to assess a complete KiwiSaver application Average number of days taken to assess a complete First Home Ownership application

"As a social housing agency we do more than a private landlord."

Key performance measures

PURPOSE	MEASURE	TARGET	2013/14 ACTUAL	2014/15 ACTUAL**
Our services meet the needs of our tenants	The percentage of our customers who are satisfied with the services we provide	85% by June 2018	New measure*	74%
Our homes meet the needs of our tenants	The percentage of our customers who are satisfied with their Housing New Zealand home	Baseline to be established	New measure	78%

* The methodology used to measure the similar 2013/14 performance measure – "The percentage of customers who are satisfied that their needs are responded to" (result 78%) – is different from the methodology we used to measure this year's performance. The results are therefore not comparable.

**Both 2014/15 results have a +/- 3% margin of error.

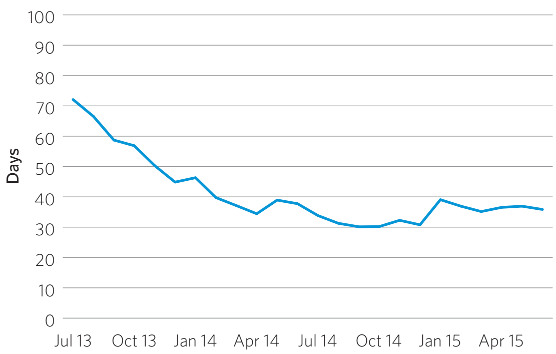
Delivering our current services

As a social housing agency we do more than a private landlord. While we collect the rent, inspect our houses and maintain the value of our properties, we also work with our tenants to manage any debt they may have with us, link our customers to support services and engage with our tenants to ensure their homes and communities are places they want to live.

Over the past year we have improved both the level of service we provide to tenants and how efficiently we operate our business, during a period of unprecedented change within both the sector and Housing New Zealand. In April 2014 needs assessments and related functions were transferred to the Ministry of Social Development. During 2014/15 we worked hard with the Ministry of Social Development and our tenants to embed the changes.

Through a dedicated focus on improving our service delivery, we have reduced the number of properties sitting vacant and the turnaround time to get these properties re-let.

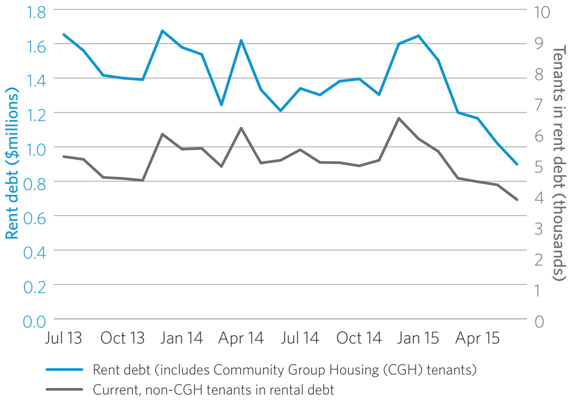
Average vacant turnaround times per month between tenancies – July 2013 to June 2015



We have also implemented processes to manage our tenants' debt actively and effectively. This has led to significant improvements in our rental debt position. During 2014/15 rental debt older than seven days as a percentage of monthly rental income (one of our key performance measures) reached an all-time low of 2.7 percent at 30 June 2015. This compares with 3.6 percent at 30 June 2014. We have also reduced the total number of our tenants in rental debt from 5,122 in June 2014 to 3,850 in June 2015, a 25 percent reduction over the period. These debt reductions have been achieved while writing off $0.394 million less[7] rental debt in 2014/15, when compared with the 2013/14 year.

7. We wrote off a total of $0.680 million in rental debt in 2014/15, compared with $1,074 million written off in 2013/14.

Total rental debt value and current tenants – July 2013 to June 2015



During 2014/15 our Customer Services Centre received 995,820 calls – and 74 percent of these were answered in less than four minutes (target 70 percent). Customer satisfaction with our Customer Services Centre remained high during the year at 87 percent (target 75 percent).

Rheumatic Fever Prevention Programme

Rheumatic fever is a serious but preventable condition. In New Zealand, Māori and Pacific children are most vulnerable, and there is a strong link between housing conditions and the disease. The Government has targeted a two-thirds reduction in rheumatic fever over a five-year period through its Better Public Services programme of work (Result Area 3).

Housing New Zealand is a significant contributor to this work. Our Rheumatic Fever Prevention Programme focuses on reducing the risk for vulnerable children in our homes. When a family is assessed as being at risk, we complete housing-related interventions to improve the quality of their home and to keep it warm and dry. These interventions may involve installing mechanical ventilation in the kitchen or bathroom; fitting or replacing carpets, drapes and insulation; or installing new heating sources. The tenant is also placed on a high-priority internal transfer waitlist if a larger house is required.

The programme was launched in Auckland, where there is the greatest concentration of children at risk of rheumatic fever. It has been extended to the Bay of Plenty, Wellington, Hawke's Bay, Hutt Valley, Lakes, Northland, Tairawhiti and Waikato district health board areas.

Since January 2014 we have assisted 365 at-risk families through the programme, and completed 703 interventions. These families are now living in healthier homes, which significantly reduces their risk of contracting rheumatic fever.

House improvements warm Otara family's heart

Last winter Tupou's family fought over socks to keep the cold at bay and slept together in the lounge to conserve warmth.

It wasn't an ideal situation for any family – but it was especially tough for this one.

Tupou's eldest son, 16-year-old Ongolea, had rheumatic fever at age 13 and still lives with its effects, while 5-year-old Paula was born with a heart valve missing and has already had several operations.

But this winter the family has enjoyed much better health, thanks to a warmer, drier home.

Their Housing New Zealand property has been extended from a three-bedroom, one-toilet home to a four-bedroom home with two toilets, under the Housing New Zealand RightSize programme. And it has also been through the Rheumatic Fever Prevention Programme.

The initiative, run jointly by the Ministry of Health, Housing New Zealand and other agencies, identifies families with children at risk of rheumatic fever, then assesses their home and makes improvements needed.

At Tupou Paea's home, the ceiling insulation has been upgraded and new underfloor insulation has been installed. New curtains have been hung, carpet laid in the lounge, bedrooms and hallway, and a rangehood put in to help with ventilation.

"I had my own curtains up but they were really thin. The new ones have made a big difference," Tupou says.

There have been fewer trips to the doctor as a result. "This year the doctor rang and said, 'I haven't seen you'," Tupou smiles. "So I told him we'd had lots of things done with the house, and he said that was good."

The Ministry of Health's Dr Chrissie Pickin, who leads the Government's Rheumatic Fever Prevention Programme, says Housing New Zealand's commitment to the programme will make a big difference to families' health.

Shaping our future services

Gaining a better understanding of who our customers are and the level of service they require

We are identifying the type of house, location and service our different customer groups need, to make sure they receive the appropriate level of support at the right time for their needs. We are also working to improve our understanding of the costs involved in servicing our different customer groups.

Ensuring our tenants are in properties that are meeting their needs may mean transferring tenants who have a change in circumstances to other Housing New Zealand properties that match their needs better. We may also transfer tenants to other Housing New Zealand properties as a result of planned asset activity, such as redevelopments. We consult with tenants to make sure they receive effective support throughout the transfer process.

During 2014/15 we began developing a Tenancy Management Strategy, and we will finalise this in 2015/16. The strategy recognises that a 'one-size-fits-all' approach does not meet the varied and complex needs of our customers effectively.

Over the coming year we will be trialling a differentiated service model in a small area of South Auckland, realigning the portfolio into distinct customer segments, which will inform us of how we can work more effectively with our customers in the future.

Enabling our staff

With the progression of the social housing reform, we need to deliver our services in the most effective and efficient way. This is especially true for our tenancy management services.

During 2014/15 we began work on our Mobility Project. This project is about much more than smartphones and tablets. We will deliver user-friendly applications that interface with Housing New Zealand systems.

Our tenancy managers, property asset managers and contract auditors will spend less time at their desks and more time with tenants or assessing our properties. They will collect the right information, which can then be used to make better decisions about our assets, resulting in better outcomes for our customers.

Our customers understand their entitlements and obligations

Most of our tenants are good neighbours and good members of their communities. However, a few tenants behave in ways that adversely affect the lives of those living in their surrounding neighbourhood. As a social landlord it is important that we continue to challenge behaviour that impacts negatively on our communities.

We make every effort to get our tenants back on track. If that is not successful, we may terminate their tenancy, and if necessary consider a suspension for a year. Under our Suspensions policy, tenants whose properties are associated with serious anti-social behaviour, or who commit a serious breach of their tenancy obligations (including fraud), may have their eligibility for a Housing New Zealand house suspended for one year. We may also suspend for one year household members, and visitors to and associates of the property, if we believe they have been involved in the behaviour that led to the ending of the tenancy. During 2014/15 we issued 196 '90 day notices' giving notice of termination of tenancy because of anti-social behaviour; a further 18 tenants were evicted in the same period for anti-social behaviour.

Working with the Ministry of Social Development

The Ministry of Social Development assesses housing need and decides if an applicant moves on to the social housing register. It is Housing New Zealand's role to house applicants for social housing who are on the shared social housing register administered by the Ministry of Social Development. We aim to do this according to their level of need, balanced with other objectives such as fast-tracking families at risk of rheumatic fever; ensuring 'best match' (for example, best use of bedrooms) with our available homes; ensuring sustainable neighbourhoods and tenancies; and recognising the need to reconfigure our portfolio.

On 1 July 2014 we started working with the Ministry of Social Development on implementing reviewable tenancies. These help us determine whether a tenant's housing needs have changed and whether they are still eligible for social housing. Each review carefully considers the tenant's circumstances.

The Ministry of Social Development began conducting the reviews during 2014/15. At 30 June 2015, 185 tenants had completed the end-to-end tenancy review process. A total of 150 tenants voluntarily moved into alternative forms of housing; of those, 11 have purchased a home. No one was required to terminate their tenancy as a result of the completed reviews.

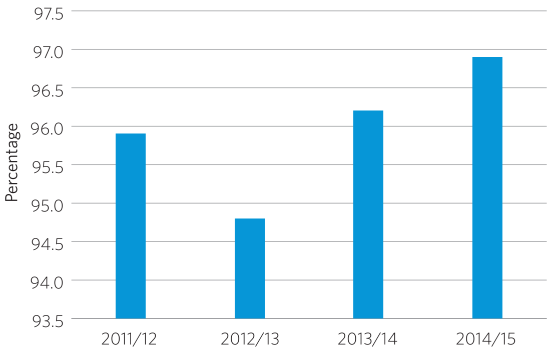
We will continue to support our tenants through this process by ensuring they understand what is involved and know where to go to get more information, or take action as a landlord when a tenant is no longer eligible.

"Maintaining our properties in good condition for our tenants is a high priority."

PURPOSE	MEASURE	TARGET	2013/14 ACTUAL	2014/15 ACTUAL
We are managing our portfolio effectively to meet demand and optimise financial returns	Rental occupancy	98% by June 2018	96.2%	96.9%
Our homes are maintained to an appropriate standard	The percentage of surveyed lettable properties that meet or exceed the baseline standard rate	95% by June 2016	N/A (New measure)	To be reported next year*

* We will report on this measure again in 2015/16. Housing New Zealand considers the Property Quality Index (PQI) undertaken in 2013/14 on more than 90% of our housing portfolio to represent relevant whole of portfolio condition information.

Percentage of Housing New Zealand homes that are let (rental occupancy) as at 30 June – 2011/12 to 2014/15



Our homes need to match our tenants' needs. One of our long-term indicators of whether we are managing our portfolio effectively to meet demand and optimise financial returns is rental occupancy rate. We have significantly improved our rental occupancy rate during 2014/15 – increasing it from 96.2 percent as at 30 June 2014 to 96.9 percent as at 30 June 2015 (see graph above).

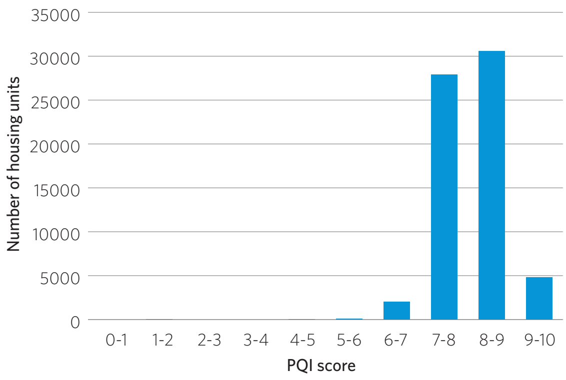
Achieving this 0.7 percent improvement in the rental occupancy rate represents an additional 471 families in need that were housed at 30 June 2015 compared with if the rental occupancy rate was maintained at 30 June 2014 levels. Our occupancy rate is almost back to pre-Christchurch earthquake levels.

Measuring property quality

In 2013/14 we surveyed approximately 90 percent of our housing portfolio and the information was translated into our Property Quality Index (PQI). The survey covered 91 components, including those that require assessment of condition, such as floor coverings and cabinetry, and components that are only assessed on whether they are functioning, such as smoke alarms. The condition of the property was scored between 1 and 10 and is an average of overall component results. Of the properties surveyed, 97 percent met the baseline standard score of 7 or over (see graph over page).

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

Housing New Zealand properties by Property Quality Index result – 2013/14



A score of 7 or more on the PQI index means that overall the property is in a very good[8] condition. This means that key elements of the property, for example wall linings, floor coverings, bathrooms and kitchen components, will be in a very good condition. However, there may be other elements, for example window joinery, where future maintenance work is required to bring it back to a better condition.

The PQI data provides us with a key tool for helping us identify our planned maintenance programmes and determining which properties, based on the condition of the component, are included in these programmes, such as the exterior painting programme.

Currently, the PQI survey undertaken in 2013 is the best available tool Housing New Zealand has to assess the quality of our housing. However, we are exploring whether it will continue to be the most appropriate measure of property quality.

In addition to the PQI survey, we monitor properties through:

- annual health and safety inspections
- annual visits by tenancy managers
- inspections when a tenant vacates a property.

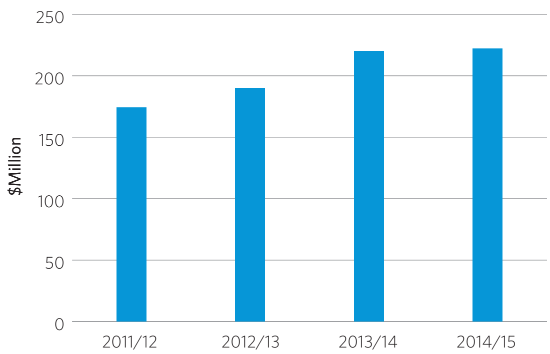
Our contractors also give us useful information on the state of our properties when they undertake maintenance work on them.

Taking a planned approach to maintaining, upgrading, acquiring and divesting our homes

As properties age, they require more maintenance. At a certain point, the benefits from redeveloping or selling a property outweigh the ongoing costs of maintaining it. Almost 25 percent of our homes are more than 60 years old and need ongoing monitoring to help avoid significant maintenance costs in later years.

Maintaining our properties in good condition for our tenants is a high priority. A significant focus of our Asset Management Strategy is therefore on maintaining our properties to prevent major issues, and to help avoid significant amounts of deferred maintenance in later years.

Total Housing New Zealand annual operating maintenance expenditure – 2011/12 to 2014/15



We carry out two types of maintenance: responsive repairs and planned maintenance. Responsive repairs focus on urgent health and safety and other essential work. Planned maintenance focuses on extending the life of the house or replacing amenities, such as relining bathrooms or installing ventilation in kitchens and bathrooms.

8. The PQI condition score of 7 and above is equivalent to the NAMS (National Asset Management Steering) Group 2006 condition rating of 1 (very good to new). NAMS operates a 1 (very good) to 5 (very poor) scale of condition.

Improving the quality of our properties

Our priority for planned maintenance during 2014/15 was the remediation of our larger complexes and earthquake prone buildings. In the coming year our standalone housing stock will become more of a focus alongside the multi-year programme to remediate our complexes.

Our planned programme of work during 2014/15 involved a wide range of programmes, including:

- unoccupied repairs ($67.7 million)
- exterior paint programme ($15.6 million)
- earthquake prone buildings ($10.1 million)
- complexes remediation ($5.6 million)
- Driveway Safety Programme ($6.0 million)
- Community Group Housing ($3.7 million)
- insulation/heating/healthy homes programme (over 59,000 of our properties either have been retrofitted with insulation or were built after the year 2000 with approved insulation) ($8 million)
- Christchurch repair programme ($77.1 million)
- fire/chemical reinstatement programmes ($3.9 million).[9]

These programmes are discussed in more detail in the sections below.

We acknowledge that there is still more work to do. We have over 67,000 homes, and many of these are old. Design issues and the materials used in their construction mean some of our homes are difficult to keep warm and dry.

We also have several initiatives planned over the next 12 months targeted at further improving the quality of our housing stock. We will:

- continue to invest in our insulation, heating and healthy homes programmes
- ramp up our development and new homes programme – set to deliver over 1,200 new warm, dry and safe homes to our portfolio and the affordable housing market in 2015/16
- develop further our approach to our national maintenance programmes to target our resources more effectively
- provide our staff with new tools to help them assess the condition of our properties, and better link the results of these assessments to our maintenance programmes.

Highlights of our 2014/15 maintenance programmes

During 2014/15 we:

- spent $222 million of operating expenditure on maintaining our homes, 28 percent more than we spent in 2011/12 (see graph opposite)
- completed 6,138 repairs on vacant homes, ensuring they were brought back to a lettable standard before being re-tenanted
- spent a further $176 million on capital upgrades and improvements to our homes – including the repairs to our Christchurch homes and RightSize extension programme
- responded to 101,483 urgent health and safety enquiries on our properties – these were issues that had immediate effects on the health and safety of our tenants, such as blocked drains or dangerous gas and electrical faults
- responded to our urgent health and safety queries within 3.8 hours of the request (target 8 hours); this compares with 4.5 hours achieved in 2013/14.

During the year we also undertook a specific 'warm and dry' programme of work across the country, we targeted those tenants who were most vulnerable to ensure their homes were as warm and dry as possible, and the work that was needed to be done was prioritised.

We are also educating tenants about how to heat, ventilate and maintain their home efficiently, as we know this plays a big part in keeping homes healthy.

Earthquake Prone Building (EPB) programme

During 2014/15 we made significant progress on our work to address our earthquake prone buildings.

Housing New Zealand has adopted an active policy of seismically assessing all occupied offices and owned housing stock buildings to ensure they meet the requirement of section 122(2) of the Building Act 2004. Our Earthquake Prone Building programme involves surveying multi-unit buildings and strengthening or demolishing them if they are found to be earthquake prone.

A total of 1,049 buildings were identified for further investigation. Once these buildings were identified, tenants were moved out and alternative accommodation was found for them.

9. All expenditure quoted above includes both capital and operating expenditure.

Of the buildings identified, 726 were assessed as needing no further action, leaving 323 that required further attention. At 30 June 2015, 186 have been resolved (66 buildings strengthened, 95 buildings demolished, and 25 resolved through other processes such as lease expiring). Of the 137 still to be resolved, 104 are in the remediation pipeline for work to be completed, 18 require further third-party seismic assessments, 14 have been earmarked for redevelopment, and one is still to be demolished.

Summary of Earthquake Prone Building programme

DESCRIPTION	TOTAL
2012/13 EPB buildings identified	**1,049**
Action taken:	
Assessed as no further action	726
Completed or resolved	186
Remediation pipeline	104
Require third-party seismic assessment	18
For redevelopment	14
To be demolished	1
Total	**1,049**

Improving the maintenance of our complexes and significant buildings

Our multi-unit complexes require a different maintenance approach from our standalone properties. To ensure we are looking at the building as a whole, not just focusing on individual units or issues, we are reviewing the way we maintain our complexes.

During 2014/15 we undertook comprehensive condition surveys to provide detailed briefs for remediation solutions to be developed. The surveys covered invasive testing for weather tightness and detailed roof checks to confirm moisture readings. The condition of the interior of units was not included, as the programme's primary focus was on structural and weather-tightness issues.

The programme has identified 349 buildings across 108 sites, involving 3,157 units that have property condition issues and need remediation. These programmes often involve moving tenants out of some buildings, which can affect the timing and phasing of the work. At 30 June 2015, 62 buildings have been resolved (57 buildings completed, 5 demolished). A further 122 buildings should be completed in 2015/16 (including building work begun in 2014/15).

Improving our driveway safety

Our Driveway Safety Programme ensures our properties are safe for young children. The housing programme aims to complete 13,000 properties nationwide over four years. During 2014/15 we upgraded 4,283 of our properties as part of this initiative. Since the initiative commenced in 2013 we have completed upgrades on 9,383[10] properties.

Our top priority is properties where there are children under 5 years old, with the remaining properties being upgraded as part of our normal upgrade process. Work includes installing gates, fences, speed humps and speed restriction signs or convex mirrors.

Families welcome a safer home

Tenants in Grey Lynn, Auckland, are among the latest Housing New Zealand tenants to enjoy safer driveways, thanks to work done under the Driveway Safety Programme. Mr and Mrs Maasi have lived in their property since 1991 and are delighted with their recent safety upgrade, which includes a new fence with a pool gate to separate the front garden from the driveway.

Mrs Maasi told us that one of the children used to love chasing the cat across the driveway and into the neighbour's yard. The fence means that not only is the cat safer, but so are the kids, as they can't get out into the danger zone anymore. The family is also now much more relaxed about letting the kids play outside. Mr Maasi has already painted the fence to look spick and span, in keeping with their immaculate garden, and when asked how she feels about their new fence, Mrs Maasi is effusive:

"Thank you so much! It's so much safer now. We are very grateful for all you've done!"

New Zealand has some damning statistics around driveway safety. On average a child is admitted to hospital every two weeks with injuries received from a vehicle in a private driveway, and five die each year from those injuries, usually caused by a relative running over the child.

Housing New Zealand is committed to making a difference to child safety and setting an example to encourage other landlords to do the same.

10. In 2013/14, of our households with children under five, 3,157 had a driveway safety intervention. In total during 2013/14 we completed 5,100 driveway interventions.

Divesting older and no longer fit-for-purpose homes

During 2014/15 we sold 519 houses, mainly from areas of low demand or in areas of high value. Of these sales, 148 were sold as part of the First Home Ownership Scheme administered by Housing New Zealand. Proceeds from all sales are then invested back into areas of high demand.

The table below shows where these properties were divested from.

DIVESTED PROPERTIES BY REGION	TOTAL
Areas of low demand	
Northland	35
Southern (excluding Christchurch)	56
Waikato/New Plymouth/Tauranga/Rotorua	95
Hawke's Bay/Whakatane/Gisborne	82
Manawatu/Levin/Wanganui/Kapiti	104
Community Group Housing (CGH)	21
Areas of high demand	
Auckland	22
Wellington*	102
Christchurch	2
Total	**519**

* Of this total, 87 units relate to the sale of the Gordon Wilson apartment building in the Wellington CBD to Victoria University in September 2014.

A further 717 properties in our portfolio were demolished either as part of our redevelopment programme of work or because they were an earthquake prone building. In addition, 170 leased properties had their leases expire or terminated.

Capital from the sale of our properties is being used to purchase fit-for-purpose homes in areas of high demand.

As part of our standard divestment activities we also need to consider how we give effect to iwi interests in Housing New Zealand properties, particularly where there is a Right of First Refusal over Housing New Zealand houses or land. Treaty settlement legislation sometimes requires us to offer properties for sale in certain areas to iwi before they can be sold to anyone else.

Final decisions on disposal processes lie with our Board, and are consistent with objectives as outlined in the Housing Corporation Act 1974. This is separate from the Government's Social Housing Reform Programme of housing stock transfers currently being led by the Treasury's Transactions Unit.

First Home Ownership Scheme

The First Home Ownership Scheme was a Housing New Zealand initiated programme that began in October 2013. It aimed at incentivising people, mainly in provincial or rural areas of New Zealand, to enter into affordable home ownership, and assisting Housing New Zealand to accelerate its disposal of surplus homes from low-demand areas. The scheme gives first home owners access to surplus Housing New Zealand properties and financial assistance as well as other lending packages. During 2014/15 we sold 148 homes to first home owners in areas where the demand for social housing is low.

Shaping our future state

Our Asset Management Strategy (AMS) is our long-term approach to managing our housing portfolio. The strategy is based on regional and national customer demand and our ability to meet this demand.

During 2014/15 we refreshed the strategy to ensure we achieve a sustainable and fit-for-purpose portfolio. A critical element of the strategy is getting a balance between maintaining our properties and reconfiguring our portfolio.

The refreshed strategy provides clear guidance on our priorities and direction while retaining the flexibility to respond to the Government's vision of a more diverse sector. We anticipate that we will need to revise the Asset Management Strategy once we know the outcomes of the Strategic Review of Housing New Zealand.

Focusing our building programme on areas of high demand and locations where we need to renew our portfolio

Many of our homes are located in areas of low demand, while other areas have a significant undersupply. Across the country we also have too many three-bedroom properties, while demand has grown for smaller one- or two-bedroom homes or for much bigger homes. Demand for homes in the Auckland region is high and more Housing New Zealand homes are needed. We have limited ability to develop our own land holdings in these areas, in part due to infrastructure constraints or zoning restrictions. The competition for acquiring new land for building and developments is also increasing. This is placing pressure on our ability to meet demand in these areas.

Managed stock

DESCRIPTION	TOTAL
Opening balance 1 July 2014	**68,229**
Additions 2014/15	441
Disposals 2014/15*	(1,406)
Adjustments**	(19)
Managed stock 30 June 2015	**67,245**

* Includes 170 properties for which leases were not renewed.

**19 units relocated to prison yards as part of the Prison Refurbishment Programmes.

We are working closely with the Ministry of Social Development to ensure that we have homes in the right places to meet demand. The social housing register broken down by local territorial authority can be found on the Ministry of Social Development's website:

http://www.housing.msd.govt.nz/information-for-housing-providers/register/2015/territorial-local-authority-june.html

To respond to these areas of high demand, we have set ourselves a challenging target to build or have in delivery 2,000 new homes by 31 December 2015, mostly in Auckland and Christchurch. The target was set in 2013, so spans multiple financial years (2012/13 to 2015/16) and includes some houses that are sold into the private housing market.

To meet these challenging targets we have reorganised our asset development team and brought in new capacity, expertise and systems. These changes have taken time to make and we have not been able to ramp up our development programme as quickly as we would have liked. However, we are now well placed to drive our planned activity of new builds in the coming year, including some major new developments.

By the end of 2015 we will have delivered properties to meet the target or they will be under construction with delivery dates in the first half of 2016. At 30 June 2015 we had completed 666 new homes; 487 were completed during 2014/15 (79 of these were sold into the private market), with 1,359 more either currently under construction or contracted to be built.

Additional stock by addition type during 2014/15

HNZ ADDITIONS BY TYPE	NUMBER
New build homes purchased	108
HNZ new build homes on existing HNZ land (redevelopments)	300
Total new HNZ additions	**408**
New builds sold into private market	79
Total new build homes towards target 2,000 in 2014/15	**487**
Adjustment for new builds sold into private market	(79)
Purchases (not new)	33
Total HNZ additions	**441**

Progress towards target 2,000 by year

YEAR	NUMBER OF NEW BUILDS
2013/14 (and prior)*	179
2014/15	487
Total new builds	**666**

* The target was set late in the 2012/13 financial year – two homes were completed late in that financial year and counted towards the target.

Making progress with our repair and rebuild programme in Canterbury

Our repair and rebuild programme in Canterbury is a major priority. Our immediate focus has been on repairing up to 5,000 of our quake-damaged properties and building up to 700 new homes for tenants by the end of 2015.

The hard work undertaken by previous Housing New Zealand Executive Team members to successfully reach the $320 million insurance settlement early in 2013 ensured that we were well placed to commence our rebuild and repair programme well ahead of many other insurance holders in Canterbury.

We have made considerable progress towards these targets. At 30 June 2015 we had completed 218 new homes; 176 of these were completed during the 2014/15 financial year. The remaining 482 homes either are under construction or have been contracted.

Our repair programme is well on track. At 30 June 2015 we had completed 4,260 repairs to our earthquake-damaged homes, 2,849 of which were completed during the 2014/15 financial year. The balance will be completed by the 31 December 2015 target date.

At the same time, we are assessing the future requirements of our housing stock to inform our decision making. Housing New Zealand's ultimate aim is to create a sustainable legacy of social housing for the Canterbury region.

Prison Refurbishment Programmes

Contributing to Housing New Zealand's new build targets are the Rolleston and Spring Hill Prison Refurbishment Programmes, a partnership between Housing New Zealand and the Department of Corrections.

The programme enables prisoners to gain trade skills that help them obtain employment after their release, and Housing New Zealand gets rejuvenated homes returned to its portfolio that would otherwise have been demolished. These homes can be used to increase the supply of social housing in high-demand areas.

Initial feedback from the Department of Corrections indicates that prisoners involved in the programme have lower recidivism rates. The programme therefore supports the Government's Better Public Services Result Area 8: Reduce reoffending. Former prisoners with recent trade qualifications are also contributing to the Christchurch rebuild.

During 2014/15, nine homes were completed and relocated to their new sites; 24 more homes were refurbished at the prison yards and will be re-sited over the next few months. A further 68 homes are either under refurbishment or waiting refurbishment at the prison yards.

Making the best use of our houses and land to meet tenant needs

Overcrowding is an issue that affects many of our tenants' health and wellbeing, especially in Auckland, where there is high demand for larger homes. Our bedroom extensions programme is helping to meet demand from the social housing register in Auckland by converting three-bedroom homes into four- and five-bedroom homes. Adding an extra one or two bedrooms (and another bathroom where necessary) means more of our tenants are living in appropriately sized and healthier homes. During 2014/15 we completed bedroom extensions to 247 homes.

Our existing land in Auckland will also house more small families, couples and single people in need. We are building new two-bedroom homes on Auckland sections that are big enough to have another dwelling. During 2014/15 we built an additional 107 two-bedroom units on existing Housing New Zealand sections, which also included making improvements to the existing homes where these were required.

Initiatives like these are helping us to reconfigure the portfolio so our homes are of the right size and in the right location to match demand. These initiatives also contribute to the Government's Accord with the Auckland Council to increase the supply and affordability of housing in the region.

Integrating our customers and homes with their communities

In some areas, particularly those with high concentrations of state housing, neighbourhood issues and negative social outcomes can, and do, arise.

In partnership with the private sector, we are undertaking development projects aimed at building positive communities. This includes providing better access to public transport, shared green spaces, and community gardens. Our redevelopments increasingly feature a mix of housing – privately-owned, social housing and targeted affordable housing. We actively engage with tenants and locals affected by redevelopment work to anticipate and respond to their concerns.

During the year we launched the *Simple Guide to Urban Design and Development*. The guide outlines our expectations for well-designed environments and highlights key design principles we consider to be fundamental to the creation of healthy and sustainable communities.

It is one of the tools we use to help us, and the people we work with, understand our expectations around design, quality and cost. As a result, we can deliver well-designed buildings and community environments that work well now and into the future.

"Housing New Zealand has one of the largest asset holdings in the private or public sector in New Zealand."

Key performance measures

PURPOSE	MEASURE	TARGET	2013/14 ACTUAL	2014/15 ACTUAL
Operating efficiency and cost control are maintained	Organisational running costs per housing unit*	Improve by 1.5% on 2013/14 result	Base year ($2,218)	Improved by 6.5% ($2,075)
Sound financial oversight and stewardship of the Crown's assets are maintained	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)	$484 million	$473 million	$506 million
Housing New Zealand provides a safe working environment	Total Recordable Injury Frequency Rate – number of injuries per one million hours worked	Reduce by 25% by June 2018	Not applicable**	10.2 (Base year)
Housing New Zealand has an engaged workforce, and the impact of change is monitored	Annual employment engagement survey	Increase by 2% year on year	Base year (3.96)	Increased by 3% (4.08)

* This measure differs from the measure 'operating cost per unit managed' reported in our 2013/14 Annual Report. This is a measure of organisational efficiency and only includes costs associated with running Housing New Zealand. It excludes direct costs associated with managing our properties, depreciation and interest charges.

**During 2014/15 we undertook a review of our health and safety reporting to align it with industry best practice – the US Occupational Safety and Health Administration (OSHA) definitions. It is therefore not possible to compare our 2013/14 Recordable Injury Frequency Rate result with our 2014/15 result. The 2014/15 result will now become our base year for the targeted 25% reduction by June 2018.

Optimising our return to the Crown

In delivering the Crown's social objectives of providing housing and services related to housing, we must operate in a financially responsible manner and optimise our return to the Crown.

At 30 June 2015 our total assets were valued at $21.8 billion and we collected over $1.1 billion in revenue from rents and rental subsidies this year. Because of the scale of this investment, we must make sound financial decisions to ensure the Government achieves greatest impact for the investment it has made.

In 2014/15 we delivered well on a number of our key financial objectives, continuing our strong focus on improvements in efficiency and the effectiveness of our spend.

Key financial achievements for the year include:

- returning $321 million to the Crown, comprising $118 million in tax, $96 million in interest costs and $107 million as a distribution to the Crown
- delivering sound financial stewardship by increasing the value of the property portfolio by $2.2 billion to $20.9 billion. This increase adds value to the Crown

balance sheet, and means Housing New Zealand has one of the largest asset holdings in the private or public sector in New Zealand
- reducing the cost of our delivery per housing unit by 6.5 percent to $2,075 (target $2,185)
- continuing to invest in new stock – spending a total of $135 million on new additions and redevelopments
- paying $142 million in local authority rates
- continuing to invest in our current housing stock by spending $222 million on ongoing repairs and maintenance and $176 million on capital upgrades and improvements (including the Christchurch repair programme)
- maintaining high levels of cash, with closing cash and investments of $620 million. Of this total, a proportion will be distributed to the Crown as part of Housing New Zealand's annual dividend payment in the 2015/16 year and a further $40 million (approximately) is held as reserve funds for Housing New Zealand's financial Crown Products. The balance of these funds is committed to fund our new builds, redevelopments and the Christchurch repair programme.

The following table shows the return we have made to the Government over the last three financial years.

$M	2012/13	2013/14	2014/15
Dividend returned	77	90	108

Delivering programmes and initiatives on behalf of the Crown

We continued to administer a range of Crown-funded programmes related to housing.

We support Welcome Home Loans by providing the participating lenders with lenders' mortgage insurance. We also support Kāinga Whenua loans, offered through Kiwibank, by guaranteeing the loans for Kiwibank.

The KiwiSaver HomeStart grant was introduced in April 2015. It replaced the KiwiSaver Deposit Subsidy and doubled the support for buying a new home. We process applications for the grant from people who are buying their first home using KiwiSaver. We also administer the applications for KiwiSaver withdrawals for people who have previously owned a home or land. Individuals can now get a grant of up to $5,000 towards the purchase of an existing/older home, and up to $10,000 to help with the costs of purchasing a brand new home. Couples can receive up to double this amount.

Changes to the KiwiSaver first home withdrawal product allow all contributions, including members' tax credits, to be withdrawn (excluding the Government's $1,000 kick-start). House price caps for KiwiSaver and Welcome Home Loan products were also aligned.

The introduction of the new KiwiSaver HomeStart grant led to an influx and backlog of applications. We have taken on additional staff to help reduce the backlog and bring processing times down.

During 2014/15 we:

- received 15,719 KiwiSaver HomeStart grant and KiwiSaver Deposit Subsidy applications and approved 8,029, compared with 10,056 applications received during 2013/14
- paid out $32 million in KiwiSaver HomeStart grants and KiwiSaver Deposit Subsidy payments
- processed 1,067 loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme, compared with 1,429 received during 2013/14.

The performance measures used to determine whether we met service volume and quality standards of Crown-funded programmes are contained in the Annual information section of this report.

Community Group Housing

We rent over 1,500 properties to government-funded community groups that provide primarily residential community services. This involves tenancy management of the properties, and administering a rental subsidy for eligible groups. During 2014/15 we provided rent relief to 689 Community Group Housing providers through the Community Housing Rent Relief Programme appropriation.

Hobsonville Land Company

The Hobsonville Land Company, a subsidiary of Housing New Zealand, is undertaking a large-scale development at Hobsonville Point on the Waitemata Harbour and acts as Housing New Zealand's agent to manage the development at Hobsonville Point. The development is on Crown land and will see the construction of up to 3,500 new homes. Under a Cabinet mandate 20 percent must be priced for affordable home buyers. Community facilities such as schools, recreational spaces, and reserves have been developed, along with a waterfront area with a ferry terminal. To 30 June 2015, 746 homes and sections have been sold (330 during 2014/15) and 162 affordable homes have been sold including 61 during 2014/15.

The project has performed solidly during 2014/15, and we:

- achieved our land sales target of $53.3 million
- completed the construction of most of the major roads and associated infrastructure, with the final stage of Hobsonville Point Road due for completion in August 2015
- sold all Buckley A land to build partners
- achieved very good superlot values in the final stages of the Buckley A precinct of $893/sqm
- exceeded our sales target by 10 percent – the Hobsonville Point builder partners are now consistently selling, on average, at least one house every working day
- started building the Coastal Walkway.

Capital management

During 2014/15 Housing New Zealand spent $315 million on capital expenditure. The following table highlights property spending during 2014/15 that is part of the long-term Asset Management Strategy.

Capital additions

CAPITAL ADDITIONS	2014/15 $M
Buy-in	6
Land	29
Redevelopments	100
Upgrades	176
Infrastructure	4
Total	**315**

Managing our current state

We often have higher costs than private landlords because we act as a social landlord for people with the highest housing needs, and because we have obligations as a Crown entity. In addition to the $311 million spent on capital additions, we spent $222 million on the repair and maintenance of our properties in 2014/15.

Continuing to improve our support systems and assurance processes

We continue to make our systems more efficient and improve the way we deliver services. For example, we have integrated our asset and financial information more effectively to make better-informed decisions on maintenance spending. We have also invested in improving the way we manage procurement and outsourcing.

A safe haven for women and children

Rhonda has been working with Women's Refuge for almost two decades and has seen women of all ages (the oldest 87) seek help from her organisation.

"When they first come in they are very timid and afraid to say 'boo'. Then you see them slowly starting to grow and strike up conversations with you that you know they wouldn't have before."

Rhonda is Operations Manager for the Eastern Women's Refuge Society, one of 48 refuges affiliated to the National Collective of Independent Women's Refuges started in Christchurch back in the 1970s, when women took those at risk into their own homes. Thankfully, times have changed.

"Our core services are community and residential social work, and safe housing," says Rhonda. And the provision of safe housing is where Rhonda's organisation and Housing New Zealand intersect.

"Our relationship with Housing New Zealand extends back to 1987, when our refuge first started," she says. "They provide us with two residential properties and women and children can stay for up to eight or 10 weeks so they have time to get a good, solid safety plan established around them, work with our counsellors and complete some of our programmes."

Rhonda says her area of work is challenging but it's also hugely rewarding.

"The best part is seeing these women become healthy and learn what it is to live free of violence and have their children grow up feeling safe and secure."

Investing in our organisational capability

Leadership

We want to ensure our operational performance is consistently high across the country, improve our maintenance standards, and continue to scale up our asset delivery programme. To achieve this, we have been investing in our people leaders throughout the country. Effective leadership is particularly important as we navigate through social housing reforms and operate in a changing and challenging environment.

During 2014/15 we have revised our leadership framework and reviewed our core competencies and leadership development portfolio. We support our people through centralised development programmes that are integrated with our leadership framework and organisational goals.

We are committed to building leaders of the future by identifying and supporting key talent through accelerated leadership development programmes. The talent management approach that we implemented this year identifies business critical leaders and specialist leadership roles to enable us to build the workforce of the future.

People capability

As our business environment continues to evolve, and as other providers join us in delivering social housing, it is important that our staff remain committed and engaged. Their individual performance and individual development plans should align with our goals and priorities and we will continue to monitor staff engagement.

One of the ways we measure our staff engagement is the annual engagement survey, and we encourage our people to participate in the development of employer programmes.

Our employee engagement scores have increased steadily over the last three years, achieving an overall high in 2014/15 of 4.08 on the Gallup five-point scale. This is up from the 3.85 result achieved during the 2012/13 financial year – a 6 percent increase over the three years.

Housing New Zealand promotes diversity and equal employment opportunities in our workplace. We aim to provide an employment environment where our people develop their potential, and contribute to the best of their ability to achieve Housing New Zealand's four strategic goals.

To demonstrate our commitment to improving our systems and processes, we have provided training to both frontline and back office employees. As part of the investment in our people, we have adopted a leader-led model of training that enables our leaders to provide continued support and training throughout the year. We ask our people for feedback on policies before they are finalised. The most recent staff participation programme is a voluntary employee-led engagement working group. We also have a collaborative relationship with our only union, the Public Service Association, which allows regular opportunities for engagement and consultation.

Our flexible work practices and performance and rewards framework provides an integrated and transparent approach between systems, processes and leadership. This ensures our people can achieve acceptable work-life balance and are recognised and rewarded according to their contribution to Housing New Zealand's performance.

Being a good employer

Housing New Zealand meets its obligations set out in section 118 of the Crown Entities Act 2014 to be a good employer. We ensure staff policies, practices and processes are fair and equitable for all job applicants and all of our people.

Housing New Zealand provides equal employment opportunities, recognising our obligations under the Treaty of Waitangi, and the aspirations of Māori and ethnic and minority groups, and to reflect the communities we serve. Policy content is continually reviewed to ensure it remains relevant and appropriate. The Public Service Association is consulted on all important organisational changes or establishment of policy.

Recruitment, selection and induction

Housing New Zealand provides a great place to work based around our three core values of working as one team/kotahitanga, with integrity, to achieve excellence.

Housing New Zealand uses competency-based recruitment and selection processes. We assess 'best fit' for the job by evaluating candidates against critical criteria for the job (provided during the application process). Our induction processes systematically build commitment to our organisational values, behaviours and strategic competencies.

When our people leave, we conduct confidential online exit surveys to monitor trends, and we report on outcomes monthly. Turnover is in line with the average for the state services sector.

Risk management

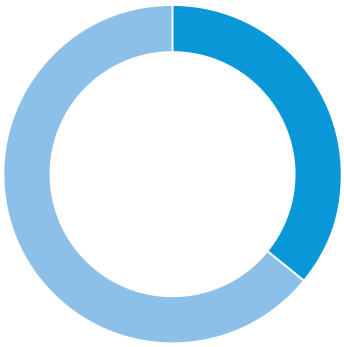
Housing New Zealand is committed to being a place where effective risk management is a day-to-day part of all business activities. To manage risks effectively at all levels of our business, we have established 'three lines of defence':

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

Ethnicity profile of Housing New Zealand staff

NEW ZEALAND EUROPEAN/ PĀKEHĀ	44%
PACIFIC PEOPLES	17%
MĀORI	14%
EUROPEAN	9%
UNKNOWN	7%
ASIAN	7%
MIDDLE EASTERN/ LATIN AMERICAN/AFRICAN	2%

Gender profile of Housing New Zealand staff



MALE	36%
FEMALE	64%

Health and safety

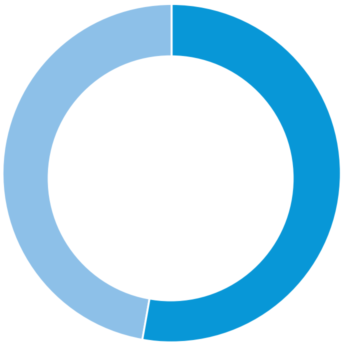
The health, safety and security of our employees, contractors and tenants are our first priority. Housing New Zealand continues to be committed to ensuring our practices and environment are geared toward our health and safety goal of Zero Harm. Where there are risks, we train our people, put in place controls to minimise harm, and ensure education and information are current and applied where they are needed.

In early 2015 we commissioned an external review of our health and safety practices and procedures to ensure we can meet the requirements of the new legislation, and our Zero Harm goal. We are already addressing all recommendations, including rolling out a new operating system and establishing connections with stakeholders to form communities of practice.

Housing New Zealand has maintained secondary accreditation in the Workplace Safety Management Audit performed by the Accident Compensation Corporation. We have also changed our reporting definitions so they align better with national standards. This means we can more accurately benchmark our performance against industry best practice.

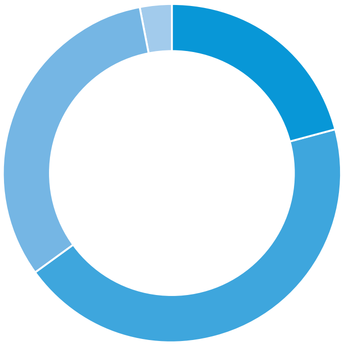
The annual Health and Safety Awards show us how our people are engaging and leading safety and health initiatives in the field.

Gender profile of Housing New Zealand management



MALE	53%
FEMALE	47%

Age profile of Housing New Zealand staff



20-34 YEARS	21%
35-49 YEARS	44%
50-64 YEARS	32%
+65 YEARS	3%

"We rent properties to people whose circumstances mean that other forms of tenure are not affordable, adequate, suitable, accessible or sustainable."

Housing New Zealand's role

Housing New Zealand's role, as set out in the Housing Corporation Act 1974, is to give effect to the Crown's social objectives by providing housing, and services related to housing, in a business-like manner. Housing New Zealand achieves this by focusing on consistently delivering its core business of tenancy management and asset management. We rent properties to people whose circumstances mean that other forms of tenure are not affordable, adequate, suitable, accessible or sustainable.

Responsible Ministers

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

Housing New Zealand has the following responsible Ministers:

Minister Responsible for Housing New Zealand Corporation

Hon Bill English

Responsible for the operational oversight of Housing New Zealand in relation to the transfer of properties in support of the Social Housing Reform Programme, Housing New Zealand's support of the Canterbury earthquake recovery effort and Housing New Zealand's Asset Management Strategy.

Minister for Social Housing

Hon Paula Bennett

Responsible for the operational oversight in relation to Housing New Zealand's tenant placements, tenancy management, and repair of earthquake prone buildings.

Minister for Building and Housing

Hon Dr Nick Smith

Responsible for the oversight of Housing New Zealand's Crown Products (KiwiSaver HomeStart grant, Welcome Home Loans, Kāinga Whenua loans, and First Home subsidy) and the Hobsonville Land Company.

Legislation

Housing New Zealand's Governance Framework is based on two key pieces of legislation. The first is the Housing Corporation Act 1974. This Act prescribes Housing New Zealand's functions and objectives and in particular requires it to be responsible for giving effect to the Crown's social objectives by providing housing, and housing-related services, in a business-like manner.

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

The Social Housing Reform (Flexible Purchasing and Remedial Matters) Act was passed in 2015.

The legislation amends the Housing Restructuring and Tenancy Matters Act 1992 to allow the social housing agency (currently the Ministry of Social Development) to enter into more flexible and innovative purchasing arrangements for social housing. It creates a ministerial direction power for the Minister responsible for the Ministry of Social Development to enable them to enter into tailored agreements with social housing providers that may include different ways of calculating the income-related rent subsidy. In the absence of any agreement, the status quo prevails.

In August 2015 the Government introduced a Social Housing Reform (Transactions Mandate) Bill, which will enable the Crown to transfer Housing New Zealand properties to community housing providers.

The Housing New Zealand Board

The Housing New Zealand Board is responsible and accountable for the management and strategic direction of Housing New Zealand.

At 30 June 2015 the Board was made up of eight non-executive members, who are appointed for a fixed term, with the possibility of further reappointment. They included:

- Dr Allan Freeth (Chair)
- Adrienne Young-Cooper (Deputy Chair)
- Jeff Meltzer
- Ian Kearney
- Susan Paterson
- Whaimutu Dewes
- Peter Dow
- Alick Shaw (from 1 June 2015)

Board meetings for 2014/15

NAME	MEETINGS ATTENDED (OUT OF 11)
Dr Allan Freeth	11
Adrienne Young-Cooper	11
Jeff Meltzer	10
Ian Kearney	11
Susan Paterson	11
Whaimutu Dewes	8
Peter Dow	11
Liz Jones (resigned October 2014)	3

Three Board members recently announced their resignation from the Board. Whaimutu Dewes has resigned effective 6 July 2015, Ian Kearney effective 30 August 2015 and Susan Paterson effective 30 September 2015.

Chairperson Allan Freeth also announced his resignation from the Board effective 31 July 2015.

Two new Board members were announced in late 2014/15: Alick Shaw (appointment effective 1 June 2015) and Sandra Alofivae (appointment effective 7 July 2015).

Accountability

The Responsible Ministers provide Housing New Zealand with an annual letter outlining their expectations. This guides the development of the Statement of Intent, which is tabled in Parliament.

The Statement of Intent and the Statement of Performance Expectations set out what Housing New Zealand intends to deliver and are the primary sources from which Parliament and Ministers are able to hold Housing New Zealand to account.

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

Executive Team

The Executive Team comprises the Chief Executive, Glen Sowry, and General Managers from the eight business groups: Tenancy Services, Property Services, Asset Development, Canterbury Earthquake Recovery, Governance, Business Support, Communications/Marketing/Stakeholder Relationships, and Finance and Performance.

Delegations

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

Conflicts of interest

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

Remuneration

Remuneration for Board members is set in accordance with the rates established by Cabinet Circular CO (12)6 (refer to page 92).

Induction and development

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

Risk management

Housing New Zealand recognises that risk management is integral to good corporate governance and management. Risk management activities include identifying new and emerging risks, reporting quarterly on risks to the Board and providing quarterly progress reports on the implementation of agreed risk treatment plans.

Internal audit

The effective operation of the Internal Audit function is an integral part of Housing New Zealand's Governance Framework. It provides assurance and consulting services designed to add value and improve the organisation's operations. Housing New Zealand is committed to a systematic, disciplined approach when evaluating and improving its risk management, control and governance processes.

Consultation and reporting to the Minister

As a Crown entity with $20.9 billion in state rental assets, Housing New Zealand regularly engages with the Minister Responsible for Housing New Zealand Corporation, the Minister for Social Housing, the Minister for Building and Housing, and Housing New Zealand's monitoring agency, the Treasury.

During 2014/15 Housing New Zealand reported quarterly to the Minister Responsible for Housing New Zealand Corporation on:

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

Annual information

Statement of Responsibility
for the year ended 30 June 2015

The Board is pleased to present the financial statements and statement of performance of the Housing New Zealand Corporation for the year ended 30 June 2015.

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

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

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

d) In the opinion of the Board, the financial statements and statement of performance for the year ended 30 June 2015 fairly reflect the financial position and operations of Housing New Zealand Corporation at that date.

For and on behalf of the Board.

Adrienne Young-Cooper
Chair
22 September 2015

Jeff Meltzer
Director
22 September 2015

Output Class 1: State House Tenancies: Tenancy Management

Description

Scope

The scope of this Output Class is limited to the allocation and management of tenancies with individuals and households. The Output Class relates only to properties owned by Housing New Zealand or where Housing New Zealand holds a lease for privately-owned properties.

Activities

The activities undertaken in this Output Class include:

- working with the Ministry of Social Development to place eligible applicants and manage tenant exits
- matching applicants with available properties
- anticipating and responding to tenants' incoming telephone enquiries
- managing existing tenancies
- exiting tenants when and where required
- undertaking debt collection activities for overdue rent, property damage, and residual income-related rent arrears
- providing specialist support for tenants with multiple or complex needs.

What we are seeking to achieve

We aim to:

- ensure tenants' needs are responded to in a timely manner
- match applicants with the most appropriate available properties
- manage tenants who fall into debt.

Summary of performance

MEASURES	2013/14 ACTUAL	STANDARD 2014/15	ACTUAL 2014/15	COMMENTS
Primary output measures				
Customer satisfaction with Customer Services Centre	85%	75%	87%	Achieved
Rental debt older than 7 days as a percentage of monthly rental income	3.6%	6%	2.7%*	Achieved
Secondary output measures				
Percentage of Customer Services Centre calls answered within 4 minutes	79%	70%	74%	Achieved
Percentage of properties inspected at least annually**	99%	95%	98%	Achieved
The number of current tenants in rental debt reduces	New measure in 2014/15	5% reduction	24.8% reduction	Achieved
Reduce the value of residual income-related rent debt (excluding debt written off)	New measure in 2014/15	10% reduction	3.4% reduction	Not achieved

* This excludes debt associated with tenant damage and is an as at 30 June 2015 result.

**These inspections are undertaken by our tenancy managers.

Performance commentary

Performance highlights

Housing New Zealand underwent significant changes during 2014/15, as we bedded down the transfer of needs assessments and related functions to the Ministry of Social Development that occurred in April 2014, underwent a strategic review, and came to grips with the Government's next steps in its Social Housing Reform Programme. These changes had the potential to impact negatively on our tenancy management services. Given this, it was pleasing that we were able to maintain, and in many cases improve, our levels of service performance.

During 2014/15 we:

- maintained the high levels of customer satisfaction with our Customer Services Centre – 87 percent (target 75 percent) and the operational performance of our Customer Services Centre – 74 percent of calls were answered within four minutes (target 70 percent); this compares with 85 percent and 79 percent achieved during 2013/14
- reduced our rental debt older than seven days as a percentage of monthly rental income to an all-time low of just 2.7 percent (target 6 percent); this compares with 3.6 percent achieved in 2013/14
- reduced the number of our tenants in rent debt from 5,122 as at June 2014 to 3,850 as at 30 June 2015 – a 25 percent reduction (target 5 percent)[11] and the value of this debt from $1.2 million as at 30 June 2014 to just under $0.9 million as at 30 June 2015.

Not achieved: Reduce the value of residual income-related rental debt

Total residual income-related rental debt reduced by 3.4 percent (or $1.9 million), from $55.8 million as at 30 June 2014 to $53.9 million as at 30 June 2015, against a target reduction of 10 percent. This Crown debt is old and complex in nature. It has proved to be much more difficult to collect than we had originally anticipated.

The 10 percent reduction target was in place for the first time in 2014/15, and was set at quite an ambitious level. As we have worked through understanding this historical debt, in many instances it has been more challenging to instigate recovery arrangements at levels that make a significant difference to the outstanding balance, particularly for older debt of vacated tenants.

Revenue and output expenses

	2013/14 ACTUAL ($M)	2014/15 BUDGET ($M)	2014/15 ACTUAL ($M)	COMMENT
Revenue Crown	659	697	704	All rental revenue from state houses (not including Community Group Housing) is recognised as part of this output class.
Revenue Other	409	409	417	
Expenses	116	101	98	Expenses include the costs of administering state house tenancies and other tenancy services.
Net surplus/(deficit)	**952**	**1,005**	**1,023**	

11. Tenants in rent debt relates to current tenants with a rental debt and excludes Community Group Housing tenants.

Output Class 2: State House Tenancies: Asset Management

Description

Scope

The scope of this Output Class is limited to property management of owned and leased property and development services in relation to land and buildings owned by Housing New Zealand. This excludes the portfolio of Community Group Housing.

Activities

Managing existing properties and reconfiguring the housing portfolio. This includes:

- undertaking planned maintenance programmes
- ensuring urgent repairs and maintenance are undertaken in response to tenants' requests
- setting and reviewing market rents
- improving amenities
- responding to Government health and safety objectives
- purchasing existing houses, building new houses, leasing privately-owned houses and purchasing land for building houses in the short to medium term
- rebuilding and repairing our housing portfolio in Christchurch
- preparing existing properties for divestment, including through sale, transfer and demolition.

What we are seeking to achieve

We aim to:

- reconfigure our property portfolio to meet demand, ensuring properties are in the right place and are of the right size
- maintain the value of our portfolio
- improve the quality of our houses and amenities to a suitable level for both current and future tenants.

Summary of performance

MEASURES	2013/14 ACTUAL	2014/15 STANDARD	2014/15 ACTUAL	COMMENTS
Primary output measures				
Percentage of properties that are let*	96.2%	96%	96.9%	Achieved
Average number of days a property remains vacant between tenancies	50 days	45 days	34 days	Achieved
Percentage of customers satisfied with responsive repairs	New methodology**	70%	78%	Achieved
Number of new build houses: • Christchurch • Rest of New Zealand	New measure in 2014/15	 281 549	 161 247	Not achieved
Houses repaired in Christchurch	New measure in 2014/15	2,400	2,849	Achieved

* Results are as at 30 June.

**The 2013/14 result of 85% and 2014/15 result of 78% are not comparable results because we used different survey methodologies.

Output Class 2: State House Tenancies: Asset Management

MEASURES	2013/14 ACTUAL	2014/15 STANDARD	2014/15 ACTUAL	COMMENTS
Secondary output measures				
Percentage of properties delivered in high-priority areas***	80%	85%	93.9%	Achieved
Percentage of portfolio divested during the year	New measure in 2014/15	1.1%	2.1%	Achieved
Undertake repairs and maintenance to ensure properties return to the letting pool at a lettable standard	New measure in 2014/15	7,300	6,138	Demand driven: Not achieved
Average time to respond to urgent tenant health and safety queries	4.5 hours	8 hours	3.8 hours	Achieved
Percentage of repairs and maintenance spend on planned activity	43%	60%	62%	Achieved

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

Performance commentary

Performance highlights

While we did not achieve the targets we had set ourselves for the delivery of new homes in 2014/15, we made considerable progress towards our multi-year target of building 2,000 homes (including those in Christchurch) by December 2015, completing 487 new build homes (176 in Christchurch). Of these we retained 408, while 79 were sold into the private housing market. As at 30 June 2015 we had completed 666 new homes towards the 2,000 new home target, and as at 30 June 2015 1,359 more are either under construction or have been contracted to be built.

Our programmes in Christchurch to rebuild 700 new homes by December 2015 and repair 5,000 quake-damaged homes were a particular highlight. As at 30 June 2015 we had completed 218 new homes in Christchurch. 176 of these were completed during the 2014/15 financial year (15 sold into the private market) and the remaining 482 homes either are under construction or have been contracted. The repair programme is well on track to complete the 5,000 repairs by December 2015. As at 30 June 2015 we had completed 4,260 repairs to our earthquake-damaged homes, with 2,849 of these completed during the 2014/15 financial year. The balance will be completed by the 31 December target date.

Other highlights covered by this Output Class included our ability to:

- reduce the turnaround time between tenancies to an average of 34 days (target 45 days) during 2014/15; this compares with 50 days achieved in 2013/14
- increase the percentage of our properties that are let to 96.9 percent (target 96 percent); this compares with 96.2 percent achieved in 2013/14
- reduce the average time to respond to urgent tenant health and safety queries to 3.8 hours (target 8 hours), down from 4.5 hours achieved in 2013/14.

Not achieved: Number of new build houses: Christchurch

We delivered 161 homes during 2014/15, against the annual target of 281. The target is to build 700 homes[12] in Christchurch by December 2015. We have fallen short of this year's target in the main due to the lengthy lead times involved in property development and the complexity of the building environment in Christchurch. This has impacted our ability to deliver on some projects by 30 June 2015. However, the remaining 482 homes are now under contract and all 700 new homes will be either completed or near completion by the target date of December 2015.

Not achieved: Number of new build houses: Rest of New Zealand

We delivered 247 homes across the rest of New Zealand (excluding Christchurch) during 2014/15, against the annual target of 549. The target is to build 1,300 homes[13] by December 2015 (excluding Christchurch). We reorganised our asset development team and brought in new capacity and expertise to strengthen this part of our business. These changes have taken time to make and we have not been able to ramp up our development programme as quickly as we would have liked. It is also important to recognise that considerable lead times are involved in property development and new builds, not only in planning and consenting processes, but in terms of building momentum in contracting with developers and build partners. With this part of our business strengthened, and momentum building in our development programme, we are confident we will have either completed, or have under construction, the 1,300 homes (excluding Christchurch) by December 2015.

Not achieved (demand driven): Undertake repairs and maintenance to ensure properties return to the letting pool at a lettable standard

This output measure monitors the number of properties that are returned to the letting pool having undergone repairs and maintenance. All properties that were re-let were at a lettable standard; however, Housing New Zealand cannot control the quantity of repairs, as this is subject to the number of tenants exiting our properties.

Revenue and output expenses

	2013/14 ACTUAL ($M)	BUDGET 2014/15 ($M)	ACTUAL 2014/15 ($M)	COMMENTS
Revenue Crown	–	–	–	Rental revenue is recognised under Output Class 1. Expenses include all costs related to property or asset management.
Revenue Other	–	–	–	
Expenses	762	841	815	
Net surplus/(deficit)	**(762)**	**(841)**	**(815)**	

12. This target includes homes that are built as part of mixed tenure projects and are sold into the private market.

13. This target includes homes that are built as part of mixed tenure projects and are sold into the private market.

Output Class 3: Crown Products

Description

Scope

The scope of this Output Class is limited to the management of financial products that assist individuals, households and community housing providers to purchase properties and maintain properties that they own. This output also includes the provision of housing and related services to community groups and the property management and development services in relation to the Community Group Housing property portfolio.

Activities

The activities undertaken in this Output Class include:

- managing financial products that assist individuals/households and community housing providers to purchase properties and maintain properties that they own
- providing housing and related services to community groups in relation to the Community Group Housing property portfolio.

What we are seeking to achieve

We aim to:

- process applications for financial products in a timely, efficient and fair way
- ensure the provision of properties and services to Community Group Housing providers is adequate.

Summary of performance

MEASURES	2013/14 ACTUAL	2014/15 STANDARD	2014/15 ACTUAL	COMMENTS
KiwiSaver (appropriated)				
Average number of days taken to assess a complete KiwiSaver application	6.7 working days	7 working days	12.5 working days	Not achieved
First Home Ownership				
Average number of days taken to assess a complete First Home Ownership application	New measure in 2014/15	7 working days	2.8 working days	Achieved
Mortgage Insurance Scheme (appropriated)				
Number of new loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme	1,429	2,500	1,067	Demand driven: Not achieved
Community Group Housing (appropriated)				
Community group tenancies assisted with rent relief	661	650-700	689	Demand driven: Achieved

Performance commentary

Performance highlights

During 2014/15 we successfully managed the introduction of the KiwiSaver HomeStart grant, which was introduced in April 2015. It replaced the KiwiSaver Deposit Subsidy and doubled the support for buying a new home. Demand for the new product has been higher than we forecast and this has impacted our ability to process these applications within our targeted timeframes (see comment below).

During 2014/15 we:

- received 15,719 KiwiSaver HomeStart grant/KiwiSaver Deposit Subsidy applications, compared with 10,056 applications received during 2013/14
- paid out $32 million in KiwiSaver HomeStart grant/KiwiSaver Deposit Subsidy payments
- processed 1,067 loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme, compared with 1,429 received during 2013/14.

Not achieved (demand driven): Number of new loans with mortgage insurance arrangements underwritten through the Welcome Home Loan programme

The standard for this measure of 2,500 loans is a cap for the maximum number of loans that can be underwritten under the appropriation, and is demand driven.

Uptake for Welcome Home Loans was lower than expected due to the slower housing market. This meant the banks in the scheme did not have to draw on this product. In addition, fewer major banks came on board as providers. However, demand increased towards the end of the financial year as the Crown increased house price caps in April 2015 and a roadshow was undertaken to promote the KiwiSaver HomeStart grant and Welcome Home Loans.

Not achieved (demand driven): Average number of days taken to assess a complete KiwiSaver application

Assessment timeframes have exceeded the target due to higher than forecast demand and the implementation of the KiwiSaver HomeStart grant changes in April 2015. We have taken on additional staff to help reduce the backlog and bring down processing times.

Revenue and output expenses

	2013/14 ACTUAL ($M)	BUDGET 2014/15 ($M)	ACTUAL 2014/15 ($M)	COMMENT
Revenue Crown	44	56	56	
Revenue Other	23	28	25	
Net transfer to unearned premium provision	1	(10)	1	
Expenses	57	56	65	
Net surplus/(deficit)	**11**	**18**	**17**	

Output Class 4: Property Management Agency Services

Description

Scope

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

Activities

The management and development services for property that has been transferred to Crown control.

What we are seeking to achieve

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

Hobsonville Point Project

The Hobsonville Point Project, as the major component of the HAA, is a large-scale, integrated urban development project in northwest Auckland on the land formerly used by the New Zealand Defence Force and known as the Hobsonville Airbase. Hobsonville Land Company (HLC) was established in 2005 as a wholly-owned subsidiary of Housing New Zealand Corporation to develop the land for state housing purposes under the Housing Act 1955.[14] The operating expenditure of HLC of $3.2 million (2013/14 – $2.9million) is fully recovered by a management fee charged to HAA. The vision for Hobsonville Point is to build a strong, vibrant community that sets new benchmarks for a quality and accessible urban development with an environmentally responsible focus.

When complete, Hobsonville Point will include over 3,500 homes as well as two new schools, community facilities, amenities, public transport facilities and neighbourhood centres to support this new community. The development will include up to 20 percent of homes in the affordable price bracket, as agreed with Cabinet and the then Minister of Housing.

Summary of performance

MEASURE	2014/15 TARGET	2014/15 ACTUAL	COMMENTS
Key milestones as set out in the Hobsonville Land Company work programme			
Overall revenue milestones	Achieve milestones	Achieved 6 out of 6 milestones	
Overall sales and marketing milestones	Achieve milestones	Achieved 4 out of 4 milestones	

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

MEASURE	2014/15 TARGET	2014/15 ACTUAL	COMMENTS
Development milestones			
• Buckley B Development and Planning milestone	Achieve milestone	Achieved 1 out of 1 milestone	
• Sunderland A and B Development and Planning milestones	Achieve milestones	Achieved 6 out of 6 milestones	
• The Landing Development and Planning milestones	Achieve milestones	Achieved 2 out of 5 milestones	Three milestones were deferred pending the selection of development partner.
• Catalina Development and Planning milestones	Achieve milestones	Achieved 2 out of 3 milestones	Bomb Point (interim works) delayed due to the timing of precinct development.
• Village Development and Planning milestones	Achieve milestones	Achieved 2 out of 3 milestones	One planning milestone deferred due to future developer purchase negotiations.

Performance commentary

Summary of operational performance

To 30 June 2015, 746 homes and sections have been sold by the Hobsonville Point Project, including 330 during 2014/15. To date, 162 affordable homes have been sold, including 61 during 2014/15.

Performance of the project has been solid during 2014/15. During the year the Hobsonville Point Project:

- completed the construction of most of the major roads and associated infrastructure, with the final stage of Hobsonville Point Road due for completion in August 2015
- sold all of the Buckley A land to builder partners
- achieved very good superlot values in the final stages of the Buckley A precinct of $893/sqm
- exceeded the sales target by 10 percent – the Hobsonville Point builder partners are now consistently selling, on average, at least one house every working day
- started building the Coastal Walkway.

Summary of financial performance

During 2014/15 the Hobsonville Point Project:

- achieved land sales of $53.8 million
- had a net operating deficit of $1.3 million, impacted by recognition of land remediation costs, compared with the 2013/14 surplus of $2.6 million
- achieved a land under development market value of $110 million compared with costs of $86.9 million
- ensured strong cash reserves of $40.3 million compared with 2013/14 cash reserves of $23.1 million
- provided for future development costs of $18.9 million compared with 2013/14 costs of $2.4 million due to increased land sales volume and newly recognised land remediation costs of $6.8 million.

Output Class 4: Property Management Agency Services

The Landing Development

The 'go to market' process undertaken in the 2014/15 year did not result in the selection of a development partner and the Hobsonville Land Company Board decided to delay the relevant milestones. Negotiations with potential partners are continuing and progress is expected in the 2015/16 year.

Catalina Development milestones

We achieved two out of the three development milestones we had set for the Catalina Development. However, the Bomb Point interim works to make this open space area more usable for the public were delayed due to the timing of adjacent earthworks by our Catalina precinct development partner.

Revenue and output expenses

	2013/14 ACTUAL ($M)	2014/15 BUDGET ($M)	2014/15 ACTUAL ($M)	COMMENTS
Revenue Crown	–	–	–	Housing New Zealand provides services to the Crown, for which it earns a management fee.
Revenue Other	3	3	3	
Expenses	–	3	3	
Net surplus/(deficit)	**3**	**-**	**-**	

Operating appropriations 2014/15

Housing New Zealand delivers programmes on behalf of the Crown. The Crown obtains appropriations to fund Housing New Zealand for the delivery of these programmes. These are administered through Vote Housing, which is appropriated to and administered by the Ministry of Business, Innovation and Employment. The exception is the Purchase of Housing and Related Services for Tenants Paying Income-Related Rent (IRRS), which is appropriated to the Ministry of Social Development. The IRRS amounts below are Housing New Zealand's portion of a wider appropriation that includes appropriated funds for community housing.

The following table details the funding initially budgeted as reported in Housing New Zealand's Statement of Performance Expectations 2014/15 and compares this with the actual funding provided.

APPROPRIATION AND PROGRAMME	SOI EXPENDITURE ($M)	OUTPUT CLASS			
		TENANCY MANAGEMENT	ASSET MANAGEMENT	CROWN PRODUCTS	PROPERTY MANAGEMENT
HNZC Housing Support Services					
Community Group Housing	8.427			11.200	
Mortgage Insurance Scheme (Welcome Home Loans)	8.500			4.941	
KiwiSaver Housing Deposit Subsidy – Administration	1.594			2.229	
Total HNZC Support Services	**18.521**			**18.370**	
Housing Services					
Community Owned Rural Rental Housing Loans Interest Subsidy	0.371			0.407	
Housing Innovation Fund Interest Subsidy	0.400			0.346	
Other Legacy Loan Costs	0.700			0.700	
Sold loans interest subsidy	0.010			0.005	
Special Housing Action Zone Bridging Finance	0.014			0.015	
Total Housing Assistance	**1.495**			**1.473**	
Purchase of Housing and Related Services for Tenants Paying Income-Related Rent	712.447	703.603			
KiwiSaver Deposit Subsidy	30.350			31.904	
Community Housing Rent Relief Programme	4.104			3.870	
Total Operating Appropriations	**766.917**	**703.603**		**55.617**	

Capital appropriations 2014/15

APPROPRIATION AND PROGRAMME	SOI EXPENDITURE ($M)	OUTPUT CLASS			
		TENANCY MANAGEMENT	ASSET MANAGEMENT	CROWN PRODUCTS	PROPERTY MANAGEMENT
Acquisition and Improvement of HNZC State Houses					
Community Housing Standard Acquisitions	7.206			7.206	
Total Acquisition and Improvement of HNZC State Houses	**7.206**			**7.206**	
Refinancing of HNZC and HNZL Debt	173.901			173.901	
Total HNZC Capital Appropriations	**181.107**			**181.107**	

Housing New Zealand Corporation

Financial Statements

Housing New Zealand Corporation

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	NOTES	GROUP ACTUAL 2015 ($M)	GROUP ACTUAL 2014 ($M)	BUDGET UNAUDITED 2015 ($M)
ASSETS				
Current assets				
Cash and cash equivalents	19	15	49	145
Mortgage advances	6(a)	4	4	8
Receivables from non-exchange transactions	7(a)	35	30	30
Receivables from exchange transactions	7(b)	60	24	25
Prepayments		7	10	5
Interest rate derivatives	20	–	1	–
Short-term investment in money market	8(b)	595	525	199
Available-for-sale investments	8(a)	10	10	10
Properties held for sale	9	17	26	14
Total current assets		**743**	**679**	**436**
Non-current assets				
Property, plant and equipment	10	20,919	18,675	20,078
Properties under development	11	30	26	–
Mortgage advances	6(a)	51	53	47
Long-term money market investment	8(b)	–	34	34
Financial assets at fair value through net surplus/(deficit)		1	1	1
Interest rate derivatives	20	–	20	18
Intangible assets	12	72	88	70
Long-term receivables from exchange transactions	7(b)	–	21	20
Total non-current assets		**21,073**	**18,918**	**20,268**
Total assets		**21,816**	**19,597**	**20,704**
LIABILITIES				
Current liabilities				
Rent in advance		16	12	13
Accounts payable and other liabilities from exchange transactions	13	114	103	101
Income tax payable	16(b)	25	17	35
Loans	21(a)	142	174	142
Provisions	14	1	2	1
Employee entitlements	15	5	5	6
Interest rate derivatives	20	35	26	20
Total current liabilities		**338**	**339**	**318**

Housing New Zealand Corporation

STATEMENT OF FINANCIAL POSITION (continued)

AS AT 30 JUNE 2015

	NOTES	GROUP ACTUAL 2015 ($M)	GROUP ACTUAL 2014 ($M)	BUDGET UNAUDITED 2015 ($M)
Non-current liabilities				
Loans	21(b)	1,716	1,684	1,717
Deferred tax liability	16(c)	2,023	1,941	2,027
Interest rate derivatives	20	82	35	22
Mortgage Insurance Scheme unearned premium reserve	17	32	33	43
Provisions	14	2	3	3
Employee entitlements	15	1	1	1
Total non-current liabilities		**3,856**	**3,697**	**3,813**
Total liabilities		**4,194**	**4,036**	**4,131**
Net assets		**17,622**	**15,561**	**16,573**
EQUITY				
Equity attributable to the parent		3,792	3,788	3,793
Retained earnings		67	(63)	(16)
Revaluation reserve		13,848	11,866	12,815
Hedging reserve	20	(85)	(30)	(19)
Total equity		**17,622**	**15,561**	**16,573**

For and on behalf of the Board, who authorised the issue of the financial statements on 22 September 2015.

Adrienne Young-Cooper
Chair
22 September 2015

Jeff Meltzer
Director
22 September 2015

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

Housing New Zealand Corporation

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2015

	NOTES	GROUP ACTUAL 2015 ($M)	GROUP ACTUAL 2014 ($M)	BUDGET UNAUDITED 2015 ($M)
Revenue from non-exchange transactions				
Crown appropriation revenue	22(b)	47	35	42
Rental revenue from income-related rent subsidy		704	663	697
Rental revenue from tenants receiving IRRS		355	342	356
Rent Relief Fund revenue		4	–	–
Revenue from exchange transactions				
Rental revenue from tenants at market rent		51	62	64
Interest revenue	22(a)	30	24	15
Mortgage Insurance Scheme	22(c)	8	9	6
Other revenue	22(d)	6	4	3
Total operating revenue		**1,205**	**1,139**	**1,183**
EXPENSES				
Repairs and maintenance		222	220	226
Rates on properties		108	104	110
Water rates		34	34	31
Third-party rental leases		63	65	63
Depreciation – rental properties	23(a)	189	174	190
Depreciation and amortisation – infrastructure assets	23(a)	26	27	30
Personnel	23(b)	85	88	90
Interest expense	22(a)	96	96	97
Grants	23(d)	34	24	32
Other expenses	23(c)	92	92	101
Total expenses		**949**	**924**	**970**
Other gains/(losses)				
Gain/(loss) on disposal of assets	23(f)	2	(2)	(13)
Loss on asset write-offs	23(f)	(33)	(13)	(20)
Release of Housing Innovation Fund impairment		–	–	2
Total other gains/(losses)		**(31)**	**(15)**	**(31)**
Operating surplus/(deficit) before tax		**225**	**200**	**182**
Current tax expense		118	92	112
Deferred tax expense/(benefit)		(56)	(33)	(42)
Income tax expense/(benefit)	16(a)	**62**	**59**	**70**
Net surplus/(deficit) after tax		**163**	**141**	**112**
OTHER COMPREHENSIVE REVENUE AND EXPENSE				
Revaluation of property, plant and equipment				
Revaluation reserve gains/(losses)	10	2,216	2,291	1,116
Impairment of assets	10	(1)	(2)	–
Financial assets at fair value through equity				
Hedging reserve gains/(losses)		(76)	52	15
Income tax on items of other comprehensive revenue and expense		(137)	(157)	(128)
Other comprehensive revenue and expense net of tax		**2,002**	**2,184**	**1,003**
Total comprehensive revenue and expense net of tax		**2,165**	**2,325**	**1,115**

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

Housing New Zealand Corporation

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 201

	NOTES	GROUP ACTUAL 2015 ($M)	GROUP ACTUAL 2014 ($M)	BUDGET UNAUDITED 2015 ($M)
Total equity at 1 July		**15,561**	**13,326**	**15,561**
Revaluation of property, plant and equipment				
Revaluation reserve gains/(losses)		2,216	2,291	1,116
Impairment of assets		(1)	(2)	–
Deferred tax on property, plant and equipment revaluations		(158)	(143)	(124)
Financial assets at fair value through other comprehensive revenue and expense				
Hedging reserve gains/(losses)		(76)	52	15
Deferred tax on hedging reserve gains/(losses)		21	(14)	(4)
Net surplus/(deficit) for the year		163	141	112
Total comprehensive revenue and expense for the period		**2,165**	**2,325**	**1,115**
Contributions from and distributions to the Crown				
Capital contributions from the Crown		4	–	5
Payment of dividends to the Crown		(108)	(90)	(108)
Total net contributions from/(distributions to) the Crown		**(104)**	**(90)**	**(103)**
Total changes in equity		**2,061**	**2,235**	**1,012**
Total equity at 30 June		**17,622**	**15,561**	**16,573**
Equity attributable to the Crown				
Opening balance		3,788	3,788	3,788
Contributions from the Crown		4	–	5
Closing equity attributable to the Crown		**3,792**	**3,788**	**3,793**
Retained earnings				
Opening retained earnings		(63)	(171)	(63)
Net surplus/(deficit) for the year		163	141	112
Net transfers from asset revaluation reserve on disposal		75	57	43
Annual distribution to the Crown		(108)	(90)	(108)
Closing retained earnings		**67**	**(63)**	**(16)**
Revaluation reserve				
Opening revaluation reserve		11,866	9,777	11,866
Asset revaluations – property, plant and equipment		2,216	2,291	1,116
Impairment of assets		(1)	(2)	–
Deferred tax on property, plant and equipment		(158)	(143)	(124)
Net transfers from asset revaluation reserve on disposal		(75)	(57)	(43)
Closing revaluation reserve		**13,848**	**11,866**	**12,815**
Hedging reserve				
Opening hedging reserve		(30)	(68)	(30)
Fair value gains/(losses)	20	(76)	52	15
Deferred tax on derivative fair value movement		21	(14)	(4)
Closing hedging reserve		**(85)**	**(30)**	**(19)**
Total equity at 30 June		**17,622**	**15,561**	**16,573**

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

Housing New Zealand Corporation

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

	NOTES	GROUP ACTUAL 2015 ($M)	GROUP ACTUAL 2014 ($M)	BUDGET UNAUDITED 2015 ($M)
Cash flows from/(used in) operating activities				
Rent receipts – tenants		407	374	416
Rent receipts – income-related rent subsidy		703	695	696
Other receipts from the Crown		46	32	41
Mortgage Insurance Scheme (MIS) income		7	8	16
Interest received from customers and investments		29	14	19
Other receipts		4	4	3
Payments to suppliers and employees		(647)	(640)	(650)
Income tax paid		(108)	(87)	(94)
Interest paid		(95)	(99)	(97)
Net cash flows from/(used in) operating activities	25	**346**	**301**	**350**
Cash flows from/(used in) investing activities				
Sale of rental properties and management assets		76	60	86
Mortgage and other lending repayments		6	6	5
Purchase of rental property assets		(311)	(261)	(554)
Purchase of management assets		(4)	(2)	(8)
Purchase of intangible assets		(7)	(7)	(8)
Short-term and long-term investments		(36)	(119)	327
Repayments to/(advances from) Housing Agency Account		–	6	–
Net cash flows from/(used in) investing activities		**(276)**	**(317)**	**(152)**
Cash flows from/(used in) financing activities				
Capital contributions		4	–	5
Loans drawn down from the New Zealand Debt Management Office (NZDMO)		–	1	1
Loans repaid to the NZDMO		–	(1)	–
Annual distribution to the Crown	24	(108)	(90)	(108)
Net cash flows from/(used in) financing activities		**(104)**	**(90)**	**(102)**
Net cash flows		(34)	(106)	96
Opening cash and cash equivalents		49	155	49
Closing cash and cash equivalents	19	**15**	**49**	**145**

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1 Reporting entity

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

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

In order to achieve its core objective of facilitating housing solutions for those most in need, the HNZC Group operates a network of approximately 67,000 residential properties across New Zealand. Accordingly, its principal activities are:

- matching applicants with available houses, managing tenancies, and providing housing for organisations that provide specialised housing support for tenants with multiple or complex needs
- managing assets to provide suitable and affordable homes to those with the greatest housing needs, including acquiring, maintaining, upgrading, and divesting state homes.

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

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

The financial statements for the year ended 30 June 2015 were authorised for issue in accordance with a resolution of the Members on 22 September 2015.

2 Summary of significant accounting policies

(a) Basis of preparation

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

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

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

(b) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004 and the Financial Reporting Act 2013, which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards and are the first to be presented in accordance with the new PBE accounting standards. There were no material adjustments arising from the transition to the new PBE accounting standards.

(c) New accounting standards and interpretations

(i) Changes in accounting policies and disclosures

The accounting policies adopted in these financial statements are consistent with those of the previous financial year, with the exception of changes to accounting or reporting requirements under PBE accounting standards. The only changes relate to separate disclosure of revenue from exchange and from non-exchange transactions, and the consequential separation of accounts receivable arising from those respective revenue categories.

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

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

REFERENCE	TITLE	SUMMARY	APPLICATION DATE	IMPACT ON FINANCIAL STATEMENTS
PBE accounting standards	Not-for-profit sector update	In October 2014, the PBE suite of accounting standards was updated to incorporate requirements and guidance for the not-for-profit sector. These updated standards apply to PBEs with reporting periods beginning on or after 1 April 2015. The HNZC Group will apply these updated standards in preparing its 30 June 2016 financial statements.	1 April 2015	The HNZC Group does not expect these changes to have a material impact on its financial statements.
NZ IFRS 9 (PBE) (2009)	Financial Instruments	NZ IFRS 9 (PBE) (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39 (PBE). The revised standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through net surplus/(deficit) on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive revenue and expense.	1 January 2018	The HNZC Group does not expect these changes to have a material impact on its financial statements.
NZ IFRS 9 (PBE) (2010)	Financial Instruments	NZ IFRS 9 (PBE) (2010) supersedes NZ IFRS 9 (PBE) (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 (PBE) as issued in 2009. The existing NZ IAS 39 (PBE) *Financial Instruments: Recognition and Measurement* requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows: • The change attributable to changes in credit risk is presented in other comprehensive revenue and expense. • The remaining change is presented in the net surplus/(deficit). If this approach creates or enlarges an accounting mismatch in the net surplus/(deficit), the effect of the changes in credit risk is also presented in the net surplus/(deficit).	1 January 2018	The HNZC Group does not expect these changes to have a material impact on its financial statements.

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(d) Basis of the HNZC Group

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

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

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

(e) Rental property land and buildings

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

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

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

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

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

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

An item of property is derecognised upon disposal or when no future economic 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 each building and its components, including chattels, as follows:

Rental properties	10 – 60 years

(f) Work in progress

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

(g) Property held for sale

Property previously held to generate rental income but identified as available for sale, as it is no longer required, is classified as a property 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 and fair value less costs to sell. From the time a property is classified as held for sale, depreciation is no longer charged on the improvements.

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(h) Properties under development

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

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

(i) Property, plant and equipment

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

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

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

(j) Intangible assets

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

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

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

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

(k) Impairment of plant and equipment and intangible assets

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

(i) Non-cash-generating plant and equipment and intangible assets

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

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

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

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

(l) Mortgages and housing-related lending

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

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

(m) Investments and other financial assets

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

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

Recognition and derecognition

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

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

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

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

(ii) Available-for-sale investments

All investments which are classified as available for sale are measured at fair value with any gain or loss being recognised through other comprehensive revenue and expense as required under PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*.

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

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

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

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(n) Trade and other receivables

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

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

(o) Long-term receivables

Long-term receivables represent the present value of debts that are expected to be settled beyond the next 12 months. The discount is based upon the weighted average cost of capital at the time of initial recognition and re-evaluated if the debt remains at a subsequent balance date.

(p) Cash and cash equivalents

Cash and cash equivalents are cash on hand and short-term liquid investments, with original maturities of up to 90 days, held specifically for working capital purposes.

(q) Mortgage Insurance Scheme liabilities

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

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

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

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

(r) Interest-bearing borrowings

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

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

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(s) Derivative financial instruments

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

(i) Fair value

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

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

(ii) Hedge accounting

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

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

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

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

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

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

(t) Financial guarantees

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

(u) Employee benefits

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

(v) Provisions

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

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.

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(w) Accounts payable and other liabilities

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

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

(x) Leases

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

(i) Group as a lessee

Finance leases, which transfer to the HNZC Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

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

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

(ii) Group as a lessor

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

(y) Revenue

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

(i) Revenue from non-exchange transactions

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

Revenue generated from non-exchange transactions is represented below:

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

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

Crown operating appropriations

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(ii) Revenue from exchange transactions

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

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

Rental revenue from tenants at market rent

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

Mortgage Insurance Scheme revenue

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

Interest revenue

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

Management fees

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

(z) Borrowing costs

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

(aa) Income tax

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

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

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

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

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(ab) Other taxes

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

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

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

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

(ac) Contingent assets

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

3 Financial risk management objectives and policies

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

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

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

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

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

(a) Interest rate risk

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

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

Management monitors interest rate levels on an ongoing basis and, when appropriate, will lock in fixed rates within Board-approved interest rate risk policy. Forward rate agreements, interest rate swaps and interest rate options are instruments available for use. During 2015, interest rate swaps designated to hedge underlying debt obligations were the primary financial instrument used.

At 30 June 2015, after taking into account the effect of interest rate swaps, approximately 91 percent of borrowings were at a fixed rate of interest (2014: 82 percent).

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(b) Interest rate sensitivity

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

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

	2015 ($M)	2014 ($M)
Net surplus higher/(lower)		
Interest rates +1%	(1)	(1)
Interest rates -1%	1	1
Equity higher/(lower)		
Interest rates +1%	51	50
Interest rates -1%	(55)	(54)

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

(c) Foreign currency risk

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

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

(d) Credit risk

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

Further, the HNZC Group has made commitments to advance new Housing Innovation Fund loans (that are yet to be disbursed) to third parties of $3.5 million (2014: $4 million). This class of asset extends the potential maximum credit exposure. No exposure to any material concentration of credit risk exists as the HNZC Group has only a small number of credit customers and has Treasury exposure only with the Crown and Board-approved counterparties with specified Standard & Poor's credit ratings.

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

Credit quality of financial assets not impaired or not yet due

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(e) Liquidity risk

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

The HNZC Group has a $150 million (2014: $150 million) uncommitted note issuance facility with a group of banks, available to meet short-term liquidity requirements.

The HNZC Group has an unsecured bank overdraft facility of $1 million (2014: $1 million) with an interest rate of 6 percent (2014: 6 percent).

The HNZC Group's policy is that not more than 25 percent of borrowings should mature in any 12-month period. As at 30 June 2015, 8 percent of the HNZC Group's debt will mature in less than one year (2014: 9 percent).

As at 30 June 2015 the contractual maturity (undiscounted cash flow) of the HNZC Group's financial liabilities was as follows:

	0-1 YEAR ($M)	1-2 YEARS ($M)	2-3 YEARS ($M)	3-5 YEARS ($M)	5+ YEARS ($M)	TOTAL ($M)
Year ended 30 June 2015						
Crown loans at floating interest rate	195	326	382	461	793	2,157
Accounts payable and other liabilities	114	–	–	–	–	114
Financial guarantees – sold loans	–	–	–	1	1	2
Interest rate derivatives	35	32	26	24	11	128
Total	**344**	**358**	**408**	**486**	**805**	**2,401**
Year ended 30 June 2014						
Crown loans at floating interest rate	247	214	342	567	896	2,266
Accounts payable and other liabilities	103	–	–	–	–	103
Financial guarantees – sold loans	–	–	–	1	2	3
Interest rate derivatives	24	14	9	9	–	56
Total	**374**	**228**	**351**	**577**	**898**	**2,428**

(f) Concentration of risk

There is a concentration of credit risk in $22 million of short-term receivables for the sale of properties in Northern Glen Innes for development. This risk is mitigated by:

- The developer's ultimate owner guaranteed by way of covenant a penalty sum of $5 million should the developer fail to meet the conditions of the contract.
- Although control over the properties has transferred to the developer, it was agreed that either the HNZC Group maintains title over the land until the developer has sold the new developments to a third party or there is a security sum put in place for the duration of the construction/marketing/settlement period.

Further, the HNZC Group has substantial deposits in excess of $600 million with five different banks, of which more than $240 million each is maintained with ASB Bank Limited and ANZ Bank New Zealand Limited. Both are reputable banks and have a Standard & Poor's long-term credit rating of AA-.

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(g) Ageing of receivables and loans

(i) Ageing analysis of receivables

	NEITHER PAST DUE NOR IMPAIRED ($M)	PAST DUE BUT NOT IMPAIRED 0-30 DAYS ($M)	IMPAIRED 30 DAYS PLUS ($M)	TOTAL ($M)
At 30 June 2015				
Rent	26	2	–	28
Damages	–	–	3	3
Other receivables	64	–	–	64
Total	**90**	**2**	**3**	**95**
At 30 June 2014				
Rent	23	2	–	25
Damages	–	–	4	4
Other receivables	46	–	–	46
Total	**69**	**2**	**4**	**75**

(ii) Ageing analysis of mortgage advances

	NEITHER PAST DUE NOR IMPAIRED ($M)	PAST DUE BUT NOT IMPAIRED 0-60 DAYS ($M)	PAST DUE BUT NOT IMPAIRED 60-90 DAYS ($M)	90 DAYS PLUS* ($M)	TOTAL ($M)
At 30 June 2015					
Mortgage advances past due not impaired	–	5	–	1	6
Other mortgage advances	49	–	–	–	49
Total	**49**	**5**	**-**	**1**	**55**
At 30 June 2014					
Mortgage advances past due not impaired	–	4	1	1	6
Other mortgage advances	51	–	–	–	51
Total	**51**	**4**	**1**	**1**	**57**

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

(h) Fair value hierarchy

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

The methods comprise:

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

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

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

The fair value of the financial instruments and the methods used to estimate the fair value are summarised in the table below. No Level 1 or Level 3 financial instruments are held at 30 June 2015.

	30 JUNE 2015 VALUATION TECHNIQUE – MARKET OBSERVABLE INPUTS (LEVEL 2) ($M)	30 JUNE 2014 VALUATION TECHNIQUE – MARKET OBSERVABLE INPUTS (LEVEL 2) ($M)
Financial assets		
Interest rate derivatives	–	21
Available-for-sale investments	10	10
Financial assets at fair value through net surplus/(deficit)	1	1
Total	**11**	**32**
Financial liabilities		
Interest rate derivatives	117	61
Financial guarantees – sold loans	2	3
Total	**119**	**64**

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

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

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

(i) Capital management

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

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

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

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

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

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

4 Critical judgements, assumptions and estimates in applying accounting policies

(a) Judgements

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

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

The HNZC Group owns approximately 65,000 residential properties, from each of which it receives revenue based on a level of rent equivalent to that which the property could be expected to generate in the open rental market. In most circumstances a portfolio of rental properties would be classified as investment properties. The Crown, however, subsidises the balance between the level of market rent and that deemed affordable from the tenant based on the tenant's level of income. Management therefore considers the prime strategic purpose for holding rental properties is for social housing, and as such, according to PBE IPSAS 16 *Investment Property*, they are to be accounted for under PBE IPSAS 17 *Property, Plant and Equipment*.

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

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

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

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

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

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

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

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

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

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the HNZC Group. Judgement on various aspects is required including, but not limited to, fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset will be recognised in the Statement of Financial Position as property, plant and equipment, whereas no such asset is recognised for an operating lease.

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

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

(i) Fair value of rental properties

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

The HNZC Group owns approximately 65,000 properties around New Zealand. In performing the valuation, the entire portfolio has not been individually inspected due to its size. A market indexation approach has been adopted for the remaining uninspected properties within the portfolio due to the homogeneous nature of the portfolio. Properties are valued based on their 'highest and best use' (refer note 10).

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

(ii) Fair value of derivative financial instruments

The value of the HNZC Group's interest rate derivatives is adjusted to their fair values on a daily basis using current market interest rates (bank bill mid rate, swap pricing curve). There is no additional impairment adjustment on these interest rate derivatives as transactions are entered into only with counterparties who are highly creditworthy (refer note 20).

(iii) Mortgage guarantee provision

As part of the agreement to sell mortgages to the Westpac Banking Corporation, the HNZC Group guaranteed a number of those mortgages. The mortgage guarantee provision is an actuarially assessed amount, likely to be payable under that guarantee. The value of the provision depends on various factors, some of which are the value of the loans expected to default, the number of active mortgages, and the average loan balance (refer note 14).

(iv) Impairment of non-financial assets

As at each balance date, all assets are assessed for impairment by evaluating conditions specific to the HNZC Group and to the particular asset that may lead to impairment. These include technological, economic and political factors and future expectations, as the primary objective is to provide services for community or social benefit rather than financial return. If an impairment trigger exists, the recoverable amount of the asset is determined. If no impairment is stated, then management does not consider that the triggers for impairment testing have been significant.

(v) Taxation

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

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

(vi) Estimation of useful lives of assets

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

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

Buildings	40-60 years
Improvements	25 years
Chattels	10 years

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

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

(vii) Recoverability of loans and receivables

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

5 Christchurch earthquakes rebuild

Following the settlement of the insurance claims from its commercial insurers and the Earthquake Commission respectively, the repair programme to reinstate the HNZC Group's earthquake-damaged properties in Canterbury continues. The total programme involves plans to invest more than $1 billion over a 10-year period to both rejuvenate properties and improve social housing in the Canterbury region. By 30 June 2015 contracts to replace and upgrade a further 700 earthquake-damaged homes had been entered into. These homes will be modern, well-insulated houses designed to make best use of existing land and amenities. Over the entire programme to 30 June 2015, the rebuild team and subcontractors had repaired 4,260 properties and built 218 new dwellings.

During the year ended 30 June 2015:

- the cost for repairs was $77.1 million spread over 2,849 properties
- the cost for the new build programme was $62.4 million for 161 properties (including those remaining under construction)
- the new build programme included the prison programme that aims to refurbish and relocate red zone houses, of which four houses had been completed with another 30 expected in each of the next two years.

6 Mortgages

(a) Mortgage advances

	2015 ($M)	2014 ($M)
Non-current mortgage advances	52	54
Provision for doubtful debts	(1)	(1)
Net non-current mortgage advances	**51**	**53**
Current mortgage advances	**4**	**4**
Total net mortgage advances	**55**	**57**

These loans consist of Housing Innovation Fund loans of $28 million (2014: $28 million) and historical loan products such as general and residual lending of $27 million (2014: $29 million). Maturity periods of the mortgages range from 1 to 24 years. Borrowers may settle loans at any time; however expected cash flows, based on contractual maturity dates, are as follows:

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

	WEIGHTED AVERAGE INTEREST RATE (ALL LOANS) 2015 (%)	WEIGHTED AVERAGE INTEREST RATE (EXCL 0% LOANS) 2015 (%)	2015 ($M)	WEIGHTED AVERAGE INTEREST RATE (ALL LOANS) 2014 (%)	WEIGHTED AVERAGE INTEREST RATE (EXCL 0% LOANS) 2014 (%)	2014 ($M)
Up to 1 year	3.26	6.72	4	0.38	5.54	4
1 to 5 years	0.38	6.69	16	1.45	6.59	16
Over 5 years	2.25	6.53	35	2.20	6.46	37
Total weighted average	**2.19**	**6.53**	**55**	**2.20**	**6.46**	**57**

Interest rates on mortgages range from 0 to 8.50 percent (2014: 0 to 8.65 percent).

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

Housing Innovation Fund mortgage advances

At 30 June 2015 the Housing Innovation Fund (HIF) mortgage advances were impaired to the fair value of the discounted cash flows. The impairment was calculated as the difference between the amortised cost of the advances and the present value of the estimated future cash flows discounted at the effective interest rate. All new HIF loans are recognised at fair value and impaired at inception and existing loans are impaired to fair value annually and the net movement recognised in net surplus/(deficit).

As at the end of the financial year, the total fair value of HIF mortgage advances is $28 million (2014: $28 million).

(b) Movements in provision for doubtful debts

	2015 ($M)	2014 ($M)
Balance at 1 July	1	1
Written off	–	–
Balance at 30 June	**1**	**1**

7 Receivables

(a) Receivables from non-exchange transactions

	2015 ($M)	2014 ($M)
Rental debtors	35	33
Provision for doubtful debts	(4)	(5)
Sub-total	**31**	**28**
Other receivables	4	2
Total receivables from non-exchange transactions	**35**	**30**

An impairment loss of $5 million (2014: $4 million) relating to the credit risk associated with rental debtors and the recovery of the cost of damages has been recognised in the current year and included in net surplus/(deficit).

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(b) Receivables from exchange transactions

	2015 ($M)	2014 ($M)
(i) Current receivables from exchange transactions		
Interest receivable	15	15
Receivable from related parties	1	2
Other receivables	44	7
Sub-total – receivables from exchange transactions	**60**	**24**
(ii) Non-current receivables from exchange transactions		
Long-term receivables from exchange transactions	–	21
Total receivables from exchange transactions	**60**	**45**

(c) Movements in provision for doubtful debts

	2015 ($M)	2014 ($M)
Balance at 1 July	5	6
Bad debts expense	5	4
Bad debts written off	(6)	(5)
Balance at 30 June	**4**	**5**

8 Investments

	2015 ($M)	2014 ($M)
(a) Investments at fair value through other comprehensive revenue and expense		
Bank registered certificates of deposit	10	10
(b) Loans and receivables		
Short-term investment on money market	595	525
Long-term investment on money market	–	34

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

Subsidiary companies

As at 30 June 2015 the subsidiary companies of HNZC were:

		OWNERSHIP INTEREST	
COMPANY	PRINCIPAL ACTIVITY	30 JUNE 2015	30 JUNE 2014
Housing New Zealand Limited	Provision of rental housing and ownership of state houses	100%	100%
Hobsonville Land Company Limited	Management company for the Hobsonville project	100%	100%

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

9 Properties held for sale

	2015 ($M)	2014 ($M)
Properties held for sale	**17**	**26**

In cases where, at balance date, it is highly probable that certain properties will be sold in their present condition within the next 12 months, such properties are reclassified from property, plant and equipment to properties held for sale. Properties held for sale are valued under PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. At 30 June 2015 the total fair value of properties held for sale, excluding selling and other costs, was $17 million (2014: $26 million).

10 Property, plant and equipment

	FREEHOLD LAND	RENTAL PROPERTIES	CAPITAL WORK IN PROGRESS	LEASEHOLD IMPROVEMENTS	FURNITURE AND FITTINGS	OFFICE EQUIPMENT	COMPUTER EQUIPMENT	MOTOR VEHICLES	TOTAL PROPERTY, PLANT AND EQUIPMENT
Year ended 30 June 2015									
At 1 July 2014, net of accumulated depreciation	**11,362**	**7,221**	**82**	**4**	**2**	**-**	**4**	**-**	**18,675**
Additions	29	259	23*	2	–	–	2	–	315
Disposals	(39)	(37)	–	–	–	–	–	–	(76)
Revaluations	1,632	584	–	–	–	–	–	–	2,216
Impairments	–	(1)	–	–	–	–	–	–	(1)
Classified as held for sale	(8)	(9)	–	–	–	–	–	–	(17)
Depreciation charge for the year	–	(189)	–	(1)	–	–	(3)	–	(193)
At 30 June 2015, net of accumulated depreciation	**12,976**	**7,828**	**105**	**5**	**2**	**-**	**3**	**-**	**20,919**
Year ended 30 June 2014									
At 1 July 2013, net of accumulated depreciation	**9,581**	**6,735**	**43**	**4**	**2**	**1**	**5**	**-**	**16,371**
Additions	33	206	39*	1	–	–	1	–	280
Disposals	(43)	(18)	–	–	–	–	–	–	(61)
Revaluations	1,799	492	–	–	–	–	–	–	2,291
Impairments	(1)	(1)	–	–	–	–	–	–	(2)
Classified as held for sale	(6)	(4)	–	–	–	–	–	–	(10)
Demolished or derecognised	(1)	(15)	–	–	–	–	–	–	(16)
Depreciation charge for the year	–	(174)	–	(1)	–	(1)	(2)	–	(178)
At 30 June 2014, net of accumulated depreciation	**11,362**	**7,221**	**82**	**4**	**2**	**-**	**4**	**-**	**18,675**

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

Valuation

Freehold land and rental properties in the portfolio were revalued as at 30 June 2015 at fair value in accordance with PBE IPSAS 17 *Property, Plant and Equipment*. The valuation was performed by Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being Andrew F Parkyn (B Com (VPM), PG Dip Com, SPINZ, ANZIV).

The total gross amount of the valuation, excluding properties held for sale, and excluding selling and other costs, was $20,804 million for the HNZC Group (2014: $18,583 million).

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

Rights of First Refusal for sale of land

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

The following Acts grant RFR over various HNZC Group properties:

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

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

- Ngati Ranginui

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

Preliminary discussions with other iwi interested in securing a similar Right of First Refusal are also proceeding.

Warranty

The Crown has provided a warranty in respect of title to the assets transferred to HNZL, and has indemnified the HNZC Group against any breach of this warranty. The Crown has also indemnified the HNZC Group against third-party claims that are the result of acts or omissions prior to 1 November 1992 and has indemnified the directors and officers of the HNZC Group against any liability consequent on the assets not complying with statutory requirements, provided they are taking steps to rectify any non-compliance.

Properties subject to future sale or transfer transactions

(a) Tamaki rental properties

Consistent with the Government's Social Housing Reform Programme, and to accelerate the regeneration of social housing in the Tamaki region of Auckland, on 13 April 2015 the Cabinet agreed to transfer the HNZC Group's current Tamaki properties, and related tenancy and property management services, to the Tamaki Redevelopment Company (TRC) by 31 March 2016.

On 1 July 2015 the Government introduced the Social Housing Reform (Transaction Mandate) Bill 2015 to Parliament, which, once enacted into legislation will provide a mandate for the transfer to proceed. This is expected to be passed by the end of March 2016.

Both the form that this transaction will eventually take and the exact timing of when it will occur remain subject to uncertainty. Irrespective of whether assets are transferred by way of distribution to the Crown, or sold for consideration to the TRC, this transaction will result in a reduction of around 2,800 rental properties from the rental property portfolio. Based on the valuation of those Tamaki properties as at 30 June 2015, this will mean a reduction of approximately $1,552 million worth of properties being reflected in the HNZC Group's financial statements for the year ending June 2016.

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(b) Further sales or transfers of rental properties

On 17 August 2015, the Treasury's Transaction Unit announced the Government's intention to dispose of HNZC Group rental properties in the Tauranga and Invercargill areas with market sounding for prospective purchasers commencing on 31 August 2015. Around 1,600 properties in the Tauranga and Invercargill areas could potentially be sold. The carrying amount of these properties as at 30 June 2015 was approximately $380 million.

11 Properties under development

	2015 ($M)	2014 ($M)
Properties under development	**30**	**26**

Properties under development held by HNZL are recognised as inventory until available for sale. The net realisable value of the land and improvements, as per the annual market valuation, is $40 million (2014: $33 million) compared with the incurred cost of $30 million (2014: $26 million).

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

12 Intangible assets

	SOFTWARE EXTERNAL ($M)	SOFTWARE INTERNAL ($M)	PROJECTS WORK IN PROGRESS ($M)	TOTAL ($M)
Year ended 30 June 2015				
At 1 July 2014, net of accumulated amortisation	**2**	**83**	**3**	**88**
Additions	1	3	–	4
Capitalised from projects work in progress	–	–	2	2
Amortisation	(2)	(20)	–	(22)
At 30 June 2015, net of accumulated amortisation	**1**	**66**	**5**	**72**
Year ended 30 June 2014				
At 1 July 2013, net of accumulated amortisation	**1**	**98**	**6**	**105**
Additions	2	5	–	7
Capitalised from projects work in progress	–	3	(3)	–
Amortisation	(1)	(23)	–	(24)
At 30 June 2014, net of accumulated amortisation	**2**	**83**	**3**	**88**

These assets are tested for impairment where an indicator of impairment arises. There was no impairment write-down charged to the net surplus/(deficit) for the year (2014: nil).

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

13 Accounts payable and other liabilities

	2015 ($M)	2014 ($M)
Accounts payable	33	26
Maintenance accrual	5	8
Interest payable	21	21
Due to the Crown	2	3
Other payables and accruals	53	45
Total accounts payable and other liabilities	**114**	**103**

14 Provisions

	SOLD MORTGAGE PROVISIONS ($M)	LEASE COMMITMENT PROVISIONS ($M)	HOUSING INNOVATION FUND PROVISIONS ($M)	TOTAL ($M)
At 1 July 2014	2	1	2	5
Release of unused amounts	–	(1)	(1)	(2)
At 30 June 2015	**2**	**–**	**1**	**3**
Current	–	–	1	1
Non-current	2	–	–	2
At 30 June 2015	**2**	**–**	**1**	**3**
At 1 July 2013	3	1	2	6
Release of unused amounts	(1)	–	–	(1)
At 30 June 2014	**2**	**1**	**2**	**5**
Current	–	–	2	2
Non-current	2	1	–	3
At 30 June 2014	**2**	**1**	**2**	**5**

(a) Mortgage guarantee provision

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

The mortgage guarantee provision is an actuarially assessed amount, likely to be payable under that guarantee. The actuarial assessment was made, as at 30 June 2015, by Andrea Gluyas of PricewaterhouseCoopers, a Fellow of the New Zealand Society of Actuaries and of the Institute of Actuaries of Australia. The value of the provision depends on various factors, some of which are the value of loans expected to default, the number of active mortgages, and the average loan balance. Liability exposure under this guarantee is currently estimated to continue until 2026 (being the latest repayment date of the guaranteed mortgages). The maximum combined liability under the insurance scheme is $20 million (2014: $27 million), being the outstanding amount owed under the guaranteed mortgages. The actuaries have expressed their satisfaction as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims provision.

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

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

SOLD MORTGAGES	ORIGINAL SOLD AMOUNT ($000)	CORPORATION'S EXPOSURE ($000)	PROVISION MADE ($000)	SUFFICIENCY MARGIN (PERCENT) 2015	2014
September 1998	196,000	1,306	21	80	80
December 1998	98,000	12,706	1,668	90	90
November 1999	34,500	1,883	137	75	75
1996 Portfolio	250,000	3,911	63	75	75
	578,500	**19,806**	**1,889**		

To minimise its guarantee obligations under the 1998 sale to Westpac Banking Corporation, the HNZC Group obtained an indemnity on losses of more than $23.3 million from Raukura Whare Limited (a wholly-owned subsidiary of Waikato Raupatu Lands Trust). The Raukura Whare Limited indemnity does not, however, relieve the HNZC Group from its primary liability to Westpac Banking Corporation under the guarantee. The Trustee of the Waikato Raupatu Lands Trust has guaranteed (capped at $20 million) Raukura Whare Limited's liability to the HNZC Group. The HNZC Group's maximum liability under the above guarantee is $13 million (2014: $17 million), being the amount owed under the 741 guaranteed mortgages as at the balance date.

(b) Lease commitment provisions

The HNZC Group has 26 (2014: 33) office leases to meet current office accommodation requirements of its neighbourhood units and service offices.

A make-good provision of $369,000 (2014: $627,000) has therefore been recorded to meet any liability in respect of these 26 head leases for neighbourhood units and national offices.

(c) Housing Innovation Fund commitment provisions

The HNZC Group has commitments to advance a number of Housing Innovation Fund loans and operating grants to various third parties over the next financial year. The loans have a 25-year term and are advanced on the basis of an interest-free period for the first 10 years. Once these loans are disbursed, an impairment will be recognised by way of fair value adjustment, given that their present value will then be lower than their face value. In addition, a number of operating grants to various third parties have been committed to as at 30 June 2015, which have been recognised in the Statement of Financial Position.

15 Employee entitlements

	2015 ($M)	2014 ($M)
Current accumulated leave provisions	5	5
Non-current long-service leave provision	1	1
Total employee entitlements	**6**	**6**

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

16 Income tax

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

(a) Income tax expense/(benefit)

	2015 ($M)	2014 ($M)
Net surplus/(deficit)		
Current income tax	118	92
Deferred income tax relating to temporary differences	(56)	(33)
Income tax expense/(benefit) reported in net surplus/(deficit)	**62**	**59**
Statement of changes in equity		
Deferred income tax		
Net change in deferred tax due to revaluation of buildings	158	143
Net change in deferred tax due to hedged financial derivatives from the Debt Management Office	(21)	14
Income tax expense/(benefit) reported in other comprehensive revenue and expense	**137**	**157**

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

	2015 ($M)	2014 ($M)
Accounting profit/(loss) before tax from continuing operations	**225**	**200**
Taxation at the statutory income tax rate of 28%	63	56
Plus tax effect of:		
Permanent/temporary differences		
Non-deductible expenses	6	4
Deferred tax adjustments in relation to disposal of rental properties	(8)	(4)
Non-deductible losses on disposal of rental properties	(1)	1
Other	2	2
Income tax expense/(benefit) reported in net surplus/(deficit)	**62**	**59**

(b) Current income tax liability

	2015 ($M)	2014 ($M)
Income tax – current liability		
Opening balance	17	15
Current year tax charge to net surplus/(deficit)	118	92
Prior period adjustment	(1)	(3)
Income tax paid	(114)	(87)
Income tax credits sold through pooling account	6	–
Other	(1)	–
Total income tax – current liability/(asset)	**25**	**17**

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

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

	2015 ($M)	2014 ($M)
Deferred tax liabilities		
Rental property building revaluations	1,986	1,871
Management assets	11	12
Earthquake insurance proceeds	61	72
Gross deferred tax liabilities	**2,058**	**1,955**
Deferred tax assets		
Provisions – employee entitlements	(2)	(2)
Provisions – other	(2)	(3)
Financial derivatives	(31)	(10)
Other	–	1
Gross deferred tax assets	**(35)**	**(14)**
Net deferred tax liability	**2,023**	**1,941**

The deferred tax liability movements were:

	2015 ($M)	2014 ($M)
Opening balance	**1,941**	**1,814**
Rental property building revaluations	158	143
Financial derivatives	(21)	14
Other temporary differences	(56)	(33)
Prior period adjustment	1	3
Closing balance	**2,023**	**1,941**

(d) Imputation credits

	2015 ($M)	2014 ($M)
Imputation credits available for use in subsequent reporting periods	**782**	**667**

17 Mortgage Insurance Scheme unearned premium reserve

The HNZC Group provides mortgage insurance to 11 (2014: 11) commercial lenders for loans issued under the Welcome Home Loans scheme. The insurance premium is 2.2 percent of the loan value, of which 1 percent is paid by the borrower and 1.2 percent by the Government. The total value of amounts originally lent, and which remained insured under the scheme at 30 June 2015, was $1,512 million (2014: $1,437 million).

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

The actuarial assessment of the MIS insurance liability was made on 30 June 2015 by Jeremy Holmes of Melville Jessup Weaver, Fellow of the New Zealand Society of Actuaries.

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

The insured underlying loans have a maturity period of between 8 and 30 years. The cash flows relating to the claims are expected to fall mainly in the first 7 years of the insured loans; however there is a degree of uncertainty as to the exact timing (see note 17(b) for estimated timing of future cash outflows).

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(a) Reconciliation of MIS unearned premium reserve

	2015 ($M)	2014 ($M)
Beginning of the year	33	34
Insurance premium receipts	7	8
Insurance claims	(1)	(2)
Insurance premium income deferred/(recognised) for the year	(1)	(1)
Actuarially assessed increase/(decrease) in premium reserve	(6)	(6)
MIS unearned premium reserve at the end of the year	**32**	**33**

(b) Estimated timing of net cash outflows

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

	2015 ($M)	2014 ($M)
1 – 2 years	6	5
2 – 3 years	5	5
3 – 4 years	4	4
4 – 6 years	3	3
6+ years	14	16
Total estimated liability	**32**	**33**

(c) Mortgage insurance risk

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

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

The objective of the HNZC Group is to ensure that sufficient reserves are available to cover these liabilities and it has set aside funds specifically to support its insurance liability obligations (refer to note 8). The present value of the estimated future claims is invested in short-term bank securities in accordance with Board-approved HNZC Treasury Policies.

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

Although approximately 40 percent of the original value of settled loans as at 30 June 2015 (2014: 40 percent) is with one bank, Kiwibank, there is no material concentration of risk at individual mortgage holder level.

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(d) Sensitivity analysis

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

	PROBABILITY OF ADEQUACY	DISCOUNTED CENTRAL ESTIMATE ($000)	RISK MARGIN ($000)	OUTSTANDING CLAIMS LIABILITIES ($000)
Baseline	**75%**	**9,849**	**3,370**	**13,219**
Risk margin				
85% probability of adequacy	85%	9,849	5,181	15,030
95% probability of adequacy	95%	9,849	8,232	18,081
Claim probability assumptions				
+0.2 percentage point	75%	15,128	5,177	20,305
-0.2 percentage point	75%	4,646	1,590	6,236
Claim size assumptions				
+5% of loan amount	75%	11,481	3,929	15,410
-5% of loan amount	75%	8,102	2,773	10,875
Repayment probability assumptions				
+1 percentage point	75%	9,464	3,239	12,703
-1 percentage point	75%	10,200	3,490	13,690

(e) Liability Adequacy Test

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

The discount rates used were risk-free rates determined based on spot rates provided by the New Zealand Treasury with an average of 3.42 percent (2014: 4.24 percent).

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

The actuarial assessment of the Liability Adequacy Test for MIS as at 30 June 2015 was $13.2 million (2014: $15.6 million). This is the present value of the amount that will be sufficient for future claims arising from the rights and obligations under the MIS insurance contracts plus an additional risk margin.

The risk margin used in calculating the present value of the expected future payments for claims incurred was 34 percent to allow for the inherent uncertainty in the central estimate. The risk margin determination included uncertainty or risks which are a combination of the random or process risk and the systemic risk.

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

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

The table below shows the details of the LAT performed:

	2015 ($M)	2014 ($M)
Central estimate claims (undiscounted)	12	15
Discounting	(2)	(3)
Central estimate claims (discounted)	10	12
Risk margin at 75 probability of sufficiency	3	4
Premium liabilities based on LAT	13	16

At $17,622 million (2014: $15,561 million), the HNZC Group's equity is considered sufficient to meet the future claim liabilities of the scheme.

(f) Outstanding Claims Liability

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

The table below sets out the components of the outstanding claims liabilities as at 30 June 2015:

	2015 ($M)	2014 ($M)
Approved claims incurred	–*	–*
Central estimate IBNR claims (undiscounted)	2	2
Discounting	–*	–*
Central estimate claims (discounted)	2	2
Risk margin at 75 probability of sufficiency	–*	–*
Claims handling expenses	–*	–*
OCL at 75% PoA	3	3

* below $500k

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

The discount rate used was a series of interest rates dependent upon term to payment. The rates used were risk-free rates determined based on spot rates provided by the New Zealand Treasury. As at 30 June 2015 the weighted average rate used in determining the OCL was 3.24 percent (2014: 3.29 percent).

(g) Claims history and asset backing

Actual claims under the Mortgage Insurance Scheme are lower than those projected by the actuarial assessment at the 75 percent level (2014: lower than those projected by the actuarial assessment at the 75 percent level).

PROJECTED CLAIM LIABILITIES 2015 ($M)	ACTUAL CLAIMS 2015 ($M)	PROJECTED CLAIM LIABILITIES 2014 ($M)	ACTUAL CLAIMS 2014 ($M)
2.22	**1.42**	**2.38**	**2.14**

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

The total of claims paid out under the MIS from the start of the scheme to 30 June 2015 was $11 million.

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(h) Credit rating

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

18 Categories and fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities in each of the categories of financial instruments are as follows:

	2015 ($M)	2014 ($M)
Financial assets		
Loans and receivables		
Cash and cash equivalents	15	49
Receivables (current and non-current)	95	75
Money market investments (current and non-current)	595	559
Mortgages	55	57
Total loans and receivables	**760**	**740**
Financial assets at fair value through net surplus/(deficit)		
Financial assets designated at fair value through net surplus/(deficit)		
Shared equity loans	1	1
	1	**1**
Financial assets at fair value through other comprehensive revenue and expense		
Financial assets available-for-sale		
Bank registered certificates of deposit	10	10
	10	**10**
Financial assets – cash flow hedge relationships		
Interest rate swaps – cash flow hedges	–	21
	–	**21**
Total financial assets at fair value through other comprehensive revenue and expense	**10**	**31**
Financial liabilities		
Financial liabilities – cash flow hedge relationships		
Interest rate swaps – cash flow hedges	117	61
Financial liabilities – financial guarantees		
Financial guarantees – sold loans	2	3
Total financial liabilities at fair value through other comprehensive revenue and expense	**119**	**64**
Financial liabilities measured at amortised cost		
Crown loans – floating interest rate	1,858	1,858
Accounts payable and other liabilities	114	103
Total financial liabilities measured at amortised cost	**1,972**	**1,961**

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

	CARRYING AMOUNT		FAIR VALUE	
	2015 ($M)	2014 ($M)	2015 ($M)	2014 ($M)
Financial assets				
Mortgage advances	55	57	47	45
Total	**55**	**57**	**47**	**45**

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

19 Cash and cash equivalents

	2015 ($M)	2014 ($M)
Overnight investments	5	3
Term deposits	10	46
Total cash and cash equivalents	**15**	**49**

Cash and cash equivalents, except term deposits, represent cash available for working capital purposes. Term deposits are deposits maturing within three months or less and include funds restricted for payments of HIF loans, grants and MIS claims.

Overnight investments earn interest at floating rates based on daily bank deposit rates. The weighted average effective interest rate for overnight money market investments is 3.55 percent (2014: 3.25 percent).

The weighted average effective interest rate for term deposits is 3.90 percent (2014: 3.84 percent) with a term of up to three months.

20 Interest rate derivatives

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

At 30 June 2015, there were 146 interest rate swap agreements that had commenced (2014: 136), with a notional amount of $1,687 million (2014: $1,525 million), paying a weighted average fixed rate of interest of 5.21 percent (2014: 5.42 percent) and receiving a variable rate equal to the 90-day bank bill rate.

At 30 June 2015, after taking into account the effect of interest rate swaps, approximately 91 percent of borrowings were at a fixed rate of interest (2014: 82 percent).

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

	2015 ($M)	2014 ($M)
Interest rate derivatives – assets		
Interest rate derivatives – current assets	–	1
Interest rate derivatives – non-current assets	–	20
Interest rate derivatives – total assets	**–**	**21**
Interest rate derivatives – liabilities		
Interest rate derivatives – current liabilities	35	26
Interest rate derivatives – non-current liabilities	82	35
Interest rate derivatives – total liabilities	**117**	**61**

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

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

	0-1 YEAR ($M)	1-2 YEARS ($M)	2-3 YEARS ($M)	3-5 YEARS ($M)	5+ YEARS ($M)	TOTAL ($M)
Year ended 30 June 2015						
Interest rate derivatives – net settled						
Liabilities	(35)	(30)	(23)	(21)	(8)	(117)
Net assets/(liabilities)	**(35)**	**(30)**	**(23)**	**(21)**	**(8)**	**(117)**
Year ended 30 June 2014						
Interest rate derivatives – net settled						
Assets	1	2	2	4	12	21
Liabilities	(26)	(14)	(11)	(10)	–	(61)
Net assets/(liabilities)	**(25)**	**(12)**	**(9)**	**(6)**	**12**	**(40)**

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

	2015 ($M)	2014 ($M)
0 – 1 year	303	148
1 – 2 years	376	269
2 – 3 years	229	406
3 – 5 years	430	325
5+ years	349	377
Total notional principal	**1,687**	**1,525**

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

Movement in interest rate swaps contract cash flow hedge reserve

	2015 ($M)	2014 ($M)
Balance at 1 July	**(30)**	**(68)**
Fair value movement of interest rate swaps	(104)	8
Interest expense charged to net surplus/(deficit)	28	44
Amount included in other comprehensive revenue and expense	**(76)**	**52**
Hedging reserve deferred tax	21	(14)
Balance at 30 June	**(85)**	**(30)**

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

21 Loans

Interest-bearing borrowings

	CARRYING AMOUNT 2015 ($M)	2014 ($M)
Loans – current		
Crown loans – floating interest rate	142	174
Total loans – current	**142**	**174**
Loans – non-current		
Crown loans – floating interest rate	1,716	1,684
Total loans – non-current	**1,716**	**1,684**
Total loans	**1,858**	**1,858**

Commercial paper

The HNZC Group has a Note Issuance Facility Agreement dated 17 December 2009. At 30 June 2015 there was no commercial paper outstanding (2014: nil). The aggregate principal amount of commercial paper outstanding will not at any time exceed $150 million. The HNZC Group has given a negative pledge that, while any commercial paper issued under the note issuance facility remains outstanding, it will not, subject to certain exceptions, create or permit any charge or lien over any of its assets.

Crown funding

As at 30 June 2015, $1,858 million (2014: $1,858 million) for the HNZC Group had been borrowed from the Crown, with maturity dates ranging from 2015 to 2024. The current position of the loans represents those maturing within the next 12 months.

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

Bank overdraft facility

As at 30 June 2015 the HNZC Group had an unsecured bank overdraft facility of $1 million (2014: $1 million) at an interest rate of 6 percent (2014: 6 percent).

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

22 Revenue

(a) Interest income and expense

	2015 ($M)	2014 ($M)
Interest income		
Interest on temporary investments and bank	28	22
Interest on mortgage advances	2	2
Total interest income	**30**	**24**
Interest expense		
Interest – long-term borrowing	68	52
Interest – derivatives	28	44
Total interest expense	**96**	**96**

(b) Crown appropriation income

	2015 ($M)	2014 ($M)
Housing assistance	1	1
Housing New Zealand Corporation housing support services	14	9
KiwiSaver/HomeStart deposit subsidies	32	25
Total Crown appropriation income	**47**	**35**

Total Crown appropriations were $51 million (2014: $40 million); however $4 million (2014: $5 million) has been classified as 'Crown appropriation premium receipts' in note 22(c) below.

(c) MIS revenue

	2015 ($M)	2014 ($M)
Third-party premium receipts	3	3
Crown appropriation premium receipts	4	5
Premium revenue deferred and actuarial (increase)/decrease in premium reserve	1	1
Recognised insurance premium revenue	**8**	**9**
Claims expense	(1)	(2)
Net surplus/(deficit) from MIS	**7**	**7**

(d) Other income

	2015 ($M)	2014 ($M)
Management fees from related parties	3	3
Release of HIF impairment	2	1
Other income	1	–
Total other income	**6**	**4**

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

23 Expenses

(a) Depreciation and amortisation

	2015 ($M)	2014 ($M)
Depreciation – rental properties	189	174
Depreciation – management assets	4	3
Amortisation of intangible assets	22	24
Total depreciation and amortisation	**215**	**201**

(b) Personnel

	2015 ($M)	2014 ($M)
Wages and salaries	78	79
Employee benefits	5	7
Other personnel costs	2	2
Total personnel	**85**	**88**

(c) Other expenses

	2015 ($M)	2014 ($M)
Professional services	26	33
Insurance	17	19
Communication	3	4
Computer costs and software maintenance fees	7	7
Accommodation, travel and allowances	3	3
Bad debts	5	2
Selling costs	4	2
MIS claims expenses	1	2
Stationery and publication	2	2
Vehicle costs	1	2
Other – refer note 23(e)	23	16
Total other expenses	**92**	**92**

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

(d) Grants

	2015 ($M)	2014 ($M)
KiwiSaver/HomeStart deposit subsidies	33	23
First home opportunity subsidies	1	1
Total grants	**34**	**24**

(e) Included in other expenses in note 23(c) are the following fees paid to external auditors:

	2015 ($M)	2014 ($M)
(i) Amount paid or payable to Ernst & Young (acting on behalf of the Auditor-General) for:		
– auditing the financial report of the entity and any other entity in the HNZC Group	0.60	0.60
(ii) Other assurance services		
– Review of market rent setting	0.05	–
– Review of Performance Based Maintenance Contract (PBMC) processes implemented on 1 July 2014	0.12	–
Total amounts paid to the auditors	**0.77**	**0.60**

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

	2015 ($M)	2014 ($M)
Assets impairment, write-off/demolition	33	13
Loss/(gain) on assets sales	(2)	2
Total realised losses on sales, write-off and impairment of assets	**31**	**15**

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

24 Annual distribution

	2015 ($M)	2014 ($M)
Annual distribution	**108**	**90**

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

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

	2015 ($M)	2014 ($M)
Net surplus/(deficit) after tax	**163**	**141**
Adjustments for:		
Depreciation and amortisation	215	201
Assets impairment and write-offs	33	13
(Gain)/loss on asset sales	(2)	2
Bad debts expense	5	2
Deferred tax recognised	(56)	(30)
Accumulated interest and fair value (gains)/losses on mortgage advances	(4)	(2)
Other non-cash items and non-operating items	(11)	(5)
Total non-cash and non-operating items	**180**	**181**
Increase/(decrease) in provisions	(2)	(1)
Increase/(decrease) in income tax payable/(receivable)	8	2
Increase/(decrease) in employee entitlements	–	(1)
Increase/(decrease) in MIS unearned premium reserve	(1)	(1)
Increase/(decrease) in rent in advance	4	(4)
Increase/(decrease) in accounts payable and other liabilities	11	7
(Increase)/decrease in receivables and prepayments	(17)	(23)
Total working capital movements	**3**	**(21)**
Net cash flows from operating activities	**346**	**301**

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

26 Commitments and contingencies

Operating lease commitments – HNZC Group as lessee

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

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

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

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

	2015 ($M)	2014 ($M)
Within 1 year	56	57
After 1 year but not more than 5 years	111	139
More than 5 years	14	23
Total	**181**	**219**

(a) Sub-lease receivables

The HNZC Group had no sub-leases as at 30 June 2015 (2014: nil).

(b) Operating lease commitments – HNZC Group as lessor

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

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

(c) Capital commitments

At 30 June 2015 capital commitments amounted to $133 million (2014: $193 million) for property projects.

(d) Lending commitments

At 30 June 2015 the HNZC Group had lending commitments (HIF) approved but not yet paid amounting to $4 million (2014: $4 million).

(e) Contingencies

Home Equity Scheme

At 30 June 2015 a contingent liability for up to $4.4 million (2014: $7.6 million) existed in relation to properties underwritten for the Home Equity Scheme, a community-based home ownership programme to assist more people into their first home. In the event of any part of this amount translating to an actual liability in future, the amount in the property acquisition budget is expected to be sufficient to fund settlement of the liability without material effect on the financial position.

Housing New Zealand Limited

The Crown has provided a warranty in respect of title to the assets transferred to HNZL. HNZL was incorporated into the HNZC Group as a subsidiary in 2001 as part of the legislated consolidation of government housing functions. The Crown has indemnified HNZL against any breach of this warranty. In addition, the Crown has indemnified HNZL against third-party claims that are a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of HNZL against any liability arising from the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

27 Related party disclosure

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

(a) Subsidiaries

NAME	COUNTRY OF INCORPORATION	EQUITY INTEREST 2015	EQUITY INTEREST 2014	INVESTMENT ($M) 2015	INVESTMENT ($M) 2014
Housing New Zealand Limited	New Zealand	100%	100%	3,646	3,646
Hobsonville Land Company Limited	New Zealand	100%	100%	–	–
				3,646	**3,646**

(b) Terms and conditions of transactions with related parties

- Sales to and purchases from related parties are made in arm's length transactions at normal market prices and normal commercial terms.
- Outstanding balances at 30 June 2015 and 2014 are unsecured and settlement is in cash.
- There have been no guarantees provided or received for any related party receivables.
- Based on their excellent payment history, no provision for doubtful debts relating to amounts owed by related parties has been necessary as at 30 June 2015 (2014: nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

(c) Key management personnel

Key management personnel are defined as senior management of the HNZC Group and all directors. During the year ended 30 June 2015, 10 employees were key management personnel (2014: 13 employees), and one employee was acting in a temporary position (2014: two employees).

Key management personnel compensation

	2015 ($000)	2014 ($000)
Board Members		
Remuneration	364	310
Full-time equivalent members	10.29	9.38
Leadership Team		
Remuneration	3,450	3,635
Full-time equivalent members	10.06	11.12
Total key management personnel remuneration	**3,814**	**3,945**
Total full-time equivalent personnel	**20.35**	**20.50**

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

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

	2015 ($)	2014 ($)
Both HNZC and HLC Directors		
Adrienne Young-Cooper	71,925	74,603
Ian Kearney[1]	47,213	31,361
HNZC Directors		
Allan Freeth[2]	60,000	49,500
Susan Paterson[9]	30,000	30,963
Whaimutu Dewes[3]	30,000	29,542
Jeff Meltzer[4]	33,000	28,811
Enid Ratahi-Pryor[5]	–	19,065
Peter Dow[6]	29,077	–
Liz Jones[7]	8,538	–
Alick Shaw[8]	2,500	–
HLC Directors		
Kerry Stotter	17,213	15,400
Carlie Eve	17,213	15,400
Richard Didsbury	17,213	15,400
Total remuneration	**363,892**	**310,045**

1. Ian Kearney resigned after balance date effective August 2015.
2. Allan Freeth resigned in June 2015.
3. Whaimutu Dewes resigned after balance date effective July 2015.
4. Jeff Meltzer was appointed in August 2013.
5. Enid Ratahi-Pryor was appointed in August 2012 and resigned in February 2014.
6. Peter Dow was appointed in July 2014.
7. Liz Jones was appointed in July 2014 and resigned in October 2014.
8. Alick Shaw was appointed in June 2015.
9. Susan Paterson resigned after balance date effective September 2015.

Ali'imuamua Alofivae was appointed after balance date in July 2015.

The above table includes all remuneration paid or payable to each director during the year.

There have been no payments to committee members appointed by the Board who are not Board directors during this financial year.

Directors' insurance

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

The total annual premium for the directors' and officers' liability insurance was $63,250 (2014: $63,250).

Housing New Zealand Corporation

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

28 Remuneration of employees - $100,000 and over

	2015	2014
$100,001 – $110,000	62	42
$110,001 – $120,000	28	27
$120,001 – $130,000	27	17
$130,001 – $140,000	26	20
$140,001 – $150,000	15	10
$150,001 – $160,000	9	10
$160,001 – $170,000	7	8
$170,001 – $180,000	7	7
$180,001 – $190,000	12	5
$190,001 – $200,000	3	1
$200,001 – $210,000	2	5
$220,001 – $230,000	1	3
$230,001 – $240,000	–	1
$240,001 – $250,000	2	–
$250,001 – $260,000	1	1
$260,001 – $270,000	2	–
$280,001 – $290,000	–	1
$290,001 – $300,000	1	–
$300,001 – $310,000	–	1
$310,001 – $320,000	1	–
$320,001 – $330,000	1	–
$330,001 – $340,000	1	1
$360,001 – $370,000	1	–
$370,001 – $380,000	–	1
$390,001 – $400,000	–	1
$410,001 – $420,000	1	–
$450,001 – $460,000	–	1
$500,001 – $510,000	1	–
Total employees	**211**	**163**

During the year ended 30 June 2015, 53 employees (2014: 52) received benefits in relation to cessation, totalling $1,255,869 (2014: $1,841,099).

29 Events subsequent to balance date

There were no material events subsequent to balance date.

30 Budgeted figures

(a) 2015 significant variations from budget

The unaudited budget figures reported in these financial statements are the financial performance targets that were included in the HNZC Group's 2014/15 Statement of Performance Expectations (SPE).

(b) Net surplus/(deficit)

Operating revenue

- **Rental income** was $7 million below budget, primarily due to total managed stock being lower than anticipated.
- **Interest income** was $15 million higher than budget, due to reduced capital expenditure and better use of cash funds allowing higher levels of investment for longer periods throughout the year.
- **Crown appropriation income** was $5 million higher than budget, reflecting a higher uptake of KiwiSaver and HomeStart deposit subsidies being provided to first home buyers than expected.

Operating expenses

- **Asset write-offs**, at $33 million, were significantly higher than the budget of $20 million due to increased development activity.

(c) Statement of Financial Position

- Overall net assets of $17.6 billion were $1 billion above the expected budget level. This was predominantly due to the annual rental property portfolio revaluation being significantly higher than expected as the surge in Auckland house prices continued at an unprecedented rate.
- Current assets were $307 million above budget mainly due to less than anticipated cash and short-term investments being required for additions to the rental property portfolio.
- Property, plant and equipment was $0.8 billion above budget, mainly due to the impact of the surge in Auckland house prices continuing throughout the year, resulting in a much higher than expected increase in the value of the rental property portfolio. This increase was partially offset by additions to the portfolio being $0.235 billion less than budgeted.
- The increase in total net interest rate derivative liabilities (both current and non-current) of $93 million reflected an unexpected series of reductions in longer-term market interest rates experienced throughout the year.

(d) Statement of Movements in Equity

Total equity was $1 billion above budget. This variance arose from the $2.2 billion increase in rental property values from the annual property revaluation, which was $1.1 billion more than that expected in the budget. This accounts for the majority of the $1 billion net increase in the revaluation reserve. In addition, the negative balance in the hedging reserve rose by $66 million (net of deferred tax) as a result of the consistent decline in market interest rates during the year.

(e) Cash Flow Statement

Investment activities – Rather than short- and long-term investments reducing by $327 million during the year as anticipated in the budget, they instead increased by $36 million, a difference of $363 million. This was primarily due to spending on rental property additions being $235 million less than expected due to a variety of operational constraints not anticipated when the budget was established. The remaining difference was due to investing more of the available cash than was budgeted for (ie, cash and cash equivalents reduced by $130 million in comparison with budget).

Building a better working world

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF
HOUSING NEW ZEALAND CORPORATION GROUP'S FINANCIAL STATEMENTS
AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of Housing New Zealand Corporation and its subsidiaries. The Auditor-General has appointed me, Stuart Mutch, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information of the group consisting of Housing New Zealand Corporation and its subsidiaries (collectively referred to as 'the Group'), on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 48 to 94, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 35 to 46 and 14 to 26.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2015; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Reporting Standards.
- the performance information:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2015, including for each class of reportable outputs:
    - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 22 September 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Members and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Members;
- the appropriateness of the reported performance information within the Corporation's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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

Responsibilities of the Board of Members

The Board of Members is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the Group's financial position, financial performance and cash flows; and
- present fairly the Group's performance.

The Board of Members' responsibilities arise from the Crown Entities Act 2004, the Financial Reporting Act 2013 and Housing Corporation Act 1974 (as amended).

The Board of Members is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board of Members is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out an independent review of the market rent setting, income related rent subsidy invoicing and rent forecasting processes and an independent review of performance based maintenance contract management control processes, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Group.

Stuart Mutch
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

Housing Agency Account

Financial Statements

Housing Agency Account

STATEMENT OF RESPONSIBILITY

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

The Board of Housing New Zealand Corporation is pleased to present the financial statements of Housing Agency Account for the year ended 30 June 2015.

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

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

c) In the opinion of the Board, the financial statements for the year ended 30 June 2015 fairly reflect the financial position and financial performance of the Housing Agency Account at that date.

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

Adrienne Young-Cooper
Chair
Housing New Zealand Corporation
22 September 2015

Jeff Meltzer
Director
Housing New Zealand Corporation
22 September 2015

Housing Agency Account

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	NOTES	2015 ($000)	2014 ($000)
ASSETS			
Current assets			
Cash at bank		43,801	25,945
Receivables from exchange transactions	10	29,970	9,496
Prepayments		330	-
GST receivable		365	1,178
Land held for sale	8	24,670	51,188
Investment properties	6	-	5,121
Total current assets		**99,136**	**92,928**
Non-current assets			
Long-term receivables from exchange transactions	10	7,362	-
Mortgage advances	14	969	963
Land under development	3	86,907	88,462
Work in progress	4	3,490	3,357
Rental properties	5	9,638	9,857
Investment properties	6	4,815	5,477
Plant and equipment	7	520	37
Total non-current assets		**113,701**	**108,153**
Total assets		**212,837**	**201,081**
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	11	9,486	6,147
Contract deposits	9	1,800	10,607
Amount due to related parties	12	1,040	1,516
Provision for future development costs	13	11,902	1,653
Total current liabilities		**24,228**	**19,923**
Non-current liabilities			
Long-term payables	11	2,629	-
Provision for future development costs	13	7,037	735
Total non-current liabilities		**9,666**	**735**
Total liabilities		**33,894**	**20,658**
Net assets		**178,943**	**180,423**
EQUITY			
Crown funds		179,349	179,349
Retained earnings		(1,441)	(657)
Revaluation reserve		1,035	1,731
Total equity		**178,943**	**180,423**

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

Housing Agency Account

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2015

	NOTES	2015 ($000)	2014 ($000)
REVENUE			
Revenue from non-exchange transactions			
Rental income from tenants		209	199
Rental income from income-related rent subsidy		358	350
Crown appropriation income		9	1,394
Total revenue from non-exchange transactions		**576**	**1,943**
Revenue from exchange transactions			
Rental income from tenants		3,132	2,756
Interest income		1,312	675
Fair value gain on investment properties	6	740	2,736
Recovery from impairment on land held for sale	8	–	38
Recovery from impairment on rental properties	5	–	415
Recovery from impairment on work in progress	4	70	684
Recovery from impairment on mortgage advance	14	230	205
Other income		6	9
Total revenue from exchange transactions		**5,490**	**7,518**
Total revenue		**6,066**	**9,461**
EXPENSES			
Losses on sale of properties		875	365
Operating expenses	2	6,013	5,344
Total expenses		**6,888**	**5,709**
Net surplus/(deficit)		**(822)**	**3,752**
Other comprehensive revenue and expense			
Revaluation reserve gains/(losses) on properties	5	(658)	1,731
Total comprehensive revenue and expense		**(1,480)**	**5,483**

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

Housing Agency Account

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	2015 ($000)	2014 ($000)
Total equity at 1 July	180,423	140,939
Net surplus/(deficit) for the year	(822)	3,752
Revaluation reserve gains/(losses)	(658)	1,731
Total comprehensive revenue and expense for the period	**(1,480)**	**5,483**
Contributions from/(distributions) to the Crown		
Contributions from the Crown	–	40,252
Return of capital to the Crown	–	(6,251)
Total contributions from/(distributions) to the Crown	–	34,001
Total changes in equity	**(1,480)**	**39,484**
Total equity at 30 June	**178,943**	**180,423**
Equity attributable to the Crown		
Opening balance	179,349	145,348
Contributions from the Crown	–	40,252
Return of capital to the Crown	–	(6,251)
Closing equity attributable to the Crown	**179,349**	**179,349**
Retained earnings		
Opening retained earnings	(657)	(4,409)
Net surplus/(deficit) for the year	(822)	3,752
Net transfers from asset revaluation reserve on disposal	38	-
Closing retained earnings	**(1,441)**	**(657)**
Revaluation reserve		
Opening revaluation reserve	1,731	-
Asset revaluations on properties	(658)	1,731
Net transfers from asset revaluation reserve on disposal	(38)	-
Closing revaluation reserve	**1,035**	**1,731**
Total equity at 30 June	**178,943**	**180,423**

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

Housing Agency Account

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

	2015 ($000)	2014 ($000)
Cash flows from/(used in) operating activities		
Rent receipts – tenants	206	196
Rent receipts – income-related rent subsidy	357	651
Rent receipts – investment properties	3,132	2,756
Crown operating appropriation receipts	9	1,394
Receipts from sale of developed assets	42,786	16,441
Contract deposits received	1,800	10,607
Interest received	1,312	675
Development costs paid	(24,943)	(62,572)
Other payments to suppliers	(7,942)	(10,085)
Management fee paid to related party	(3,209)	(2,853)
Net cash flows from/(used in) operating activities	**13,508**	**(42,790)**
Cash flows from/(used in) investing activities		
Asset sales	4,726	8,831
Asset purchases	(601)	(138)
Mortgage advances (issued)/received	223	–
Net cash flows from/(used in) investing activities	**4,348**	**8,693**
Cash flows from/(used in) financing activities		
Capital contributions	–	40,252
Return of capital to the Crown	–	(6,251)
Net cash flows from/(used in) financing activities	**–**	**34,001**
Net cash flows	17,856	(96)
Opening cash and cash equivalents	25,945	26,041
Closing cash and cash equivalents	**43,801**	**25,945**

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

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

1 Statement of accounting policies

Reporting entity

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

HAA is not controlled by the Corporation and does not form part of the Corporation's Group Financial Statements.

HAA has designated itself as a public benefit entity (PBE) for financial reporting purposes. PBEs are defined as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view of supporting that primary objective rather than for a financial return to equity holders.

Basis of preparation

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

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

Statement of compliance

The financial statements have been prepared in accordance with generally accepted accounting practice.

HAA qualifies for Tier 2 Public Sector Public Benefit Entity accounting standards (PBE accounting standards) as it is not publicly accountable and non-large. The financial statements have been prepared in accordance with Tier 2 PBE accounting standards and disclosure concessions have been applied. These financial statements comply with PBE accounting standards.

This is the first set of financial statements presented in accordance with the PBE accounting standards. There is no material impact to the measurement and recognition of accounting policies after transitioning to the PBE accounting standards.

Prior period balances have been restated to reflect the conversion to the PBE accounting standards.

Cash at bank

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

Accounts receivable

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

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

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

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

Land held for sale

Land held for sale comprises:

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

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

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

Mortgage advances

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

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

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

Land under development

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

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

Work in progress

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

Provision for future development costs

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

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

Rental property

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

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

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

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

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

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

Buildings	60 years
Improvements	25 years
Chattels	10 years

Investment properties

Investment properties are properties held for the purpose of deriving rental income, or for capital gain through sale in the long term.

Investment properties are initially valued at cost and subsequently remeasured to fair value annually at balance date.

Fair value is determined by reference to market-based evidence, which 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 with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at balance date.

Any investment properties under construction are measured at cost, where the fair value is unable to be reliably determined while under construction.

Any transfers to or from investment properties are made when management reviews the purpose/use of these properties. Any gain or loss arising from changes in fair value is charged to the net surplus/(deficit) for the year.

Property, plant and equipment

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

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

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

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

Accounts payable and other liabilities

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

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

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

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

Revenue

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

(i) Revenue from non-exchange transactions

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

Revenue generated from non-exchange transactions are income-related rental revenue received from tenants, income-related rent subsidies received from the Crown, and Crown operating appropriation.

(ii) Revenue from exchange transactions

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

Revenue shown in net surplus/(deficit) for the year comprises the amounts received and receivable by HAA for providing rental properties to tenants at market value, gains on sale of land and buildings, and interest on bank balances. Any non-cash gains in the fair value of investment properties and reversal of previous impairment of assets are recognised in net surplus/(deficit) for the year.

Financial instruments

HAA is party to a number of financial instruments including cash at bank, accounts receivable, Crown debtors, mortgage advances, contract deposits, accounts payable and other liabilities plus advances to/(from) related parties.

Gains or losses on financial instruments are recognised in net surplus/(deficit) in the period in which they occur.

Taxation

HAA is not liable for income tax by virtue of section CW 38(2) of the Income Tax Act 2007. However, HAA is subject to Goods and Services Tax (GST).

All amounts within the financial statements are stated exclusive of GST, except for accounts receivable and accounts payable, which are GST inclusive.

Capital management

HAA's capital is in equity, which comprises accumulated funds generated from its operating and investment activities, Crown appropriation and other reserves. These funds will be held by HAA in order to meet its state housing objectives, and will only be held for the purposes for which they were originally appropriated. Any residual accumulated funds that are not utilised by HAA will be returned to the Crown.

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

Significant judgements and estimates

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

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

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

Rental properties

HAA revalues rental properties on an annual basis. Fair value is determined by reference to market-based evidence from independent valuers Quotable Value New Zealand.

In performing the valuation, the entire portfolio has not been individually inspected. A market indexation approach has been adopted for the remaining uninspected portfolio due to the homogeneous nature of the portfolio. 'Highest and Best Use' scenario was used in the property valuation.

Investment properties

Investment properties are those properties that are held to earn rental income or for capital appreciation.

Investment properties are initially recognised at cost, including transaction costs. After initial recognition, investment properties are carried at fair value, as determined by independent valuers Quotable Value New Zealand. Any changes in the fair value are recorded in the net surplus/(deficit).

Impairment of plant and equipment, work in progress and land under development

HAA's primary objective from its non-financial assets is to develop land for housing rather than to generate a commercial return.

Non-cash-generating assets

Plant and equipment, work in progress and land under development are held at the lower of cost or net realisable value and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be fully recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit.

Reversal of an impairment loss is recognised in the surplus or deficit.

Provision for future development costs

Management makes significant judgements when estimating the amount of the provision for future development costs. As a prerequisite for establishing a provision in relation to each development, management needs to determine whether that development site has been sold. All relevant factors are assessed in ascertaining whether or not the significant risks and rewards of ownership have transferred to the purchaser, when determining whether a sale has occurred.

Management estimates future development costs using a model that includes both development-specific costs and a share of Hobsonville site-wide costs. Those costs specific to a particular development are those that provide a direct benefit to that development and typically include construction, landscape design and engineering costs. Site-wide costs are those that are incurred on a total site-wide basis that benefit all developments in the Hobsonville site area, and typically include site-wide amenity assets, site-wide remediation, and coastal walkway costs.

An apportionment of site-wide costs is allocated to each individual development based on the proportion of that development's area to the total Hobsonville site area.

At each balance date, the estimate of future development costs is revised by updating the underlying assumptions and taking account of latest available information in the future development cost model. This includes consideration of development costs incurred to date, internal business planning strategies, and external experts' assessments as to the likely cost of work required to complete both the particular development and the entire Hobsonville site development.

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

Mortgage advances

HAA designates its mortgage advances at fair value through net surplus/(deficit). An embedded derivative was identified from this financial instrument due to the existence of a prepayment option and the interest rate cap within the mortgage agreements.

Mortgage advances are independently valued at the end of the year by reference to market-based evidence by PricewaterhouseCoopers.

There is no active market currently available for this type of loan. To determine an appropriate discount rate at which to value the loans, the standard bank mortgage and personal lending rates were used as the starting point. These were then adjusted to reflect the average quality and security for the loans. A cap valuation model within Bloomberg was used to estimate the value of the embedded derivative.

Estimation of useful lives of assets

HAA reviews the useful lives and residual values of its property, plant and equipment annually.

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

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

2 Operating expenses

	2015 ($000)	2014 ($000)
Management fee	3,209	2,853
Consultants	3	–
Depreciation on rental property	115	102
Depreciation on property, plant and equipment	10	22
Premises security	244	200
Property maintenance	1,010	728
Insurance	162	182
Land rates	506	493
Water rates	399	421
Communal property cost	19	31
Feasibility costs	19	6
Audit fees	41	44
Legal fees	5	9
Land management costs	20	39
Commission on rent	181	175
Other expenses	70	39
Operating expenses	**6,013**	**5,344**

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

3 Land under development

	2015 ($000)	2014 ($000)
Land under development for resale	**86,907**	**88,462**

Land under development is measured at the lower of cost or net realisable value. This relates to purchases of land at the former Hobsonville Airbase from New Zealand Defence Force, Ministry of Education, Auckland Council, and those costs associated with the development of the Hobsonville site.

For the purposes of assessing the realisable value of this property, land under development for resale has been valued as at 30 June 2015 as part of the overall Hobsonville site valuation.

The valuation was carried out by Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being Jan O'Donoghue (B Com (VPM), PG Dip Com, SPINZ, ANZIV). The fair value less cost to sell is $110 million (2014: $109 million).

Movements in land under development

	2015 ($000)	2014 ($000)
Land under development for resale at 1 July	88,462	74,899
Transferred to properties held for sale	(26,947)	(46,538)
Transferred from investment properties	1,403	-
Development costs incurred during the year	24,943	32,047
New Zealand Defence Force land purchase	-	30,525
Sales/disposals	(954)	(2,471)
Land under development for resale at 30 June	**86,907**	**88,462**

4 Work in progress

	2015 ($000)	2014 ($000)
Work in progress at 1 July	3,357	9,183
Additions	6	-
Transferred from rental properties	57	-
Recovery of prior year impairment	70	684
Disposal	-	(6,510)
Work in progress at 30 June	**3,490**	**3,357**

Work in progress (land under development for purposes of the state) is held at cost and is tested annually for impairment. Land value comprises properties transferred from various sections of the Crown under the Public Works Act 1981.

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

5 Rental properties

	2015 ($000)	2014 ($000)
Land	5,173	5,275
Buildings	4,465	4,582
Rental properties	**9,638**	**9,857**

	MOVEMENTS			
	2015		2014	
	LAND ($000)	BUILDINGS ($000)	LAND ($000)	BUILDINGS ($000)
Rental properties at 1 July	5,275	4,582	4,627	4,075
Additions during the year	–	26	–	137
Disposals	(441)	–	–	–
Revaluation	(687)	29	1,674	472
Depreciation for the year	–	(115)	–	(102)
Transferred to work in progress	–	(57)	–	–
Transferred to/from land held for sale	1,026	–	(1,026)	–
Rental properties at 30 June	**5,173**	**4,465**	**5,275**	**4,582**

Rental properties comprising land and buildings were revalued to fair value as at 30 June 2015.

The valuation was carried out by an independent valuer, Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being Andrew F Parkyn (B Com (VPM), PG Dip Com, SPINZ, ANZIV).

The revaluation effect relating to rental properties was a decrease of $0.66 million (2014: an increase of $2.14 million). This decrease has been recognised in the revaluation reserve (2014: increase of $1.73 million).

6 Investment properties

	2015 ($000)	2014 ($000)
Investment properties		
Land and buildings at 1 July	10,598	10,549
Revaluation movement	740	2,736
Disposals	(5,120)	(2,687)
Transfer to land under development	(1,403)	–
Total fair value of investment properties at 30 June	**4,815**	**10,598**

Investment properties comprising land, buildings and improvements were revalued to fair value as at 30 June 2015. The valuation was carried out by Quotable Value New Zealand, a company employing registered and qualified valuers, with the registered valuer for the valuation being Jan O'Donoghue (B Com (VPM), PG Dip Com, SPINZ, ANZIV).

Investment properties were valued at a fair value of $4.82 million as at 30 June 2015 (2014: $10.60 million). The increase of $0.74 million (2014: $2.74 million increase) in the fair value was included in net surplus/(deficit) for the year.

There were no investment properties that have been contracted for sale as at balance date (2014: $5.12 million).

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

7 Plant, Plant and Equipment

	EQUIPMENT ($000)	FURNITURE ($000)	LEASEHOLD IMPROVEMENTS ($000)	TOTAL ($000)
2015				
COST				
Balance at 1 July	97	26	–	123
Additions	42	139	348	529
Disposals	(97)	(25)	–	(122)
Balance at 30 June	**42**	**140**	**348**	**530**
LESS:				
ACCUMULATED DEPRECIATION				
Balance at 1 July	(76)	(10)	–	(86)
Reversal of disposals	76	10	–	86
Depreciation charged for the year	(1)	(3)	(6)	(10)
Balance at 30 June	**(1)**	**(3)**	**(6)**	**(10)**
2015 net carrying amount	**41**	**137**	**342**	**520**
2014				
COST				
Balance at 1 July	97	26	–	123
Balance at 30 June	**97**	**26**	**-**	**123**
LESS:				
ACCUMULATED DEPRECIATION				
Balance at 1 July	(57)	(7)	–	(64)
Depreciation charged for the year	(19)	(3)	–	(22)
Balance at 30 June	**(76)**	**(10)**	**-**	**(86)**
2014 net carrying amount	**21**	**16**	**-**	**37**

8 Land held for sale

	2015 ($000)	2014 ($000)
Land held for sale at 1 July	51,188	18,438
Disposals during the year	(52,439)	(14,852)
Recovery of prior year impairment	–	38
Transfers to/from rental properties	(1,026)	1,026
Transfers from land under development	26,947	46,538
Land held for sale at 30 June	**24,670**	**51,188**

For the purposes of testing whether an impairment has occurred to the land held for sale as at 30 June 2015, a valuation was carried out by Quotable Value New Zealand, a company employing registered and qualified valuers, with the principal registered valuer for the valuation being Jan O'Donoghue (B Com (VPM), PG Dip Com, SPINZ, ANZIV).

As at 30 June 2015 the fair value less cost to sell is $71.43 million (2014: $74.37 million).

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

9 Contract deposits

Contract deposits arising from Hobsonville development sale transactions reflect contractual consideration paid by prospective purchasers prior to settlement. These deposits are recognised as income as land settlement occurs or titles transfer.

Movements during the year

	2015 ($000)	2014 ($000)
Contract deposits at 1 July	10,607	882
Contract deposits received	20,944	13,026
Contract deposits returned	(29,751)	(3,301)
Contract deposits at 30 June	**1,800**	**10,607**

10 Receivables

	2015 ($000)	2014 ($000)
Current receivables		
Accounts receivable	29,972	7,900
Provision for doubtful debts	(2)	(3)
Net realisable value of current accounts receivable	**29,970**	**7,897**
Non-current receivables		
Long-term accounts receivable	7,362	–
Total non-current receivables	**7,362**	**–**
Total receivables	**37,332**	**7,897**

Long-term receivables relate to sales of developments subject to deferred settlement terms. Deferred settlements arise from sales being recognised when management considers that the risks and rewards of ownership have transferred to a purchaser/developer prior to completion of the development.

11 Accounts payable and other liabilities

	2015 ($000)	2014 ($000)
Current accounts payable and other liabilities		
Trade creditors	9,486	5,856
Accrued expenses and other liabilities	–	289
Crown creditor	–	2
Total current accounts payable and other liabilities	**9,486**	**6,147**
Non-current accounts payable and other liabilities		
Long-term trade creditors	2,629	–
Total non-current accounts payable and other liabilities	**2,629**	**–**
Total accounts payable and other liabilities	**12,115**	**6,147**

At 30 June 2015, $9.03 million of the total accounts payable and other liabilities relates to a development partner's share of the development margin on blocks sold within the Buckley A precinct. The non-current portion of $2.63 million is in relation to those contracts not required to be settled until after June 2016.

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

12 Transactions with related parties

HAA is an account of the Crown. It undertakes some transactions with statutory corporations, state-owned enterprises and government departments on an arm's length basis.

In the current financial year, HAA received nil capital appropriations (2014: $40.25 million) and $0.009 million in operating appropriations (2014: $1.39 million) from the Crown. HAA no longer receives either capital or operating appropriations in relation to the Hobsonville development project, as it is now fully self-funded.

In the year to 30 June 2015, the Corporation provided management services to HAA. A management fee of $3.21 million (2014: $2.85 million) was charged by Hobsonville Land Company Limited (HLC) for services relating to the Hobsonville development. No management fee has been charged for other services provided to HAA since this requires ministerial approval under the Housing Agency Accountability Agreement.

The Corporation administers HAA as an agent of the Crown under the Housing Act. As at 30 June 2015 the balance of the total amount owing by HAA to the Corporation and its subsidiaries was $1.04 million (2014: $1.52 million). This balance was fully paid in July 2015.

In its capacity as agent for HAA, the Corporation manages the rental income and expenses of HAA's rental properties. No fee is charged for this service.

13 Provision for future development costs

	2015 ($000)	2014 ($000)
Current provisions		
Provision for development costs	11,902	1,653
Total current provisions	**11,902**	**1,653**
Non-current provisions		
Provision for development costs	7,037	735
Total non-current provisions	7,037	735
Total provisions for development costs	**18,939**	**2,388**

Movement in carrying amounts

	2015 ($000)	2014 ($000)
Provision for development costs		
Carrying amount at 1 July	2,388	839
Additional provisions recognised	13,191	362
Increase in estimates	4,315	1,937
Development expenditure incurred	(955)	(750)
Total carrying amount at 30 June	**18,939**	**2,388**

The additional provisions recognised are those costs estimated as required to complete the development process associated with those properties sold during the year. The increase in estimates relates to the effect of applying revised estimates to those amounts previously provided for in prior years that still remain at the latest balance date.

An additional 260,946 square metres of land was sold during the year, bringing the total land area for which future costs have been included in the provision to 392,457 square metres.

Site remediation costs of $6.82 million are included in the future development costs provision based on estimates provided by Pattle Delamore Partners.

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

14 Mortgage advances

	2015 ($000)	2014 ($000)
Beginning of year	963	758
Fair value gain/(loss)	230	205
Repayment of advances	(224)	–
Total mortgage advances at 30 June	**969**	**963**

Gateway Housing is an initiative approved by Cabinet in 2009 to assist community housing organisations by selling surplus Crown land to build houses for home ownership for first home owners. Where there is no demand for sections by housing organisations or no suitable proposal for land use, land may be offered to individual moderate income households.

The sale price of the land is treated as a loan to the buyer, secured by a second mortgage on the title. The interest rates charged on the loan are as follows:

- Years 1 to 5 – 3 percent
- Years 6 to 7 – 4 percent or market rate, whichever is lower
- Years 8 to 9 – 6 percent or market rate, whichever is lower
- Year 10 – 8 percent or market rate, whichever is lower

Gateway loans are designated at fair value through net surplus/(deficit). Any movement in fair value is taken to net surplus/(deficit).

The Gateway loans were revalued independently by Andrea Gluyas of PricewaterhouseCoopers, a member of the New Zealand Society of Actuaries and the Institute of Actuaries of Australia.

15 Financial instruments

	LOANS & RECEIVABLES ($000)	FAIR VALUE THROUGH NET SURPLUS/ (DEFICIT) ($000)	AMORTISED COST ($000)	TOTAL ($000)
30 June 2015				
Financial assets				
Cash at bank	43,801	–	–	43,801
Receivables	37,332	–	–	37,332
Mortgage advances	–	969	–	969
Total financial assets	**81,113**	**969**	**-**	**82,102**
Financial liabilities				
Contract deposits	–	–	1,800	1,800
Accounts payable and other liabilities	–	–	12,115	12,115
Advances from related parties	–	–	1,040	1,040
Total financial liabilities	**-**	**-**	**14,955**	**14,955**

Housing Agency Account

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015

	LOANS & RECEIVABLES ($000)	FAIR VALUE THROUGH NET SURPLUS/ (DEFICIT) ($000)	AMORTISED COST ($000)	TOTAL ($000)
30 June 2014				
Financial assets				
Cash at bank	25,945	–	–	25,945
Receivables	7,897	–	–	7,897
Mortgage advances	–	963	–	963
Total financial assets	**33,842**	**963**	**–**	**34,805**
Financial liabilities				
Contract deposits	–	–	10,607	10,607
Accounts payable and other liabilities	–	–	6,147	6,147
Advances from related parties	–	–	1,516	1,516
Total financial liabilities	**–**	**–**	**18,270**	**18,270**

16 Rights of First Refusal for sale of land

The Right of First Refusal (RFR) restricts the disposal of properties except in accordance with legislation. Iwi/hapū granted RFR have the right to refuse to purchase properties held for disposal first, before they can be disposed of to anyone else.

The following are examples of Acts that grant RFR over those Crown lands set aside for a state housing purpose and administered by the Corporation under the Housing Act:

- Ngāti Whātua o Kaipara Claims Settlement Act 2013 (Minister of Housing-initiated exemption available for some but not all of the Hobsonville Point development)
- Waikato-Tainui Raupatu Claims Settlement Act 1995 (some exemption available)
- Port Nicholson Block (Taranaki Whanui Ki Te Upoko O Te Ika) Claims Settlement Act 2009 (some exemption available)
- Ngāi Tahu Claims Settlement Act 1998 (some exemption available)

17 Commitments

The principal development project is the former Hobsonville Airbase in Auckland. HLC, a wholly-owned subsidiary of the Corporation, is master-planning the Crown-led staged development of the former airbase into a community of approximately 3,500 homes. On 10 April 2008 HLC and AVJ Hobsonville Pty Limited (AVJ) signed a partnering Precinct Development Agreement for the Buckley A precinct of the former Hobsonville Airbase. The first six stages are now complete and sold with only stage seven remaining incomplete. There is a commitment of $249,200 to AVJ in respect of their share of the contract price regarding the Buckley A development.

Capital commitments

As at 30 June 2015 there is a commitment to pay $3.3 million in relation to the completion of civil project works within Hobsonville development site (2014: $10.4 million).

18 Contingent liabilities

There are no contingent assets or liabilities at balance date (2014: nil).

19 Subsequent events after balance date

There have been no significant events since balance date (2014: nil).

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF HOUSING AGENCY ACCOUNT'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of the Housing Agency Account (the Account). The Auditor-General has appointed me, Stuart Mutch, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Account on her behalf.

Opinion

We have audited the financial statements of the Account on pages 99 to 115, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Account on pages 99 to 115:

- present fairly, in all material respects:
  - its financial position as at 30 June 2015; and
  - its financial performance and cash flows for the year ended on that date.
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Standards with disclosure concessions.

Our audit was completed on 22 September 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Members of Housing New Zealand Corporation and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Account's preparation of the financial statements that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Account's internal control.

INDEPENDENT AUDITOR'S REPORT (continued)

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Members of Housing New Zealand Corporation;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Members of Housing New Zealand Corporation

The Board of Members of Housing New Zealand Corporation is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Account's financial position, financial performance and cash flows.

The Board of Members of Housing New Zealand Corporation's responsibilities arise from the Housing Act 1955.

The Board of Members of Housing New Zealand Corporation is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Members of Housing New Zealand Corporation is also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Account.

Stuart Mutch
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

Housing New Zealand
Housing New Zealand Corporation

New Zealand Government