



MINISTRY OF
HOUSING
TE WHARE ĀHURU

ANNUAL REPORT 2003 – 2004





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Public Finance Act 1989 and section 126 of the Residential Tenancies Act 1986.

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PART I: INTRODUCTION

This has been a year of change and consolidation for the Ministry of Housing.

We have worked through the Housing Agency Review, processed over 8000 bond transactions a week and dealt with 230,000 tenancy advice calls through the year. We have conducted 21 landlord education and information seminars throughout New Zealand and, following three successful pilots, have extended these to include an advanced course.

The Ministry is continuing to actively work with Housing New Zealand Corporation and other government agencies around *Building the Future: Towards a New Zealand Housing Strategy* and has continued to advise Ministers on issues related to the Residential Tenancies Act, advancing the Residential Tenancies Amendment Bill to its second reading.

Combined with our on-going daily work the additional funding provided for in the 2003/04 financial year has also allowed us to develop our quality assurance systems to ensure we can continue to meet the growing demand for our services and that we consistently meet or exceed our performance targets. This has included implementing a quality assurance framework for Tenancy Services Centre advice to ensure quality and strengthen the focus on resolving disputes early.

Additional funding also allowed us to extend and expand our public education programme as part of raising awareness of our services, in particular among communities with identified needs. This has helped to support the early resolution of disputes without the Tenancy Tribunal needing to become involved.

We have also worked closely with other agencies as part of the Social Services Cluster, which provides for agencies involved in the social sector to move forward in achieving their outcomes, by working together on areas of common interest. Bringing additional skills into our key corporate functions, including finance and human resources, has provided better support to line managers. This has given line managers an opportunity to reflect on the Ministry's service delivery model, including considering how we will manage future demand and ensure that our services are aligned with the outcome of the Review of the Residential Tenancies Act, when it is completed. This is an on-going process.

Concurrent with this we have also built our policy capability to further strengthen our delivery of policy advice to Ministers.

With the announcement of the outcome of the Housing Agency Review the Ministry is proud that we have been able to continue to deliver our services while building the foundations that will support us in managing the expansion of our role as we become the Department of Building and Housing.

The announcement of our expanded role was welcomed by staff who continued to focus on providing excellent service while we waited for the outcome of the Review.

There are new challenges ahead but we are confident we have the foundations in place to support the coming changes.



Katrina Bach
Chief Executive

PURPOSE AND FUNCTIONS OF THE MINISTRY

Policy Advice

The Ministry of Housing is responsible for the Residential Tenancies Act (RTA), which sets the regulatory framework for the rental housing sector, including the rights and obligations of landlords and tenants.

The Ministry provides policy advice to the Government in relation to the Act and on the rental housing market, and works with tenants and landlords at both national and local levels to identify issues or barriers that reduce the effectiveness of that market. Increasingly, the Ministry is using the data it holds to monitor trends and emerging issues in the rental market. This will enable us to better forecast demand for our services and improve the quality of our advice to the Government on the sector.

The Ministry also undertakes a compliance role in relation to the Residential Tenancies Act.

Prevention and Resolution of Disputes

A core role of the Ministry is to prevent and resolve disputes between tenants and landlords that can affect the stability of tenancies. This is important because stable housing is linked to a range of non-shelter outcomes such as better health, education and employment. The Ministry fulfils this role through the provision of a public information and education service, and the provision of tenancy advice. The key focus of these services is to prevent disputes between landlords and tenants and to enable the self resolution of disputes should they occur.

The Ministry is placing an increasing focus on its preventative role. This involves it working collaboratively with other housing sector agencies and community groups to achieve the desired outcomes.

Where self resolution has not been possible the Ministry provides mediation services through its Tenancy Services Division. The Ministry also provides administration for the Tenancy Tribunal (operated by the Ministry of Justice) for those disputes that cannot be resolved out of court.

Bond Advice and Processing

The Ministry is responsible for the administration of residential tenancy bonds. All landlords collecting bonds are legally required to lodge these with the Ministry. The Ministry holds these bonds in trust for landlords and tenants across New Zealand. The Ministry refunds bonds at the end of tenancies upon the instruction of landlords and tenants, or the Tenancy Tribunal. The Ministry also provides landlords and tenants with advice about bonds.

Bond Investment

Bonds lodged with the Ministry are held in the Residential Tenancies Trust Account and invested in accordance with the requirements of the Residential Tenancies Act and the Public Finance Act.

Advice on Housing Sector Interventions and Housing New Zealand Corporation's Performance

The Ministry provides purchase and monitoring advice with respect to Housing New Zealand Corporation to enable the Government to make informed decisions about the Corporation's performance, the effectiveness of its interventions, its policy work programme and future investment decisions. The Ministry administers the State Housing Appeals Authority.

Contribution to Government's Goals

The Government has set six goals that guide public sector policy and performance. The Ministry's work contributes to the following goals:

- Grow an inclusive, innovative economy for the benefit of all.
- Maintain trust in Government and provide strong social services.
- Reduce inequalities in health, education, employment and housing.

Our Vision

The Ministry's vision is that all people in New Zealand enjoy stable, quality housing in strong and viable communities.

Our Desired Outcomes

The overall outcome sought by the Ministry is:

A rental housing market that provides stable, quality housing for those who choose or need to rent their homes; balancing the needs of tenants to have a home and of landlords to manage their business investments effectively.

The intermediate outcomes sought by the Ministry are:

- The Residential Tenancies Act provides an effective regulatory framework that balances the needs of tenants and landlords.
- Tenants and landlords are aware of and meet obligations at the start, during and end of tenancies.
- Increased duration of tenancies for tenants most likely to face difficulties retaining their rental housing.

Key Strategies

The Ministry developed four key strategies to guide its activities. These are:

1. Monitor the rental market and work with landlord and tenant groups to identify and address any barriers or issues with the regulatory framework or the Ministry's service delivery that are reducing the effectiveness of the private rental market for landlords and tenants.
2. Improve the quality of business and property management practices used by landlords and property managers in New Zealand.
3. Prevent and resolve disputes that affect the stability of rental housing with a particular focus on increasing the ability of 'at risk' groups to retain their housing and reducing the incidence and level of rent arrears.
4. Improve the quality of the Ministry's purchase and monitoring advice by using information from market monitoring; increasing knowledge and understanding of housing issues; and learning from other purchase and monitoring agencies.

Progress Against the Strategies and Key Areas for Focus for 2003/04

The Ministry identified key areas of focus for 2003/04 for each of the four strategies developed. The table below summarises the Ministry's progress during 2003/04 against each strategy and key area of focus.

Strategy 1 - Monitor the rental market and work with landlord and tenant groups to identify and address any barriers or issues with the regulatory framework or the Ministry's service delivery that are reducing the effectiveness of the private rental market for landlords and tenants.

| Areas of focus for 2003/04 | Progress |
|---|--|
| The passage of the Residential Tenancies Amendment Bill legislation | <ul style="list-style-type: none"> • Progressed a Supplementary Order Paper to include additional amendments in the Bill. • Additional funding was obtained for the implementation of the RTA Amendment Bill in 2004/05. • Working closely with the Ministries of Justice and Social Development, implemented a system for the release of address information, to enable landlords to apply for tenant information to help enforce Tenancy Tribunal orders. |
| The review of the RTA | <ul style="list-style-type: none"> • Terms of reference for the review of the RTA were developed in consultation with key government agencies. • Additional funding was secured in 2004/05 budget for the review. • Recruited additional policy capability to undertake the review in 2004/05. |
| Relationships with key stakeholder groups | <ul style="list-style-type: none"> • Met with key stakeholder groups throughout the year. • Actively participated in the work of the Social Services Cluster, including a pilot programme in South Auckland. • Worked closely with the Ministry of Consumer Affairs on housing buy-back schemes. |

Strategy 2 - Improve the quality of business and property management practices used by landlords and property managers in New Zealand.

| Areas of focus for 2003/04 | Progress |
|----------------------------------|--|
| Public education and information | <ul style="list-style-type: none"> • Held 21 seminars for landlords across New Zealand. Feedback from the seminars continues to be positive and surveys of participants indicates that tenancy management is changed as a result of attending the seminars. • Produced a range of tenancy management tools for landlords to assist landlords to comply with the RTA and improve property management practices. • Designed and piloted a new seminar, “How to stay in the residential rental market” to demonstrate how good planning and professional management supports stable tenancies and lowers potential business risk for investors in the rental housing market. The seminar was successfully piloted in Auckland, Wellington and Christchurch, in May 2004. As a result, the Ministry is considering how to best integrate the information into its existing programme of seminars targeting new landlords. • Discussed opportunities to improve provision of information to those seeking to invest in rental housing with banking sector representatives. • Participation in Auckland Pasifika and Christchurch Aranui festivals with information stands. |

Strategy 3 - Prevent and resolve disputes that affect the stability of rental housing with a particular focus on increasing the ability of ‘at risk’ groups to retain their housing and reducing the incidence and level of rent arrears.

| Areas of focus for 2003/04 | Progress |
|---|---|
| Early intervention in disputes | <ul style="list-style-type: none"> • Worked closely with the Ministries of Justice and Social Development to improve the Tenancy Tribunal’s effectiveness for landlords and tenants by facilitating the enforcement of Tribunal orders. • Encouraged landlords to act early to prevent disputes escalating. This has included changes in the way we process applications to encourage more rapid dispute processing and resolution. |
| Implementation of quality assurance frameworks for tenancy advice calls | <ul style="list-style-type: none"> • Implemented a quality assurance framework to ensure advice calls focus on resolving disputes and sustaining tenancies. |
| Increase the ability of ‘at risk’ groups to retain their housing | <ul style="list-style-type: none"> • Worked with advocacy groups that work closely with tenants, including Citizens Advice Bureaux, Budgeting Services, Tenants Protections Associations, and Student Unions to ensure that they were well informed about the rights and obligations of tenants. • Worked with Work and Income to implement the <i>Rent Help for Tenants in Difficulty</i> package to assist those tenants who have difficulty meeting rental payments. • Continued to run rental seminars for new migrants at the Migrants Centre in Mangere. |

Strategy 4 - Improve the quality of the Ministry's purchase and monitoring advice by using information from market monitoring; increasing knowledge and understanding of housing issues; and learning from other purchase and monitoring agencies.

| Areas of focus for 2003/04 | Progress |
|--|---|
| <p>To work closely with Treasury and Housing New Zealand Corporation (HNZC) to ensure housing issues are understood and advice meets the needs of the Minister and adds value to HNZC activities</p> | <p>Worked closely with Treasury and Housing New Zealand Corporation on a range of issues including:</p> <ul style="list-style-type: none"> • Reviewing the long term capital requirements of the Corporation. • Reviewing the Housing New Zealand Corporation capital structure to improve incentives for prudent financial management. • Provision of purchase advice to shareholding Ministers during the budget process. • Provision of quarterly ownership monitoring advice on the Corporation's progress against Statement of Intent, business plan and asset management plan. • Improving the quality of the quarterly monitoring report to provide better focused advice to Ministers on key issues. |

STATEMENT OF RESPONSIBILITY

In terms of sections 35 and 37 of the Public Finance Act 1989 and section 126 of the Residential Tenancies Act 1986, I am responsible, as Chief Executive of the Ministry of Housing, for the preparation of the Ministry's and the Residential Tenancies Trust Account's financial statements and the judgements made in the process of producing those statements.

I have the responsibility of establishing and maintaining, and I have established and maintained, a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion these financial statements fairly reflect the financial position and operations of the Ministry and the Residential Tenancies Trust Account for the year ended 30 June 2004.



Katrina Bach

Chief Executive

8 September 2004



Countersigned by:

Marie Warner

Acting Chief Financial Officer

To the Readers of the Ministry of Housing's Financial Statements for the year ended 30 June 2004

The Auditor-General is the auditor of the Ministry of Housing (the Ministry). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Ministry, on his behalf, for the year ended 30 June 2004.

Unqualified opinion

In our opinion the financial statements of the Ministry on pages 14 to 51:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Ministry's financial position as at 30 June 2004;
 - the results of its operations and cash flows for the year ended on that date; and
 - its service performance achievements measured against the performance targets adopted for the year ended on that date; and
 - the assets, liabilities, revenues, expenses, contingencies and commitments managed by the Ministry on behalf of the Crown for the year ended 30 June 2004.

The audit was completed on 8 September 2004, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive;

- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Chief Executive and the Auditor

The Chief Executive is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Ministry as at 30 June 2004. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. In addition, they must fairly reflect the assets, liabilities, revenues, expenses, contingencies and commitments managed by the Ministry on behalf of the Crown for the year ended 30 June 2004. The Chief Executive's responsibilities arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 38(1) of the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

We have carried out an assurance related assignment for the Ministry of Housing in the area of tax compliance. Other than this assignment and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Ministry of Housing.



Ajay Sharma

Audit New Zealand

On behalf of the Auditor-General
Wellington, New Zealand

PART II: PERFORMANCE

STATEMENT OF OBJECTIVES AND SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2004

Output Class I - Administration of Residential Tenancies Bond Monies

Description

This output class involves the efficient, effective and impartial administration of residential tenancies bonds monies. This includes:

- lodging and refunding bonds as required under the Residential Tenancies Act 1986;
- providing information in relation to lodgements and refunds of bonds; and
- managing, investing and repaying bonds as required under the Act.

Outcomes Sought

The aim of this output class is to assist the Government to:

- provide all landlords and tenants with an efficient bond lodgement and refund service; and
- provide all landlords and tenants with efficient and accurate bond advice.

Achievement of these objectives will contribute to the following outcomes:

- The Residential Tenancies Act provides an effective regulatory framework that balances the needs of tenants and landlords.
- Tenants and landlords are aware of and meet their obligations at the start, during and at the end of tenancies.
- Increased duration of tenancies for tenants most likely to face difficulties retaining their rental housing.

The key business strategies in this output class are to:

- work with other agencies and organisations to encourage the use of quality property management practices for bond administration; and
- reduce the number of bond advice calls.

Performance Measures

Bond Lodgements

100% of the expected 185,000 to 190,000 bond lodgements will be actioned¹ within 5 working days of receipt by the Tenancy Services Centre.

| Number of lodgements | | | Variance between actual number of lodgements in 2003/04 and | | Lodged within 5 days | |
|----------------------|-------------------|----------------|---|----------------|----------------------|--------|
| Actual 2002/03 | Estimate 2003/04 | Actual 2003/04 | Estimate 2002/03 | Actual 2003/04 | Target | Actual |
| 195,357 | 185,000 – 190,000 | 213,881 | 9.5% | 15.6%-12.6% | 100% | 97.5% |

¹ Where actioned is defined as being entered, verified and receipted/dispensed.

The number of bond lodgements actioned exceeded last year's volumes by 9.5% and the upper end of the forecast range by 12.6%. Also 97.5% of lodgements were actioned within 5 days. Bond volumes have continued to increase with the rental market growth. The Ministry's demand forecasting model has been updated to revise forecast volumes for 2004/05.

All new bonds received will be accurately recorded on the system, based on information supplied by the tenant and/or landlord.

Performance is measured based on review of a sample of approximately 15% of bonds received. The average error rate for the 2003/04 year was 1.4% of the total sample. Any errors are corrected and training needs identified and included in individual or group training.

Bond Refunds

100% of the expected 185,000 to 190,000 bond refund requests will be actioned within two working days of receipt.

| Number of refunds | | | Variance between actual number of refunds in 2003/04 and | | Refunded within 2 working days of receipt | |
|-------------------|-------------------|----------------|--|------------------|---|--------|
| Actual 2002/03 | Estimate 2003/04 | Actual 2003/04 | Actual 2002/03 | Estimate 2003/04 | Target | Actual |
| 177,640 | 185,000 – 190,000 | 203,030 | 14.3% | 9.7% - 6.9% | 100% | 98.5% |

98.5% of bonds were refunded within 2 working days and 61.4% of bonds were refunded within 1 working day.

All bonds will be correctly refunded based on the information held at the time of the refund.

Performance is measured based on review of a sample of approximately 15% of bonds refunded. The average error rate for the 2003/04 year was 1.4% of the sample. Any errors are corrected and training needs identified and included in individual or group training.

Bond Advice

Improvements in efficiency of bond processing and a focus on improving the quality of responses to calls to reduce repeat calls has resulted in the number of calls for bond advice decreasing by 6.8%, to 206,223.

| Number of calls received | | | Variance between actual number of calls received in 2003/04 and | |
|--------------------------|-------------------|----------------|---|-------------------|
| Actual 2002/03 | Estimate 2003/04 | Actual 2003/04 | Actual 2002/03 | Estimate 2003/04 |
| 221,197 | 230,000 – 245,000 | 206,223 | (6.8)% | (10.3)% - (15.8)% |

All bond advice calls that are assessed will meet or exceed a quality rating of 75% and the abandonment rate will not exceed 5%.

| Quality Standards | | Abandonment rate | |
|-------------------|--------|------------------|--------|
| Target | Actual | Target | Actual |
| 75% | 88% | 5% | 3.5% |

The quality assurance framework for bond and tenancy advice sets quality standards and specifies expectations for the delivery of advice. A sample of calls is assessed against the quality standards each month for all staff. Staff met or exceeded the quality rating of 75% against the quality criteria.

69.0% of calls are answered within 20 seconds and only 3.5% of calls are abandoned which is within the target of less than 5%.

Bond Fund Investment

All bond investments will be made within the criteria of the Ministry's investment strategy and within 0.25% of prevailing daily rates

All investments were correctly accounted for and made within the terms of the Ministry's investment strategy, except in June 2004 when the maximum percentage limit for a term of one year or less was exceeded by 4.36%. This was as a result of the Ministry's ongoing short term cashflow requirements increasing. The Investment Strategy policy has subsequently been revised to reflect the increased short term cashflow requirement.

All new investments were within 0.25% of the prevailing daily rate.

| Administration of Residential Tenancies Bond Monies Output Statement for the year ended 30 June 2004 | | | | |
|--|-----------------------|-------------------------|------------------------------------|---|
| Actual 2003 \$000 | | Actual 2004 \$000 | Main Estimates 2004 \$000 | Supplementary Estimates 2004 \$000 |
| | Revenue | | | |
| 0 | Crown | 0 | 0 | 0 |
| 0 | Departmental | 3 | 0 | 4 |
| 2,721 | Other | 3,136 | 2,581 | 3,136 |
| 2,721 | Total Revenue | 3,139 | 2,581 | 3,140 |
| | Expenditure | | | |
| 2,719 | Total Expenses | 3,115 | 2,581 | 3,140 |
| 2 | Net surplus/(deficit) | 24 | 0 | 0 |

Output Class II: Residential Tenancies Information, Advice and Dispute Resolution

Description

This output class involves the provision of information and advice primarily relating to the Residential Tenancies Act 1986, and the provision of mediation and dispute resolution services to tenants and landlords in relation to residential tenancies. In particular, this output class involves:

- providing residential tenancies information to the public and targeted groups;
- responding to enquiries from both tenants and landlords about tenancy matters;
- providing information and advice on specific residential tenancy disputes and mediation between the parties;
- administration of the Tenancy Tribunal; and
- investigating alleged breaches of the Residential Tenancies Act 1986.

Outcomes Sought

The aim of this output class is to:

- reduce the number of tenancy disputes;
- increase self resolution of tenancy disputes; and
- increase the number of cases settled out of court.

Achievement of these objectives will contribute to the following outcomes:

- The Residential Tenancies Act provides an effective regulatory framework that balances the needs of tenants and landlords.
- Tenants and landlords are aware of and meet their obligations at the start, during and at the end of tenancies.
- Increased duration of tenancies for tenants most likely to face difficulties retaining their rental housing.

The key business strategies in this output class are to:

- work with other agencies and organisations to provide information about rights and obligations to target groups and to encourage the use of quality property management and business practices by landlords and property managers;
- encourage early intervention to reduce the incidence and level of rent arrears;
- reduce the proportion of short-term tenancies for target groups;
- increase the proportion of disputes settled out of court; and
- take, or support individuals to take, proceedings on breaches of the law which have an impact on the wider public interest.

Performance Measures

Public Education and Information

The Ministry focused on providing public information and education about residential tenancies to landlords, tenants and organisations that work with landlords and tenants.

The Ministry delivered a nationwide programme of 21 landlord seminars focusing on quality property management and business practices to reduce business risk and loss. During the fourth quarter a new landlord seminar was piloted that focused on practical ways for landlords to better manage rental properties and relationships with tenants.

The Ministry continued to work with tenant groups, Migrant Services, Housing New Zealand Corporation, the Ministry of Social Development, Citizens Advice Bureaux and Budgeting Services to deliver information.

The Rent Help for Tenants in Difficulty package was developed in conjunction with Work and Income to assist tenants who are beneficiaries before a rental dispute arises. The Ministry continued to work with the Ministry of Social Development to enable tenants' benefits to be redirected to meet rent arrears and rent, where good cause can be established.

An expanded range of tenancy tools and information was developed in 2003/04 including Tongan and Samoan tenant booklets, tenant checklists and tenancy starter packs.

Survey awareness of Tenancy Services, rights and obligations and the use of quality property management practices

The Ministry regularly surveyed participants in the landlord education programme. In particular asking if participants had changed their behaviour as a result of attending a seminar. The feedback from the majority of participants was that they did change some aspect of their property management practices as a result of attending.

The Ministry also participated in an omnibus survey of the level of general public awareness of the Ministry of Housing and Tenancy Services and assisted Massey University in completing a survey of landlords to evaluate the level of services provided by the Tenancy Services Division.

Use focus groups to survey effectiveness of information for target groups

The Ministry consulted with landlord and tenant representative groups on the development of a new landlord seminar. This was piloted in the last quarter of the 2003/04 financial year.

Tenancy Advice

Of the expected 260,000 to 290,000 calls on the Tenancy Services Centre's Tenancy Advice toll-free line 75% of those calls assessed will meet quality standards, and the abandonment rate will not exceed 7%.

The number of calls for tenancy advice received by the Tenancy Services Centre decreased by 7.1%, compared to the number received in the previous year. In part this reflects improved service delivery as issues were resolved through the initial call, with a reduction in call backs.

| Number of calls received | | | Variance between actual number of calls received in 2003/04 and | |
|--------------------------|-------------------|----------------|---|-------------------|
| Actual 2002/03 | Est. 2003/04 | Actual 2003/04 | Actual 2002/03 | Est. 2003/04 |
| 247,949 | 260,000 – 290,000 | 230,315 | (7.1)% | (11.4)% - (20.6)% |

Abandonment rate will not exceed 7%

| Quality Standards | | Abandonment rate | |
|-------------------|--------|------------------|--------|
| Target | Actual | Target | Actual |
| 75% | 86% | 7% | 4.4% |

74.9% of calls are answered within 20 seconds and only 4.4% of calls are abandoned which is within the target of less than 7%.

Advice will be relevant and accurate. All tenancy advice calls that are assessed will meet or exceed a quality rating of 75%.

The quality assurance framework for the provision of bond and tenancy advice defines what quality advice is, and specifies the expectations for the delivery of advice. A sample of calls is assessed against the quality standards each month for all staff. Staff met or exceeded the quality rating of 75% against the quality criteria.

Dispute Resolution

60% of applications for dispute resolution will be resolved out of court, ie. without going to the Tenancy Tribunal.

| Number of applications for dispute resolution | | | Variance between actual number in 2003/04 and | | Percentage resolved out of court | |
|---|------------------|----------------|---|------------------|----------------------------------|----------------|
| Actual 2002/03 | Estimate 2003/04 | Actual 2003/04 | Actual 2002/03 | Estimate 2002/03 | Target 2003/04 | Actual 2003/04 |
| 44,463 | 42,000 – 47,000 | 43,890 | (1.3)% | 4.5% - (6.6)% | 60% | 62.3% |

The number of applications decreased by 1.3% compared to the previous year. The Ministry believes that the stronger preventative focus through education and information, and self-resolution has had a positive impact on managing the growth in dispute applications.

During 2003/04, the focus has been maintained on increasing the proportion of disputes that are resolved out of court by focusing on increasing the number of applicants willing to attend mediation and increasing the success rate for making contact with the other party. This has resulted in a continued improvement in the resolution rate with 62.3% of applications resolved out of court during 2003/04 compared to 57.9% in 2002/03.

Tenancy Tribunal administration

75% of the estimated 23,500 to 26,000 applications proceeding to the Tribunal will have a hearing within 20 working days.

| Number of applications proceeding to the Tenancy Tribunal | | | Variance between actual number in 2003/04 and | |
|---|-----------------|----------------|---|------------------|
| Actual 2002/03 | Est. 2003/04 | Actual 2003/04 | Actual 2002/03 | Est. 2003/04 |
| 24,947 | 23,500 – 26,000 | 22,000 | (11.8%) | (6.4%) – (15.4%) |

The continued improvement in the proportion of applications resolved out of court is having a positive impact on the number of Tenancy Tribunal hearings scheduled. While applications for dispute resolution decreased by 1.3% compared to the previous year, the number of hearings scheduled fell by 11.8%.

75% of tenancy applications proceeding to the Tribunal will have a hearing within 20 days.

| | Target | Actual |
|---------------------------------|--------|--------|
| Tribunal hearing within 20 days | 75% | 71.4% |

71.4% of Tribunal hearings were completed within 20 days, compared to a target of 75%. For some disputes, there is a trade-off between timeliness and attempting to resolve the disputes out of court. The Ministry has focused on resolving disputes out of court, which has enabled a higher out of court settlement rate to be achieved. The Ministry achieved 62.3% resolved disputes out of court compared to a target of 60%. For applications where it is more appropriate to go directly to the Tribunal, rather than being resolved out of court, 94.4% receive a hearing within 20 days.

Monitoring of compliance

The Ministry expects to be involved with 50 investigations of non-compliance throughout the year.

| Investigations of non-compliance | | | Variance between actual number in 2003/04 and | |
|----------------------------------|--------------|----------------|---|--------------|
| Actual 2002/03 | Est. 2003/04 | Actual 2003/04 | Actual 2002/03 | Est. 2003/04 |
| 56 | 50 | 56 | 0% | 12% |

80% of compliance interventions result in voluntary compliance.

Continued progress was made in undertaking compliance investigations during the year. Of the 43 investigations now closed, 97% resulted in voluntary compliance.

In addition the Ministry implemented a system for the release of address information to enable landlords to apply for tenant information to help enforce Tenancy Tribunal orders. This process was commenced in August 2003 and since then, 5125 requests for address information have been received and processed by the Ministry.

**Residential Tenancies Information and Advice
and Dispute Resolution Output Statement
for the year ended 30 June 2004**

| Actual 2003 \$000 | | Actual 2004 \$000 | Main Estimates 2004 \$000 | Supplementary Estimates 2004 \$000 |
|----------------------------------|-----------------------|----------------------------------|--|---|
| | Revenue | | | |
| 5,639 | Crown | 5,899 | 5,773 | 5,899 |
| 0 | Departmental | 11 | 0 | 24 |
| 6,655 | Other | 6,767 | 5,504 | 6,074 |
| 12,294 | Total Revenue | 12,677 | 11,277 | 11,997 |
| | Expenditure | | | |
| 10,955 | Total Expenses | 11,981 | 11,277 | 11,997 |
| 1,339 | Net surplus/(deficit) | 696 | 0 | 0 |

Output Class III: State Housing Appeal Services

Description

The State Housing Appeals Authority is an external appeals authority established to hear appeals against HNZC decisions on the assessment of income-related rents, and applicants' eligibility and need for HNZC housing. The Ministry provides administrative support for the Appeals Authority.

Outcomes Sought

The aim of this output class is to assist the Government to improve housing outcomes for all New Zealanders.

Achievement of these objectives will contribute to the following outcomes:

- The Residential Tenancies Act provides an effective regulatory framework that balances the needs of tenants and landlords.
- Tenants and landlords are aware of and meet their obligations at the start, during and at the end of tenancies.
- Increased duration of tenancies for tenants most likely to face difficulties retaining their rental housing.

The key business strategy in this output class is:

- to review the structure and ongoing capability and training requirements of the State Housing Appeals Authority.

This review is still to be completed.

Performance Measures

It is estimated that there will be between 5 and 10 applications to the State Housing Appeals Authority.

There have been 4 applications during the year, but 1 application was withdrawn after balance date. This compares to 4 in 2002/03 and 7 in 2001/02.

Hearings will be held within 20 working days of application.

Hearings for 2 applications were held after 20 days from application date due to difficulty in getting consensus on a hearing date. As at 30 June 2004, the hearing date for 1 application was delayed until August 2004, due to the applicant seeking permission for legal representation.

| State Housing Appeal Services Output Statement for the year ended 30 June 2004 | | | | |
|--|-----------------------|-------------------------|------------------------------------|---|
| Actual 2003 \$000 | | Actual 2004 \$000 | Main Estimates 2004 \$000 | Supplementary Estimates 2004 \$000 |
| | Revenue | | | |
| 68 | Crown | 67 | 67 | 67 |
| 0 | Other | 0 | 0 | 0 |
| 68 | Total Revenue | 67 | 67 | 67 |
| | Expenditure | | | |
| 42 | Total Expenses | 45 | 67 | 67 |
| 26 | Net surplus/(deficit) | 22 | 0 | 0 |

Output Class IV – Housing Agency Purchase and Monitoring

Description

This output class involves the provision of governance and monitoring advice to the Ministers of Housing and Finance about Housing New Zealand Corporation (HNZC). This includes:

- assisting Ministers with Board appointments;
- assisting Ministers with setting performance expectations and negotiating accountability documents;
- providing the Minister of Housing with advice on the purchase of outputs;
- administration of the Crown's agreement with HNZC for reimbursement of the cost of providing income-related rents to qualifying tenants;
- monitoring HNZC's performance; and
- providing the Ministers of Housing and Finance with ownership advice.

Outcomes Sought

The aim of this output class is to assist the Government to:

- improve housing outcomes for all New Zealanders;
- achieve value for money expenditure on housing; and
- protect the Crown's ownership interests in HNZC.

Achievement of these objectives contributes to a rental housing market that provides stable, quality housing for those who choose or need to rent their homes: balancing the needs of tenants to have a home and of landlords to manage their business investments effectively.

The key business strategies in this output class are to:

- develop knowledge and understanding of housing issues within the Planning and Monitoring Unit;
- develop a network of agencies with purchase and monitoring responsibilities to share learning and experience;
- develop a market monitoring framework and regular reporting on issues and barriers in the rental market;
- work with landlord and tenant groups to identify and address issues and barriers affecting the rental market; and
- improve forecasting, data collection, analysis and dissemination to improve service delivery.

Performance Measures

The Ministers of Housing and Finance will expect the Ministry to:

| Performance Measures | Performance |
|--|--|
| Develop an annual expectation letter to the Chair of HNZN on behalf of Ministers by 31 January 2004. | The draft letter of expectations was delivered to the Minister's office by 31 January 2004. |
| Negotiate a 2004-07 Statement of Intent that Ministers are satisfied is aligned with the Government's goals by 30 June 2004. | HNZN delivered its Statement of Intent (SOI) for 2004-2007 to Ministers by 30 June 2004. |
| Negotiate a Purchase Agreement between the Minister of Housing and HNZN for policy advice and ministerial servicing that the Minister is satisfied is aligned with the Government's goals by 30 June 2004. | The purchase agreement was incorporated into HNZN's SOI for 2004-2007. The annual work programme for policy was developed and provided to the Minister by 30 June 2004. |
| Provide four reports to Ministers analysing HNZN's quarterly performance. These will be provided within 10 working days of receiving HNZN's quarterly information. | Quarterly performance reports were provided to the Minister within 10 working days of receiving the HNZN performance information. The format for the quarterly reports was improved to provide better focussed advice to Ministers on key issues. |
| Provide ownership advice to the Ministers as required. | Ownership advice was provided to Ministers as required. |
| Provide purchase advice on housing funding proposals to the Minister of Housing in a timely manner. | Independent purchase advice was provided on the housing sector bids within agreed timeframes to enable budget bids to meet Treasury deadlines. |
| Complete an independent review of the income-related rent (IRR) setting and reimbursement processes in conjunction with HNZN by 30 June 2004. | The review was completed by 30 June 2004. In addition the Ministry worked with HNZN to ensure that the recommendations from the previous year's review were implemented. |
| Manage the board appointment process. | The Ministry continued to manage the board appointment process to ensure that appointments are made when board terms expire. Board fees were reviewed. |
| Administer the Crown's income-related rents agreement with HNZN including forecasting of income-related rents and reimburse the cost of providing income-related rents to qualifying tenants. | The Ministry worked with the Ministry of Social Development and HNZN to improve the data sources for forecasting of income-related rents. The Ministry ensured that the cost of providing income-related rents was reimbursed to HNZN as agreed between HNZN and the Crown in the Section 7 agreement. |

All advice and reports to the Ministers will:

- *support the Government's strategic direction;*
- *focus on strategy, capability and delivery dimensions;*
- *be informed by comprehensive analysis of performance, results and impacts on service delivery;*
- *identify and assess risks;*
- *proactively provide solutions;*
- *consider issues such as efficiency, effectiveness and value for money; and*
- *incorporate accurate performance commentary and data, which has been tested with HNZA.*

All advice and reports met the quality standards set out above.

The Chief Advisor, Planning and Monitoring will meet with Minister's Office staff quarterly to obtain feedback on:

- *relationship management between the Ministry and the Minister's Office;*
- *responsiveness of the Ministry to issues raised by the Minister and his office;*
- *relationship management between the Ministry and HNZA; and*
- *the quality of the purchase advice and monitoring commentary.*

The Chief Advisor, Planning and Monitoring met with staff from the Minister's office and feedback was incorporated into the unit's advice and reporting.

The Ministry will invite the Minister to assess the overall quality of the Ministry's monitoring services every six months and ministerial satisfaction with the Ministry's monitoring and purchase services is 7 or more out of 10.

The Ministry is no longer collecting this data. The overall quality of the monitoring services has been discussed with the Minister's office and a revised feedback process has been agreed in principle for implementation in the next financial year.

The Ministry will invite the Minister to assess the overall quality of the Ministry's market monitoring and policy advice every six months and ministerial satisfaction with the Ministry's advice on Residential Tenancies Act and market monitoring is 7 or more out of 10.

The Ministry is no longer collecting this data. The overall quality of the monitoring services has been discussed with the Minister's office and a revised feedback process has been agreed in principle for implementation in the next financial year.

| Housing Agency Purchase and Monitoring Output Statement for the year ended 30 June 2004 | | | | |
|--|-----------------------|-------------------------|------------------------------------|---|
| Actual 2003 \$000 | | Actual 2004 \$000 | Main Estimates 2004 \$000 | Supplementary Estimates 2004 \$000 |
| | Revenue | | | |
| 400 | Crown | 511 | 400 | 511 |
| 0 | Departmental | 1 | 0 | 2 |
| 0 | Other | 0 | 0 | 0 |
| 400 | Total Revenue | 512 | 400 | 513 |
| | Expenditure | | | |
| 391 | Total Expenses | 507 | 400 | 513 |
| 9 | Net surplus/(deficit) | 5 | 0 | 0 |

Ministerial Services

As well as its formal outputs, the Ministry provided Ministerial services including:

- advice and reports to the Minister;
- draft responses to Parliamentary Questions and Ministerial correspondence; and
- replies to Official Information Act requests.

Description

This involves the provision of Ministerial services to assist the Minister to carry out his executive and legislative functions.

Performance Measures

Parliamentary questions

All answers to Parliamentary Questions are provided within the deadlines agreed with the Minister and less than 5 percent of the expected 35 answers to Parliamentary Questions are returned as inadequate or inappropriate.

| Number of parliamentary questions | | | Variance between actual number in 2003/04 and | |
|-----------------------------------|--------------|----------------|---|--------------|
| Actual 2002/03 | Est. 2003/04 | Actual 2003/04 | Actual 2002/03 | Est. 2003/04 |
| 64 | 35 | 46 | 72% | 131% |

During the year 46 Parliamentary Questions were received and answers were drafted within the deadlines agreed with the Minister. No replies were returned as inadequate or inappropriate.

Ministerials

All draft replies to be completed within the deadlines agreed with the Minister and less than 5 percent of the expected 50 to 60 Ministerial drafts are returned as inadequate or inappropriate.

| Number of ministerials | | | Variance between actual number in 2003/04 and | |
|------------------------|--------------|----------------|---|--------------|
| Actual 2002/03 | Est. 2003/04 | Actual 2003/04 | Actual 2002/03 | Est. 2003/04 |
| 66 | 50 – 60 | 95 | 144% | 158% |

During the year 95 Ministerials were received. 6% were not delivered on time and 7% were returned for amendment.

Official Information Act and Privacy Act requests

The expected 25 to 35 OIA or Privacy Act requests for the year are completed within statutory deadlines and responses to OIA or Privacy Act requests comply with the legislation.

| Number of Official Information Act and Privacy Act requests | | | Variance between actual number in 2003/04 and | |
|---|------------------|----------------|---|------------------|
| Actual 2002/03 | Estimate 2003/04 | Actual 2003/04 | Actual 2002/03 | Estimate 2003/04 |
| 22 | 25 – 35 | 17 | 77% | 68% |

During the year 17 OIA or Privacy Act requests were received. Two Official Information Act requests were not delivered on time. All other requests were completed within statutory deadlines.

The address information process handled by the Compliance Unit is also classified as an Official Information Act request and 5125 requests were received under this process since it was initiated in August 2003. All requests were completed within statutory deadlines.

Statement of Accounting Policies for the year ended 30 June 2004

Reporting Entity

The Ministry of Housing is a government department as defined by section 2 of the Public Finance Act 1989.

The financial statements of the Ministry of Housing have been prepared in accordance with section 35 of the Public Finance Act 1989 and comply with generally accepted accounting practice.

In addition, the Ministry has reported the Crown activities and trust monies which it administers.

Post Balance Date Events

On 30 June 2004 the Government announced that the Ministry of Housing would be expanded and renamed the Department of Building and Housing in November 2004. Its functions will then be expanded, over a 14-month period, to include building policy from the Ministry of Economic Development, the functions of the Building Industry Authority, occupational licensing and regulation associated with the building and housing sector, administration of the Retirement Villages legislation, regulation of housing standards, administration of legislation around fencing of Swimming Pools, the Weathertight Homes Resolution Services Act 2002, and Electrical Workers Licensing. This will result in a more integrated approach to policy development, advice to government, compliance and enforcement as well as the delivery of dispute resolution services.

Measurement System

General accounting systems recognised as appropriate for the measurement and reporting of results and financial position on an historical cost basis have been followed.

Accounting Policies

- **Budget Figures**

The Budget figures are those presented in the Budget Night Main Estimates, and those amended by the Supplementary Estimates and any transfer made by Order in Council under section 5 of the Public Finance Act 1989.

- **Commitments**

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that they are equally unperformed obligations. Commitments relating to employment contracts are not disclosed.

- **Contingent Liabilities**

Contingent liabilities are disclosed at the point at which the contingency is evident.

- **Cost Allocation**

The Ministry has determined the cost of outputs using a cost allocation system which is outlined below.

Cost Allocation Policy

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities based on cost drivers and related activity/usage information.

Criteria for Direct and Indirect Costs

Direct costs are those costs directly attributable to an output. Indirect costs are those costs that cannot be identified, in an economically feasible manner, with a specific output.

Assignment of Costs to Outputs

Direct costs are charged directly to outputs. Indirect costs are assigned to outputs based on a number of cost drivers. Depreciation and capital charge are charged on the basis of asset utilisation. Personnel costs are charged on the basis of actual time incurred. Property and other premises' costs, such as maintenance, are charged on the basis of floor area occupied for the production of each output. Remaining indirect costs are assigned on the proportion of direct costs for each output.

- **Debtors and Receivables**

Receivables are stated at their expected realisable value.

- **Depreciation**

Depreciation of fixed assets is calculated on a straight-line basis to allocate the cost of the asset over its economic life.

The depreciation rates applied are:

| | |
|------------------------------|------------|
| Office equipment | 20% |
| Office renovations | 10 - 20% |
| Furniture and fittings | 10% |
| Computer hardware | 25% |
| Software development/licence | 12.5 - 33% |
| Communications equipment | 25% |
| Motor vehicles | 16% |
| Leased assets | 25% |

The cost of leasehold improvements is capitalised and amortised over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter. The depreciation rate for motor vehicles is based on rates which will write down the cost of vehicles to their estimated residual value (40% of retail value at time of purchase) over four years.

- **Employee Entitlements**

Liabilities for annual leave are recognised as they accrue to employees. Provision is also made for payments of long-service leave, retiring leave and resigning leave obligations to employees. Annual leave provisions, retiring leave and resigning leave have been calculated on an actual entitlement basis at current rates of pay. Long-service leave is calculated on a present value basis.

- **Financial Instruments**

The Ministry is party to financial instruments as part of its normal operations. These financial instruments include accounts payable and receivable, cash and short-term deposits.

Revenues and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

- **Fixed Assets**

Fixed assets costing more than \$2,000 are capitalised and recorded at historical cost. No revaluations have been performed on any class of fixed assets.

- **Foreign Currency**

Foreign currency transactions are recorded at the date of settlement of the transaction.

- **Goods and Services Tax (GST)**

The Statements of Departmental and Non-Departmental Expenditure and Appropriations are inclusive of GST. All other statements are GST-exclusive. The Statement of Financial Position is also exclusive of GST, except for Creditors and Payables and Debtors and Receivables, which are stated inclusive of GST.

- **Leases**

Finance Leases

A liability equal to the present value of the future minimum lease payments is recognised for office equipment acquired by way of finance lease. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. The interest expense component of the finance lease payments is recognised in the Statement of Financial Performance using the effective interest rate method.

Operating Leases

The Ministry leases office premises. These leases are operating leases and the costs are expensed in the period in which they are incurred.

- **Revenue**

The Ministry derives revenue through the provision of outputs to the Crown, for services to third parties and interest from the Residential Tenancies Trust Account. Revenue is recognised when earned and is reported in the financial period to which it relates.

Residential Tenancies Trust Account

In accordance with the Residential Tenancies Act 1986, the Ministry administers a trust account for tenancy bond investments. Interest is payable to the Ministry and interest income is recognised on an accrual basis.

- **Statement of Cash Flows**

Cash means cash balances on hand and held in bank accounts.

Operating activities include cash received from all income sources of the Ministry and record the cash payments for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise capital injections by, or repayment of capital to, the Crown.

- **Taxation**

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 1994. Accordingly, no charge for income tax has been provided for.

- **Taxpayers' Funds**

This is the Crown's net investment in the Ministry.

Changes in Accounting Policies

There were no changes in accounting policies, including cost allocation accounting policies, since the date of the last audited financial statements.

All policies have been applied on a basis consistent with other years.

| Statement of Financial Performance for the year ended 30 June 2004 | | | | | |
|---|---|------|-------------------------|------------------------------------|---|
| 2003 Actual \$000 | | Note | 2004 Actual \$000 | 2004 Main Estimates \$000 | 2004 Supplementary Estimates \$000 |
| | Revenue | | | | |
| 6,107 | Revenue-Crown | 2 | 6,477 | 6,240 | 6,477 |
| 0 | Revenue Department | 3 | 15 | 0 | 30 |
| 9,376 | Revenue-other | 4 | 9,903 | 8,085 | 9,210 |
| 15,483 | Total operating revenue | | 16,395 | 14,325 | 15,717 |
| | Expenses | | | | |
| 7,465 | Personnel costs | 5 | 8,561 | 7,401 | 8,463 |
| 5,747 | Operating costs | 6 | 6,211 | 6,035 | 6,277 |
| 620 | Depreciation | 7 | 609 | 636 | 710 |
| 253 | Capital charge | 8 | 253 | 253 | 267 |
| 22 | Net loss/(gain) on the sale of fixed assets | | 14 | 0 | 0 |
| 14,107 | Total expenses | | 15,648 | 14,325 | 15,717 |
| 1,376 | Net surplus | | 747* | 0 | 0 |
| *Break-down of Surplus: | | | | | |
| Actual Revenue in excess of Budgeted Revenue | | | 678 | | |
| Operating expenses underspend against Budgeted expenses | | | 69 | | |

This statement is to be read in conjunction with the statement of accounting policies on pages 30-33 and notes to the financial statements on pages 42-47.

| Statement of Movements in Taxpayers' Funds for the year ended 30 June 2004 | | | | |
|---|--|-------------------------|------------------------------------|---|
| 2003 Actual \$000 | | 2004 Actual \$000 | 2004 Main Estimates \$000 | 2004 Supplementary Estimates \$000 |
| 2,981 | Taxpayers' funds at 1 July | 2,981 | 2,981 | 2,981 |
| 1,376 | Add Net surplus/deficit | 747 | 0 | 0 |
| 1,376 | Total recognised revenues and expenses for the year | 747 | 0 | 0 |
| | <i>Adjustment for flows to and from the Crown:</i> | | | |
| (1,376) | Provision for payment of surplus to the crown | (747) | 0 | 0 |
| 0 | Capital Contribution | 320 | 0 | 320 |
| 2,981 | Taxpayers' funds as at 30 June | 3,301 | 2,981 | 3,301 |

This statement is to be read in conjunction with the statement of accounting policies on pages 30-33 and notes to the financial statements on pages 42-47.

| Statement of Financial Position as at 30 June 2004 | | | | | |
|---|---|------|-------------------------|------------------------------------|---|
| 2003 Actual \$000 | | Note | 2004 Actual \$000 | 2004 Main Estimates \$000 | 2004 Supplementary Estimates \$000 |
| 2,981 | Taxpayers' funds General funds | | 3,301 | 2,981 | 3,301 |
| 2,981 | Total taxpayers' funds | | 3,301 | 2,981 | 3,301 |
| 15 | Current assets Cash | | 31 | 274 | 78 |
| 47 | Prepayments | | 49 | 25 | 25 |
| 3,960 | Debtors and receivables | 9 | 4,265 | 1,769 | 2,387 |
| 4,022 | Total current assets | | 4,345 | 2,068 | 2,490 |
| 1,889 | Non-current assets Fixed assets | 10 | 2,321 | 1,884 | 2,208 |
| 1,889 | Total non-current assets | | 2,321 | 1,884 | 2,208 |
| 5,911 | Total assets | | 6,666 | 3,952 | 4,698 |
| 1,020 | Current liabilities Creditors and payables | 11 | 1,903 | 507 | 813 |
| 0 | Finance leases | 13 | 33 | 0 | 0 |
| 1,376 | Provisions for repayment of surplus to the Crown | | 747 | 0 | 0 |
| 366 | Employee entitlements | 12 | 351 | 345 | 363 |
| 2,762 | Total current liabilities | | 3,034 | 852 | 1,176 |
| 168 | Non-current liabilities Employee Entitlements | 12 | 269 | 119 | 221 |
| 0 | Finance Leases | 13 | 62 | 0 | 0 |
| 168 | Total non-current liabilities | | 331 | 119 | 221 |
| 2,930 | Total liabilities | | 3,365 | 971 | 1,397 |
| 2,981 | Net assets | | 3,301 | 2,981 | 3,301 |

This statement is to be read in conjunction with the statement of accounting policies on pages 30-33 and notes to the financial statements on pages 42-47.

| Statement of Cash Flows for the year ended 30 June 2004 | | | | |
|--|--|-------------------------|------------------------------------|---|
| 2003 Actual \$000 | | 2004 Actual \$000 | 2004 Main Estimates \$000 | 2004 Supplementary Estimates \$000 |
| | Cash flows from operating activities | | | |
| | Cash was provided from: | | | |
| 6,108 | Supply of outputs to | | | |
| | – Crown | 6,477 | 6,240 | 6,478 |
| 8,229 | – Customers | 9,762 | 8,688 | 10,795 |
| | Cash was applied to: | | | |
| (13,095) | – Output expenses | (13,954) | (14,049) | (14,858) |
| (253) | – Capital charge | (253) | (253) | (267) |
| 989 | Net cash inflow from operating activities | 2,032 | 626 | 2,148 |
| | Cash flows from investing activities | | | |
| | Cash was provided from: | | | |
| 7 | Sale of fixed assets | 14 | 0 | 0 |
| | Cash was disbursed for: | | | |
| (557) | Purchase of fixed assets | (974) | (607) | (1,029) |
| (550) | Net cash inflow from investing activities | (960) | (607) | (1,029) |
| | Cash flows from financing activities | | | |
| | Cash provided from: | | | |
| 0 | Capital Contributions | 320 | | 320 |
| | Cash was disbursed for: | | | |
| (771) | Repayment of surplus | (1,376) | 0 | (1,376) |
| (771) | Net cash flows from financing activities | (1,056) | (0) | (1,056) |
| (332) | Net increase/decrease in cash held | 16 | 19 | 63 |
| 347 | Opening cash and deposits | 15 | 255 | 15 |
| 15 | Closing cash and deposits | 31 | 274 | 78 |
| | Cash and deposits comprises: | | | |
| 15 | Cash | 31 | 274 | 78 |
| 15 | | 31 | 274 | 78 |

This statement is to be read in conjunction with the statement of accounting policies on pages 30-33 and notes to the financial statements on pages 42-47.

| Reconciliation of Net Surplus to Net Cash Flow from Operating Activities for the year ended 30 June 2004 | | | | |
|--|--|-------------------------|------------------------------------|---|
| 2003 Actual \$000 | | 2004 Actual \$000 | 2004 Main Estimates \$000 | 2004 Supplementary Estimates \$000 |
| 1,376 | Net surplus from operations | 747 | 0 | 0 |
| | Add/(less) non-cash items | | | |
| 620 | Depreciation | 609 | 636 | 710 |
| | Add/(less) movements in working capital items | | | |
| (1,122) | (Increase)/decrease in debtors and receivables | (307) | 603 | 1,594 |
| 1 | (Increase)/decrease in Debtor Crown | 0 | 0 | 1 |
| 92 | Increase/(decrease) in other payables | 969 | (613) | (157) |
| | Add/(less) investing activity items | | | |
| 22 | Net loss on sale of fixed assets | 14 | 0 | 0 |
| 989 | Net cash flows from operating activities | 2,032 | 626 | 2,148 |

This statement is to be read in conjunction with the statement of accounting policies on pages 30-33 and notes to the financial statements on pages 42-47.

Statement of Commitments as at 30 June 2004

The Ministry has long-term leases on its offices situated throughout New Zealand. The annual lease payments are subject to reviews on a range of terms. The amounts disclosed below as future commitments are based on current rental rates.

Operating leases are only for lease payments on premises.

| 2003 Actual \$000 | | 2004 Actual \$000 |
|-------------------------|--|-------------------------|
| | Operating lease commitments | |
| 743 | Less than one year | 713 |
| 422 | One to two years | 570 |
| 792 | Two to five years | 730 |
| 34 | Over five years | 0 |
| 1,991 | Total operating lease commitments | 2,013 |
| 0 | Capital Commitments | 0 |
| 1,991 | Total commitments | 2,013 |

The Ministry has finance leases (\$95,000, see note 13) at balance date.

Statement of Contingent Liabilities as at 30 June 2004

The Ministry had no contingent liabilities as at 30 June 2004 (2003: \$NIL).

Statement of Unappropriated Expenditure as at 30 June 2004

There was no unappropriated expenditure for the year ended 30 June 2004 (2003: \$NIL).

| Statement of Departmental Appropriations and Expenditure for the year ended 30 June 2004 | | | |
|---|--|--|--|
| 2003 Expenditure Actual \$000 | | 2004 Expenditure Actual \$000 | 2004 Appropriation Voted* \$000 |
| 2,719 | Appropriations for outputs to be supplied by the Ministry (mode B gross) | 3,115 | 3,140 |
| 0 | 1. Administration of residential tenancies bond monies GST | 0 | 1 |
| 2,719 | | 3,115 | 3,141 |
| 10,955 | 2. Residential tenancies information and advice and dispute resolution GST | 11,981 | 11,997 |
| 806 | | 837 | 853 |
| 11,761 | | 12,818 | 12,850 |
| 42 | 3. State House Appeal Services GST | 45 | 67 |
| 9 | | 8 | 8 |
| 51 | | 53 | 75 |
| 391 | 4. Housing Agency Monitoring GST | 507 | 513 |
| 50 | | 64 | 64 |
| 441 | | 571 | 577 |
| 14,107 | Total (GST exclusive) | 15,648 | 15,717 |
| 865 | GST | 909 | 926 |
| 14,972 | Total (GST inclusive) | 16,557 | 16,643 |
| 0 | Capital Contributions to the Department Capital Investment (GST not applicable) | 320 | 320 |
| 14,972 | Total (GST inclusive) | 16,877 | 16,963 |

* This includes adjustments made in the Supplementary Estimates.

This statement is to be read in conjunction with the statement of accounting policies on pages 30-33 and notes to the financial statements on pages 42-47.

| Statement of Non-Departmental Appropriations and Expenditure for the year ended 30 June 2004 | | | |
|---|---|--|--|
| 2003 Expenditure Actual \$000 | | 2004 Expenditure Actual \$000 | 2004 Appropriation Voted* \$000 |
| 5,185 296,279 | Benefits and Other Unrequited Expenses Housing Assistance Income Related Rents Subsidy | 7,607 339,856 | 9,974 341,074 |
| 1,365 2,129 0 | Non-Departmental Outputs Classes Housing Policy Advice Contracted Housing Support Services HNZC Housing Services | 1,536 2,003 962 | 1,536 2,305 1,198 |
| 4,500 | Non-Departmental Other Expense Community Housing Rent Relief Programme | 4,500 | 4,500 |
| 24,965 | Capital Contributions to Other Persons or Organisations HNZC Refinance 3rd Party HNZC Capital Injections Activities for State Housing | 311,827 300,379 0 | 311,832 319,557 0 |
| 334,423 | Total (GST Inclusive) | 968,670 | 991,976 |

* This includes adjustments made in the Supplementary Estimates.

This statement is to be read in conjunction with the statement of accounting policies on pages 30-33 and schedules and statements – non-departmental on pages 48-51.

Note 1: Budget Composition

| | 2004 Main Estimates \$000 | 2004 Supplementary Estimates Changes \$000 | 2004 Supplementary Estimates \$000 |
|--|------------------------------------|---|---|
| Revenue | | | |
| Crown | 6,240 | 237 | 6,477 |
| Department | 0 | 30 | 30 |
| Other | 8,085 | 1125 | 9,210 |
| Interest | 0 | 0 | 0 |
| Total Revenue | 14,325 | 1,392 | 15,717 |
| Expenditure | | | |
| Personnel Costs | 7,401 | 1,062 | 8,463 |
| Operating Costs | 6,035 | 242 | 6,277 |
| Depreciation | 636 | 74 | 710 |
| Capital Charge | 253 | 14 | 267 |
| Other Expenses | 0 | 0 | 0 |
| Total Expenses | 14,325 | 1,392 | 15,717 |
| Net Operating Surplus/(deficit) | 0 | 0 | 0 |

Note 2: Major Budget Variations

Statement of Financial Performance

Explanations for major variations from the initial Budget Night Estimates were outlined in the Supplementary Estimates. They were:

Output Class - Administration of Residential Tenancies Bond Monies.

The appropriation for this Output Class was increased by \$560,000 which comprised additional funding to enable the Ministry to respond to growth in the rental housing market, partly offset by later savings to fund pressures in the Housing Agency Purchase and Monitoring output class.

Output Class - Residential Tenancies Information and Advice and Dispute Resolution.

The increase of \$758,000 in this appropriation reflects funding to enable the Ministry of Housing to respond to growth in the rental housing market and to assist judgement creditors to recover judgement debts.

Output Class - State Housing Appeal Services.

There were no changes in this Output Class.

Output Class - Housing Agency Purchase and Monitoring

The increase of \$127,000 in this appropriation reflects funding to increase capacity and capability to complete work on the Residential Tenancies Amendment Bill and begin the review of the Residential Tenancies Act 1986.

Revenue Crown

Revenue Crown increase is due to an increase in appropriation in Output Class Residential Tenancies Information and Advice and Dispute Resolution.

Note 3: Revenue - Department

The source of revenue department is State Services Commission for the purpose of funding the state sector superannuation scheme.

Note 4: Revenue - Other

| 2003 Actual | | 2004 Actual | 2004 Main Estimates | 2004 Supplementary Estimates |
|----------------|------------------------------|----------------|---------------------------|------------------------------------|
| \$000 | | \$000 | \$000 | \$000 |
| 8,566 | Interest from tenancy bonds* | 9,114 | 7,338 | 8,303 |
| 785 | Tenancy Tribunal fees | 772 | 747 | 907 |
| 25 | Other | 17 | 0 | 0 |
| 9,376 | Total | 9,903 | 8,085 | 9,210 |

* The large variance in interest from Tenancy Bonds reflects a large increase in bond lodgements, both in numbers and value, that was not fully anticipated for in the 2003/04 Main Estimates.

Note 5: Personnel Costs

| 2003 Actual | | 2004 Actual | 2004 Main Estimates | 2004 Supplementary Estimates |
|----------------|--------------------|----------------|---------------------------|------------------------------------|
| \$000 | | \$000 | \$000 | \$000 |
| 6,920 | Salaries and wages | 7,635 | 6,776 | 7,740 |
| 545 | Other | 926 | 625 | 723 |
| 7,465 | Total | 8,561 | 7,401 | 8,463 |

Note 6: Operating Costs

| 2003 Actual | | 2004 Actual | 2004 Main Estimates | 2004 Supplementary Estimates |
|----------------|------------------------|----------------|------------------------|------------------------------------|
| \$000 | | \$000 | \$000 | \$000 |
| 1,264 | Administration | 1,335 | 1,449 | 1,364 |
| 680 | Communications | 621 | 727 | 638 |
| 815 | Computer costs | 796 | 785 | 725 |
| 843 | Lease costs | 910 | 905 | 905 |
| | Auditor's Remuneration | | | |
| 33 | - Audit Fee | 33 | 33 | 33 |
| | - Assurance services | 7 | 0 | 0 |
| 1,387 | Tenancy Tribunal | 1,431 | 1,431 | 1,431 |
| 725 | Other | 1,078 | 705 | 1,181 |
| 5,747 | Total | 6,211 | 6,035 | 6,277 |

Note 7: Depreciation

| 2003 Actual | | 2004 Actual | 2004 Main Estimates | 2004 Supplementary Estimates |
|----------------|------------------------|----------------|------------------------|------------------------------------|
| \$000 | | \$000 | \$000 | \$000 |
| 24 | Office equipment | 17 | 22 | 17 |
| 154 | Office renovations | 145 | 132 | 148 |
| 8 | Furniture and fittings | 7 | 18 | 7 |
| 262 | Computer hardware | 242 | 282 | 355 |
| 118 | Software | 153 | 132 | 137 |
| 54 | Vehicles | 45 | 50 | 46 |
| 620 | Total | 609 | 636 | 710 |

Note 8: Capital Charge

The Ministry operates under the capital charge regime which requires payment of a capital charge to the Crown based on the taxpayers' funds held by the Ministry as at 30 June and 31 December each year. The capital charge rate for 2004 was 8.5% (2003: 8.5%).

Note 9: Debtors and Receivables

| 2003 Actual \$000 | | 2004 Actual \$000 |
|-------------------------|------------------------------|-------------------------|
| 3,817 | Tenancy Bond current account | 3,973 |
| 2 | Trade and other debtors | 18 |
| 84 | GST receivable | 217 |
| 57 | Debtor crown | 57 |
| 3,960 | Total | 4,265 |

Note 10: Fixed Assets

| 2003 Net book Value \$000 | | 2004 Cost \$000 | 2004 Accumulated Depreciation \$000 | 2004 Net book Value \$000 |
|------------------------------------|------------------------|-----------------------|--|------------------------------------|
| 35 | Office equipment | 240 | 216 | 24 |
| 388 | Office renovations | 1,122 | 805 | 317 |
| 26 | Furniture and fittings | 144 | 125 | 19 |
| 476 | Computer hardware | 2,085 | 1,307 | 778 |
| 867 | Software | 1,596 | 594 | 1,002 |
| 97 | Vehicles | 313 | 275 | 38 |
| 0 | Leased assets | 95 | 0 | 95 |
| 0 | Work-in-progress* | 48 | 0 | 48 |
| 1,889 | Total | 5,643 | 3,322 | 2,321 |

*Value of Work-in-progress at balance date is \$48,000.

Note 11: Creditors and Payables

| 2003 Actual \$000 | | 2004 Actual \$000 |
|-------------------------|--------------------------------------|-------------------------|
| 720 | Trade creditors and accrued expenses | 1,750 |
| 71 | GST payable | 79 |
| 229 | Miscellaneous | 74 |
| 1,020 | Total | 1,903 |

Note 12: Employee Entitlement

| 2003 Actual \$000 | | 2004 Actual \$000 |
|-------------------------|--|-------------------------|
| 335 | Current Annual leave | 351 |
| 335 | | 351 |
| 34 | Non-Current Retirement leave | 36 |
| 31 | Resigning leave | 100 |
| 134 | Long-service leave | 133 |
| 199 | | 269 |
| 534 | Total Employee Entitlements | 620 |

Note 13: Finance Leases

| 2003 Actual \$000 | | 2004 Actual \$000 |
|-------------------------|--|-------------------------|
| 0 | Current | 33 |
| 0 | Non-current | 62 |
| | Total | 95 |
| 0 | Repayable as follows: One to two years | 39 |
| 0 | Two to five years | 76 |
| 0 | Beyond five years | 0 |
| | | 115 |
| 0 | Future finance charges Recognised as liability | (20) 95 |

The finance lease liabilities carry interest rates of between 9.75 % to 11.25% per annum.

Note 14: Related Party Transactions

The Ministry of Housing is a wholly-owned entity of the Crown. The Government significantly influences the roles of the Ministry as well as being its major source of revenue.

The Ministry enters into numerous transactions with other government departments, crown agencies and state-owned enterprises on an arm's length basis. These transactions are not considered to be related party transactions.

Note 15: Financial Instruments

The Ministry is party to financial instruments as part of its normal operations. These include bank balances, investments, accounts receivable and payable.

Credit Risk

Credit risk is the risk that a third party will default on its obligations to the Ministry, causing the Ministry to incur a loss. In the normal course of its business, the Ministry incurs credit risk from trade debtors, and transactions with financial institutions.

The Ministry does not require any security to support financial instruments with financial institutions that the Ministry deals with as these entities have high credit ratings.

| 2003 Actual \$000 | | 2004 Actual \$000 |
|-------------------------|------------------------|-------------------------|
| 4 | Cash on hand | 3 |
| 11 | Cash held with Westpac | 28 |
| 3,960 | Accounts receivable | 4,265 |
| 3,975 | Total | 4,296 |

There are no significant concentrations of credit risk with respect to accounts receivable.

Fair Value

The fair value of all financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

Currency Risk

Currency risk is the risk that the value of debtors and creditors due in foreign currency will fluctuate because of changes in foreign exchange rates.

The Ministry has no currency risk with regard to cash and accounts receivable, as the financial instruments it deals with are in New Zealand dollars. The Ministry has no significant exposure to currency risk on accounts payable.

Interest Rate Risk

Interest rate risk is the risk that the Ministry's return on the funds it has invested will fluctuate owing to changes in market interest rates. The Ministry had no interest rate risk as no money was invested in this financial year.

Note 16: Contingencies

The Ministry does not have any contingent assets as at 30 June 2004 (2003: \$NIL). Contingent liabilities are separately disclosed in the Statement of Contingent Liabilities.

SCHEDULES AND STATEMENTS – NON-DEPARTMENTAL

In addition to the Statement of Non-Departmental Appropriations and Expenditure on page 41, the Ministry is now required to provide additional information in the form of statements and schedules of revenue and receipts, non-departmental expenses, assets, liabilities, contingencies and commitments. These, together with associated notes, are presented below.

Statement of Accounting Policies

Measurement System

Measurement and recognition rules applied in the preparation of these non-departmental statements and schedules are consistent with generally accepted accounting practice, the Ministry's Departmental Statement of Accounting Policies and Crown accounting policies.

These Non-Departmental balances are consolidated into the Crown Financial Statements and therefore readers of these statements and schedules should also refer to the Crown Financial Statements for 2003/04.

Accounting Policies

The following particular accounting policies, which materially affect the measurement of financial results and financial position, have been applied.

(a) Goods and Services Tax (GST)

The Statement of Non-Departmental Appropriations and Expenditure on page 40 are inclusive of GST (where applicable). The Schedules of Assets and Liabilities are exclusive of GST, except for Payables and Receivables, which are GST inclusive.

(b) Revenues and Receipts

The Ministry administers revenue on behalf of the Crown. The revenue includes interests on HNZC loans. Interests are recognised in the period to which they relate.

(c) Expenses

Expenses are recognised in the period to which they relate.

(d) Receivables and Advances

Receivables are recorded at estimated realisable value after providing, where necessary for doubtful and uncollectible debts.

(e) Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments (at the point a contractual obligation arises) to the extent that there are equally unperformed obligations. Commitments relating to employment contracts are not disclosed.

(f) Contingent Liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

| Schedule of Non-Departmental Revenue and Receipts for the year ended 30 June 2004 | | | |
|--|--|-------------------------|-------------------------|
| 2003 Actual \$000* | | 2004 Actual \$000 | 2004 Budget \$000 |
| | Non-Tax Revenue | | |
| o | Interest on Housing New Zealand Corporation Loan | 50,488 | 44,607 |
| o | Dividend from Housing New Zealand Corporation | 176,000 | o |
| o | Total Non-Tax Revenue | 226,488 | 44,607 |

*In 2003, Non-Departmental Revenues and Receipts were reported through Treasury's financial statements.

The schedule of Non-Departmental Expenses summarises non-departmental expenses that the Ministry administers on behalf of the Crown. Further details are provided in the Statement of Non-Departmental Appropriations and Expenditure on page 41.

| Schedule of Non-Departmental Expenses for the year ended 30 June 2004 | | | |
|--|---|-------------------------|-------------------------|
| 2003 Actual \$000 | | 2004 Actual \$000 | 2004 Budget \$000 |
| | Non-Departmental Expenses | | |
| 3,494 | Non-Departmental Output Classes | 4,501 | 5,039 |
| 301,464 | Benefits or Other Unrequited Expenses | 347,463 | 351,048 |
| 4,500 | Non-Departmental Other Expenses | 4,500 | 4,500 |
| 24,965 | Capital Investment in Organisations Other Than Departments | 612,206 | 631,389 |
| 334,423 | Total Non-Departmental Expenses | 968,670 | 991,976 |
| | Non-Cash Expenses | | |
| 1,353 | Movement in Debt Provision | 2,114 | o |
| 335,776 | Total Expenses | 970,784 | 991,976 |

Non-Departmental Assets and Liabilities are administered by Ministry of Housing on behalf of the Crown. As these assets and liabilities are neither controlled by Ministry of Housing nor used in the production of the Ministry's outputs, they are not reported in the Ministry of Housing's statement of financial position.

| Schedule of Non-Departmental Assets as at 30 June 2004 | | | |
|---|---------------------------------|-------------------------|-------------------------|
| 2003 Actual \$000 | Notes | 2004 Actual \$000 | 2004 Budget \$000 |
| | Current Assets | | |
| 4,888 | Crown Bank Account | 9,060 | 1,636 |
| 2,827 | Receivables and Advances | 53 | 63 |
| 7,715 | Total Current Assets | 9,113 | 1,699 |
| | Non-Current Assets | | |
| 22,191 | Investment | 460,269 | 557,229 |
| 22,191 | Total Non-Current Assets | 460,269 | 557,229 |
| 29,906 | Total Assets | 469,382 | 558,928 |

| Schedule of Non-Departmental Liabilities as at 30 June 2004 | | | |
|--|----------------------------------|-------------------------|-------------------------|
| 2003 Actual \$000 | Notes | 2004 Actual \$000 | 2004 Budget \$000 |
| | Current Liabilities | | |
| 30,961 | Payables and Provisions | 29,619 | 24,945 |
| 30,961 | Total Current Liabilities | 29,619 | 24,945 |
| 0 | Term Liabilities | 0 | 0 |
| 30,961 | Total Liabilities | 29,619 | 24,945 |

Schedule of Contingencies

As at 30 June 2004 there were no contingent assets or liabilities that the Ministry was administering on behalf of the Crown (2003: \$NIL).

Schedule of Commitments

As at 30 June 2004 there were no commitments that the Ministry was administering on behalf of the Crown (2003: \$NIL).

Note 1: Receivables and Advances

Income Related Rent Subsidies debt at net realisable value - \$2,167,000 (2003: \$1,406,000) less provision for non-recovery of \$2,114,000 (2003: \$1,353,000) and GST recoverable NIL (2003: \$2,774,000).

Note 2: Investment

Investment is the purchase of land for State Housing purposes and capital contributions to Housing New Zealand Corporation.

Note 3: Payable and Provisions

Payable and Provisions at net realisable value includes:- Income Related Rent Subsidies accrual of \$4,999,000 (2003: \$2,761,000); Housing Assistance accrual of \$1,970,000 (2003: \$3,235,000); other accrual of NIL (2003: \$12,027,000 – payable on final settlement of land); and a loan of \$22,650,000 (2003: \$12,938,000) from HNZN to fund the purchase of land.

**PART III: RESIDENTIAL TENANCIES
TRUST ACCOUNT
FINANCIAL STATEMENTS**

To the Readers of the Residential Tenancies Trust Account's Financial Statements for the year ended 30 June 2004

The Auditor-General is the auditor of the Residential Tenancies Trust Account (RTTA). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the RTTA, on his behalf, for the year ended 30 June 2004.

Unqualified opinion

In our opinion the financial statements of the Residential Tenancies Trust Account on pages 55 to 61:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Residential Tenancies Trust Account's financial position as at 30 June 2004;
 - the results of its operations and cash flows for the year ended on that date;

The audit was completed on 8 September 2004, and this is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive;
- confirming year-end balances;

- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Chief Executive and the Auditor

The Chief Executive of the Ministry of Housing is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Residential Tenancies Trust Account as at 30 June 2004. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The Chief Executive's responsibilities arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001, section 38(1) of the Public Finance Act 1989 and section 128 of the Residential Tenancies Act 1986.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Residential Tenancy Trust Account.



Ajay Sharma

Audit New Zealand

On behalf of the Auditor-General
Wellington, New Zealand

Residential Tenancies Trust Account

| Statement of Financial Position as at 30 June 2004 | | | |
|---|---------------------------------|-------|----------------|
| 2003 \$000 | | Notes | 2004 \$000 |
| | Assets | | |
| | Current assets | | |
| 3,275 | Bank | 1 | 4,438 |
| 85,102 | Investments | | 121,104 |
| 2,356 | Receivables | | 2,877 |
| 90,733 | | | 128,419 |
| | Non-current assets | | |
| 60,444 | Investments | 1 | 43,298 |
| 151,177 | Total assets | | 171,717 |
| | Less current liabilities | | |
| 3,817 | Payable to Ministry of Housing | | 3,968 |
| 28 | Other | | 29 |
| 3,845 | | | 3,997 |
| 147,332 | Net assets | | 167,720 |
| | Bondholders' funds | | |
| 129,468 | Opening balance | | 147,332 |
| 17,864 | Net increase | | 20,388 |
| 147,332 | Closing balance | | 167,720 |

On behalf of the Ministry of Housing



Chief Executive



Acting Chief Financial Officer

This statement is to be read in conjunction with the statement of accounting policies and notes to the financial statements on pages 58-61.

| Statement of Financial Performance for the year ended 30 June 2004 | | |
|---|---------------------------------------|---------------|
| 2003 \$000 | | 2004 \$000 |
| | Revenue | |
| 702 | Interest earned from Government stock | 650 |
| 7,863 | Interest earned from bank deposits | 8,464 |
| 8,565 | | 9,114 |
| | Expenditure | |
| 8,565 | Interest to Ministry of Housing | 9,114 |
| 0 | Operating surplus | 0 |

| Reconciliation of Movements in Bondholders' Funds for the year ended 30 June 2004 | | |
|--|---|---------------|
| 2003 \$000 | | 2004 \$000 |
| 129,468 | Bondholders' funds brought forward 1 July | 147,332 |
| | Total recognised revenues and expenses for the year | |
| 91,233 | Bonds lodged | 102,693 |
| (73,369) | Bonds refunded | (82,305) |
| 147,332 | Bondholders' funds as at 30 June | 167,720 |

This statement is to be read in conjunction with the statement of accounting policies and notes to the financial statements on pages 58-61.

| Statement of Cash Flows for the year ended 30 June 2004 | | |
|--|---|-----------------|
| 2003 \$000 | | 2004 \$000 |
| | Cash flows from operating activities | |
| 8,429 | Cash provided from: Interest received | 8,673 |
| (7,419) | Cash disbursed to: Interest payments to Ministry of Housing | (8,963) |
| 1,010 | Net cash flows from operating activities | (290) |
| | Cash flows from investing activities | |
| 144,296 | Cash provided from: Proceeds from maturity of investments | 118,191 |
| (162,434) | Cash disbursed to: Purchase of investments | (137,126) |
| (18,138) | Net cash flows from investing activities | (18,935) |
| | Cash flows from financing activities | |
| 91,233 | Cash provided from: lodgement of bonds | 102,693 |
| (73,369) | Cash disbursed to: refund of bonds | (82,305) |
| 17,864 | Net cash flows from financing activities | 20,388 |
| 736 | Net increase/(decrease) in cash held | 1,163 |
| 2,539 | Opening total cash balances | 3,275 |
| 3,275 | Closing total cash balances at 30 June | 4,438 |

This statement is to be read in conjunction with the statement of accounting policies and notes to the financial statements on pages 58-61.

Reporting Entity

The Ministry of Housing manages the Residential Tenancies Trust Account pursuant to the Public Finance Act 1989 and the Residential Tenancies Act 1986.

The Ministry took over direct management of the Residential Tenancies Trust Account on 18 August 1992.

All interest arising from any investment in the Residential Tenancies Trust Account belongs to the Crown and is treated as revenue to the Ministry of Housing.

Investments are held in approved securities under section 68 of the Public Finance Act 1989.

Costs associated with the management of the Residential Tenancies Trust Account are paid by the Ministry of Housing as departmental expenses.

Measurement System

These financial statements have been prepared on the basis of historical cost.

Accounting Policies

The following particular accounting policies which materially affect the measurement of financial results and financial position have been applied.

- **Accounts Receivable**

Accounts receivable are stated at their expected realisable value.

- **Taxation**

The Residential Tenancies Trust Account is not liable for income tax.

- **Investments**

Investments are not generally traded but held to maturity. Investments in bonds are valued at cost with premiums and discounts on investments accounted for on a yield to maturity basis. Investments in bank deposits are valued at cost.

- **Cash**

Cash is defined as coins, notes and demand deposits in the Trust bank account and other deposits held on call.

- **Revenue**

The Trust derives revenue from interest on investments.

Interest on investments is accrued on a monthly basis.

- **Financial Instruments**

The Residential Tenancies Trust Account is party to financial instruments as part of its everyday operations, which have been recognised in these financial reports. These financial instruments include accounts payable and receivable, cash, deposits and investments.

Revenues and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

- **Fair Value**

Fair values of the Trust's financial assets and liabilities at 30 June 2004 approximates with the carrying amounts reflected in these financial statements.

- **Changes in Accounting Policies**

There have been no changes in accounting policies.

All policies have been applied on a basis consistent with other years.

1 Investments by Counterparty

Investments are undertaken in line with the Ministry's investment strategy. Investments were held with the following counterparties at 30 June. (Investments valued at book value)

| 2003 \$000 | | 2004 \$000 |
|---------------|------------------|----------------|
| | Current | |
| 3,931 | Westpac | 32,114 |
| 27,171 | National Bank | 18,970 |
| 33,812 | ANZ | 45,340 |
| 17,185 | BNZ | 21,678 |
| 3,003 | Government Stock | 3,002 |
| 85,102 | | 121,104 |

| 2003 \$000 | | 2004 \$000 |
|---------------|--------------------|---------------|
| | Non-Current | |
| 10,000 | Westpac | 0 |
| 14,000 | ANZ | 0 |
| – | National Bank | 6,000 |
| 29,258 | BNZ | 33,166 |
| 7,186 | Government Stock | 4,132 |
| 60,444 | | 43,298 |

Interest Rates

The weighted-average effective interest rates on investments (current and non-current) at 30 June, were:

| 2003 | | 2004 |
|-------|---------------------|-------|
| 5.73% | Short-term deposits | 5.75% |
| 5.97% | Term deposits | 6.12% |
| 6.87% | Government stock | 6.45% |

2 Reconciliation of Operating Surplus to Net Cash Flows from Operating Activities

| 2003 \$000 | | 2004 \$000 |
|---------------|--|---------------|
| 0 | Operating surplus | 0 |
| | Add movements in working capital items | |
| 1,146 | Increase/(Decrease) in interest payable | 151 |
| (136) | Decrease/(Increase) in interest receivable | (441) |
| 1,010 | Net cash from operating activities | (290) |

3 Book Value of Investments

| 2003 \$000 | | 2004 \$000 |
|----------------|-------------------|----------------|
| 100,195 | Bank deposits | 133,102 |
| 35,162 | Bank bonds | 24,166 |
| 10,189 | Government stocks | 7,134 |
| 145,546 | | 164,402 |

4 Fair Value

The fair value of all financial instruments approximates the carrying amount disclosed in the Statement of Financial Position, apart from the investment in Government stock, the fair value of which is the market value of \$7,293,255 (2003: \$10.691m); and bank bonds, the fair value of which is \$24,510,517 (2003: \$36.487m).

5 Financial Instruments

Financial instruments which are potentially subject to credit risk principally consist of cash on hand, bank balances, accounts receivable, short term deposits and investments.

The maximum exposures to credit risk at balance date are:

| 2003 \$000 | | 2004 \$000 |
|----------------|---------------------|----------------|
| 3,275 | Cash held | 4,438 |
| 2,356 | Accounts receivable | 2,877 |
| 145,546 | Investments | 164,402 |
| 151,177 | Total | 171,717 |

There are no major concentrations of credit risk with respect to accounts receivable.

The Residential Tenancies Trust Account has no currency risk, given that any financial instruments it deals with are in New Zealand dollars.

The Residential Tenancies Trust Account has no interest rate risk, as all investments are held to maturity. Deposits are held with authorised New Zealand Banks.

6 Commitments and Contingencies

The Residential Tenancies Trust Account has no commitments or contingent liabilities at balance date (2003:\$NIL).

PART IV: MANAGING THE MINISTRY TO ACHIEVE RESULTS

Industrial Relations

The current collective agreement covers 48.4% of non-management staff, who are members of the Public Service Association. This year the Ministry has focused on strengthening our partnership with the Public Service Association through regular Partnership for Quality meetings. Staff are sent regular updates on the Partnership for Quality meetings.

Performance Management, Remuneration and Staff Development

The Development and Performance System (DPS) provides a set of transparent processes to manage and link together the setting of performance expectations, the reviewing of performance, remunerating and rewarding staff, and providing for staff development needs. The performance expectations for staff are directly derived from the Ministry's SOI and individual business group business plans.

Health and Safety

The Ministry has a comprehensive set of policies in place to manage health and safety and injury management issues in the workplace. The Ministry has put in place a Staff Participation System agreement with the Public Service Association during 2003-04 in compliance with the Health and Safety Amendment Act 2003 and new Health and Safety representatives have been elected consistent with that agreement.

EEO

The Ministry has completed an EEO survey and EEO data integrity project during 2003-04. This project has improved the quality of the data held by the Ministry relating to employee gender, ethnicity and disability statistics.

Employee Profile

The Ministry of Housing's employee profile as at 30 June 2004 is shown in the following tables.

| Ministry of Housing Employees | | | | | | |
|-----------------------------------|------------|--------------|------------|--------------|---------------|------------|
| | 2002/03 | | 2003/04 | | Growth in FTE | |
| Service Units | Actual | FTE | Actual | FTE | No | Percent |
| Executive Management | 3 | 3.0 | 4 | 4.0 | 1.0 | 33.8 |
| Corporate Services | 5 | 4.2 | 6 | 5.2 | 1.0 | 23.8 |
| Finance | 4 | 4.0 | 4 | 4.0 | 0.0 | 0.0 |
| Policy, Planning and Monitoring | 3 | 3.0 | 3 | 3.0 | 0.0 | 0.0 |
| Tenancy Services Corporate Office | 6 | 5.8 | 11 | 10.6 | 4.8 | 82.8 |
| Compliance | 1 | 1.0 | 1 | 0.7 | -0.3 | -34.0 |
| Tenancy Services Centre | 46 | 45.3 | 55 | 54.3 | 9.0 | 19.9 |
| Northern Region | 48 | 45.3 | 45 | 42.3 | -3.0 | -6.6 |
| Central/Southern Region | 33 | 29.7 | 32 | 28.3 | -1.4 | -4.7 |
| Total | 149 | 141.3 | 161 | 152.4 | 11.1 | 7.8 |

| Gender | Number 2003 | Percentage 2003 | Number 2004 | Percentage 2004 |
|--------------|----------------|--------------------|----------------|--------------------|
| Female | 93 | 62.4 | 102 | 63.5 |
| Male | 56 | 37.6 | 59 | 36.5 |
| Total | 149 | 100% | 161 | 100% |

| Primary Ethnicity | Number 2003 | Percentage 2003 | Number 2004 | Percentage 2004 |
|-------------------|----------------|--------------------|----------------|--------------------|
| NZ Maori | 30 | 20.2 | 25 | 15.5 |
| NZ European | 86 | 57.7 | 102 | 63.4 |
| Non NZ European | 16 | 10.7 | 14 | 8.7 |
| Pacific Islander | 13 | 8.8 | 13 | 8.1 |
| Other | 2 | 1.3 | 3 | 1.8 |
| Asian | 2 | 1.3 | 4 | 2.5 |
| Total | 149 | 100% | 161 | 100% |

| Remuneration By Gender Salary Level (\$) # | Male 2003 | Female 2003 | Male 2004 | Female 2004 |
|---|----------------------|------------------------|----------------------|------------------------|
| 0-20,000 | 0 | 0 | 0 | 0 |
| 20,001-30,000 | 4 | 2 | 2 | 6 |
| 30,001-40,000 | 15 | 46 | 16 | 51 |
| 40,001-50,000 | 27 | 32 | 24 | 27 |
| 50,001-60,000 | 4 | 8 | 8 | 12 |
| 60,001 + | 6 | 5 | 9 | 6 |
| Total | 56 | 93 | 59 | 102 |

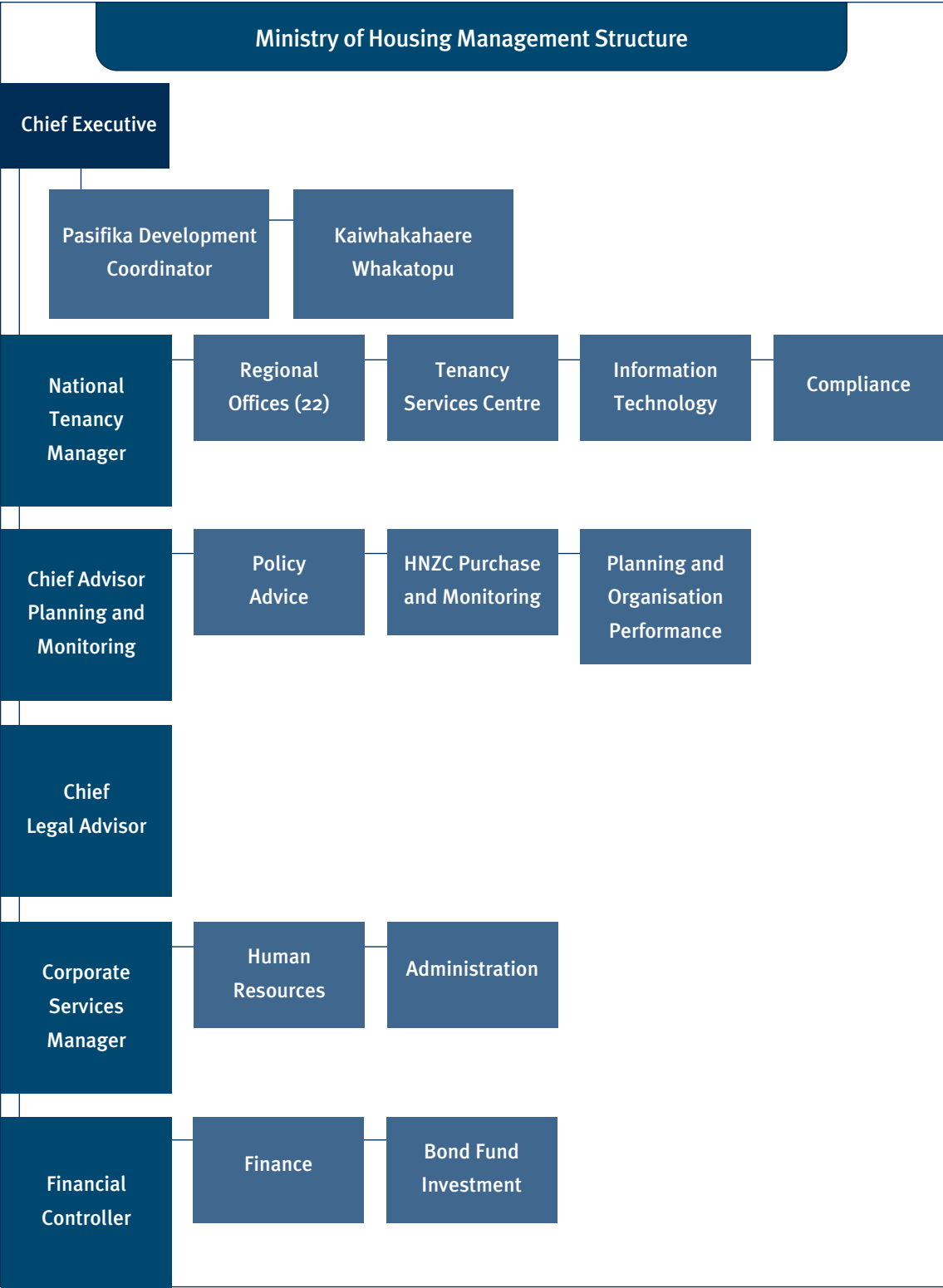
| Staff By Disabilities | Number 2003 | Percentage 2003 | Number 2004 | Percentage 2004 |
|----------------------------------|------------------------|----------------------------|------------------------|----------------------------|
| No | 132 | 88.6 | 154 | 95.7 |
| Yes | 17 | 11.4 | 7 | 4.3 |
| Total | 149 | 100% | 161 | 100% |

PROPERTY ADMINISTRATION

The Ministry leases all of its office accommodation. The table below shows the location and size of every office, its annual rental, staff numbers and associated costs as at 30 June 2004. During the reporting period there has been a 0.06% increase in floor area occupied by the Ministry, and a 1.35% increase in rental costs, and a 10.29% decrease in the average cost of accommodation per staff member. Greymouth office is no longer occupied on a full-time basis. Face to face services are now provided from the Greymouth office on an as required basis.

| Location | # of Seats | Office Area (Sq Mtrs) | Rental | Office Area per Employee (Sq Mtrs) | Cost per Sq Metre | Cost per Employee |
|------------------|------------|--------------------------|------------------|--|----------------------|----------------------|
| Whangarei | 3 | 90.00 | \$16,000 | 30.00 | \$178 | \$5,333 |
| Takapuna | 4 | 182.32 | \$37,800 | 45.58 | \$207 | \$9,450 |
| Henderson | 6 | 178.12 | \$23,938 | 29.69 | \$134 | \$3,990 |
| Auckland | 10 | 356.01 | \$69,422 | 35.60 | \$195 | \$6,942 |
| Manukau | 18 | 362.92 | \$67,140 | 20.16 | \$185 | \$3,730 |
| Hamilton | 6 | 194.98 | \$31,240 | 32.50 | \$160 | \$5,207 |
| Tauranga | 3 | 100.54 | \$15,497 | 33.51 | \$154 | \$5,166 |
| Gisborne | 1 | 30.39 | \$3,196 | 30.39 | \$105 | \$3,196 |
| Napier | 3 | 194.55 | \$25,000 | 64.85 | \$129 | \$8,333 |
| Rotorua | 3 | 98.40 | \$15,000 | 32.80 | \$152 | \$5,000 |
| Palmerston North | 4 | 136.46 | \$22,872 | 34.12 | \$168 | \$5,718 |
| New Plymouth | 1 | 85.41 | \$11,180 | 85.41 | \$131 | \$11,180 |
| Lower Hutt | 3 | 158.03 | \$20,500 | 52.68 | \$130 | \$6,833 |
| Wellington | 4 | 171.75 | \$41,200 | 42.94 | \$240 | \$10,300 |
| Corporate Office | 30 | 462.00 | \$80,850 | 15.40 | \$175 | \$2,695 |
| Porirua | 64 | 1273.60 | \$153,407 | 19.90 | \$120 | \$2,397 |
| Nelson | 2 | 123.00 | \$18,657 | 61.50 | \$152 | \$9,329 |
| Blenheim | 1 | 28.20 | \$11,500 | 28.20 | \$408 | \$11,500 |
| Christchurch | 10 | 324.91 | \$43,862 | 32.49 | \$135 | \$4,386 |
| Timaru | 2 | 40.13 | \$7,200 | 20.07 | \$179 | \$3,600 |
| Dunedin | 3 | 173.35 | \$18,000 | 57.78 | \$104 | \$6,000 |
| Greymouth | 1 | 35.00 | \$7,200 | 35.00 | \$206 | \$7,200 |
| Invercargill | 1 | 57.80 | \$12,000 | 57.80 | \$208 | \$12,000 |
| Totals | 183 | 4857.87 | \$752,661 | 26.55* | \$155* | \$4,113* |

*Note: The office area per employee, cost per sq metre and cost per employee totals shown above are averages.



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Audit New Zealand
WELLINGTON
On behalf of the Auditor-General

Bankers

Westpac
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