

Annual Report 2004



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The Annual Report of Housing New Zealand Corporation is presented to the House of Representatives in accordance with section 42 of the Housing Corporation Act 1974. It includes:

- the financial statements of Housing New Zealand Corporation, in accordance with sections 41 and 44A of the Public Finance Act 1989
- the financial statements for the Housing Agency Account, in accordance with section 34 of the Housing Act 1955
- a report on the administration of Housing New Zealand Corporation for the year ended 30 June 2004.

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

9,453 new households into homes, bringing the total number of people in Corporation tenancies to an estimated 184,730. A total of 114 extra Community Group Houses. 1,469 healthy housing interventions. 232 Low Deposit Rural Loans. 388 rural housing loans. 366 Kiwibank In Reach home loans. 903 more rental properties, bringing total stock to more than 65,000. A total of 3,038 energy retrofits. 570 modernisations. 377 community renewal housing improvements. 330 better utilisation transfers. First 6 loans under the Housing Innovation Fund.

Chairman's report



I have pleasure in presenting the Annual Report of Housing New Zealand Corporation for the year ended 30 June 2004.

The report details the Corporation's delivery against the Statement of Intent, the core accountability document that sets out the direction and targets agreed with Government. The Chief Executive's report, statement of service performance and financial statements provide full information on the Corporation's activities.

This is my last report as Chairman of the Corporation, so it is pleasing to review and report on the good progress made over the past year.

The Corporation met or substantially met all of its key Statement of Intent targets, effectively managed over 65,000 tenancies and continued to increase state housing numbers. The Corporation also made the first approvals to third sector groups through the Housing Innovation Fund, an important step in the further supply of non-state social housing.

Programmes to improve the physical standard of existing housing made progress. Redevelopment and refurbishment of former Auckland City Council properties is underway, Community Renewal made significant advances, and improvements to tenants' living conditions continue through the energy efficiency and modernisation work.

Home ownership opportunities were expanded through a pilot Mortgage Insurance Scheme with Kiwibank.

Housing New Zealand Corporation is a large and complex organisation. This past year has again been a year of very strong operational performance. As the breadth of the Corporation's activity continues to grow, the Board has an added responsibility to ensure activities continue to be undertaken in an effective, efficient way. Reviews of the Housing and Asset Services teams are being bedded-in to further strengthen operational performance.

The Corporation returned a surplus of \$44 million for the year, \$9 million ahead of budget. At 30 June, property assets were valued at \$10.1 billion.

My thanks again go to the Board Members who have all made a major contribution to the governance of the Corporation. In particular, I wish to acknowledge the work of John Hill whose term has come to an end. He was replaced on the Board by Susan Huria.

Finally, I would like to acknowledge Chief Executive Helen Fulcher, the senior management team and staff for their work and effort over the past year. Helen and the senior team continue to bring leadership, creativity and focus to the Corporation's work.

A handwritten signature in dark ink, appearing to read 'Roger Bonifant', written in a cursive style.

Roger Bonifant
Chairman

Chief Executive's report



Over the past year Housing New Zealand Corporation has made significant progress in delivering a range of government services and programmes that help people access decent homes and contribute to community life.

We have lead development of the New Zealand Housing Strategy – a document that seeks a collaborative approach to meeting New Zealand's changing housing needs over the next 10 years. To this end, local and central government, business, industry, hapū, iwi and community groups must work together.

The largest part of our business is still providing services to state housing tenants. Government funding has allowed us to continue to acquire more homes, with the number of state houses available for those in greatest need increasing by 903 to 65,304 properties. In addition, 9,453 households were assisted into state housing, and over 4,400 homes were improved through modernisation, energy efficiency, healthy housing and other programmes.

We see ourselves as a key player in community development. Our Community Renewal and Rural Housing programmes have been expanded to provide greater opportunities for communities in need. We also significantly increased our Community Group Housing stock for people with special health or welfare needs.

We are leading the Government's new direction towards social housing development in New Zealand, through the Housing Innovation Fund. The Fund provides financial support for local councils, iwi/Māori, and non-government and not-for-profit groups and organisations to work

with the Corporation to increase social housing. This is an area we look to grow and strengthen in the years ahead. The first six Housing Innovation Fund projects were announced in June.

Meanwhile, the Corporation has started working in a social services cluster with the Ministry of Social Development, Ministry of Housing and the Department of Child, Youth and Family. The aim is to encourage organisations to see common customers in the context of all their service needs, rather than as separate services provided by a particular organisation.

We have implemented a Government initiative that brings home ownership more within reach of low to moderate income earners through the Corporation's Mortgage Insurance Scheme being piloted with Kiwibank. Some 366 people have bought their first home through the Kiwibank In Reach initiative.

The Corporation has also promoted its support for the construction of good quality residential housing, built to meet a community or social need, through its sponsorship of a new award in the 2004 Registered Master Builders House of the Year.

Housing is integral to the social and economic well-being of communities and families. Through continuing our work with communities, iwi/Māori, central and local government we hope to bring good quality, affordable housing more within reach.

A handwritten signature in dark ink, reading 'Helen Fulcher'. The signature is fluid and cursive, with a large 'H' and 'F'.

Helen Fulcher
Chief Executive

Legislative framework

Housing New Zealand Corporation is a Crown entity established under the Housing Corporation Act 1974, as amended by the Housing Corporation Amendment Act 2001. It has the following objectives:

- To give effect to the Crown's social objectives by providing housing, and services related to housing, in a business-like manner, and to be an organisation that:
 - exhibits a sense of social responsibility by having regard to the interests of the community in which it operates
 - exhibits a sense of environmental responsibility by having regard to the environmental implications of its operations
 - operates with good financial oversight and stewardship, and efficiently manages its assets and liabilities and the Crown's investment.
- To ensure that the Minister of Housing receives appropriate policy advice, and other advice and information on housing and services related to housing.

Support for key Government goals

Through its activities and outputs, the Corporation primarily contributes to the key government goals of:

- reducing inequalities in health, education, employment and housing
- restoring trust in government and providing strong social services
- strengthening national identity and upholding the principles of the Treaty of Waitangi
- growing an inclusive, innovative economy for the benefit of all
- improving New Zealanders' skills
- protecting and enhancing the environment.

Effectiveness in reducing inequalities 2003/04

Housing inequality is a significant contributor to social and economic inequality in New Zealand. Decreasing affordability of rental accommodation, reducing levels of home ownership and poor quality housing all impact on people's social and economic well-being. Examples of current issues in the social sector include:

- Māori and Pacific adults are more likely to live in rental housing than European adults. Of all New Zealand households, 13% are of Māori or Pacific ethnicity¹. However, they collectively account for over 50% of Corporation tenancies.
- There are large areas of deprivation in rural areas, such as Northland and the East Coast.
- There is growing pressure in the rental market in terms of cost and availability, particularly for low to moderate income households.
- A number of groups wish to enter home ownership; however, this desire is not always met by the criteria of finance institutions.

In response to these issues, the Corporation has a range of specific programmes focused on:

- reducing substandard housing
- increasing the overall social housing stock
- improving the physical environment of communities in need
- reducing overcrowding
- helping community groups and iwi working with people with specialist housing needs to gain access to housing
- increasing education about home ownership.

Social Allocation System (SAS)

The Social Allocation System is central to the allocation of state housing. It prioritises applicants using criteria that include:

- the applicant's ability to afford a house in the private market
- the condition of their housing and whether it is overcrowded
- whether the applicant is discriminated against
- whether the applicant's situation is sustainable.

Of the 9,453 applicants housed over the year, 38.6% of households were Māori and 19.45% were Pacific.

Of all state housing rentals:

- 30.9% were held by Māori
- 23.5% were held by Pacific people
- 36.0% were held by single women
- 19.5% were held by sole female parents
- 9.1% were held by Māori sole female parents
- 4.3% were held by Pacific sole female parents.

Income-related rent

Income-related rent addresses affordability issues by ensuring eligible tenants pay no more than 25% of their total household income in rent.

A total of 89.9% of the 62,495 households in state tenancies paid income-related rent. Of these, 81.1% included at least one beneficiary. A total of 90.8% of Māori tenants and 88.5% of Pacific tenants paid income-related rents.

Healthy Housing

Healthy Housing is a joint initiative between the Corporation and Counties Manukau, Auckland and Northland District Health Boards. The objective is to reduce overcrowding and housing-related health risks. Priority sites are selected based on statistical information about overcrowding, social deprivation, infectious disease rates, and hospital admissions and discharges.

The Healthy Housing programme operates in Mangere, Otara, Onehunga, Glen Innes and Whangarei. During 2003/04, the Corporation carried out 1,469 interventions to reduce health risks of 733 households at a cost of \$16.9 million.

Community Renewal

The Corporation's Community Renewal programme operates in areas where the Corporation has a high number of homes. It aims to improve the economic, social and physical environment through redevelopment and capital improvements. This programme has operated since December 2000, with the first projects in Fordlands (Rotorua), Aranui (Christchurch) and Clendon (Auckland). A further three projects are underway in Talbot Park and Northcote (Auckland) and eastern Porirua (Wellington).

¹ From the 2001 Census

Rural Housing Programme

The Rural Housing Programme addresses substandard housing in Northland, East Coast and eastern Bay of Plenty. The programme involves the Northland, East Coast and eastern Bay of Plenty (NECBOP) and Special Housing Action Zone (SHAZ) projects. It focuses on housing sector development, social development and housing responses to:

- develop community-driven housing for communities, in a way that builds community capacity
- work collaboratively with other agencies and organisations (for example Ministry of Social Development; Child, Youth and Family; Tertiary Education Commission; Community Employment Group; Energy Efficiency and Conservation Authority; and the New Zealand Fire Service) to encourage housing investment, achieve social outcomes and address non-housing issues
- deliver housing responses consistent with longer term needs and aspirations of Māori, iwi, hapū and communities.

Community Group Housing

The Corporation helps community groups and iwi, working with people with specialist housing needs to access appropriate community housing. As at 30 June 2004, 1,375 properties were let to a wide range of community-based social service or health groups, providing residential services for people with special health or welfare needs.

Modified housing

Housing is available for new or existing tenants with a disability, who require modified housing. The Corporation can help the person to have their existing home modified or to access suitable social housing.

Low Deposit Rural Lending

The Low Deposit Rural Lending programme helps low-income families, many of whom are Māori, into home ownership. Applicants complete a 12-week home ownership course before becoming eligible for loan assistance with a 3% deposit.

Refugees

Refugees who come under the Quota Refugee Programme meet eligibility criteria for state housing assistance. New Zealand accepted 812 refugees (258 households) for resettlement in 2003/04. The Corporation, in consultation with various resettlement services, assisted all of them into housing. Of these, 45 or 17.5% of households were housed in private sector or local government housing, and the remainder took up Corporation tenancies.

Other initiatives

The Corporation also provides a wide range of activities including essential repairs, lending for building new properties, and general support and assistance. It works with national and smaller organisations and iwi that require assistance to develop projects. For example:

- rural communities outside Rural Housing Programme areas have also benefited from the Rural Housing essential repair programme
- Pasefika Pulse Trust, which has a 12-month contract with the Corporation to facilitate home ownership education workshops.

Initiative expenditure and outcomes

The table below summarises Corporation activities in 2003/04 specifically linked to reducing inequalities.

INITIATIVE	Description	Appropriation \$m	Spent \$m	Implementation
Rural home ownership: kaupapa Māori information and support services.	Extending low deposit rural lending support services into six new rural regions with high proportions of Māori.	20.000 capital 1.255 operating	18.080 capital 1.255 operating	There are 12 certified iwi providers, which have trained 1,104 graduates. During the year, 232 loans were approved to enable loan recipients to buy their own homes.
SHAZ: suspensory loans for essential improvements.	To allow homeowners to fix houses in critical states of disrepair (operating cost represents write-off).	4.000	4.000	305 loans were approved to assist households to address health and safety risks.
SHAZ: suspensory loans for infrastructure development costs.	For community groups building on papakainga land that cannot use land as equity (operating cost represents write-off).	0.500	0.250	17 loans were approved to assist households to address sewerage, power and access issues.
SHAZ: bridging finance for papakainga and other mainly rural developments.	Loans to community groups to build houses for on-sale to families.	11.450	0.000	Several opportunities were investigated and assessed, but did not proceed.
SHAZ: capacity building for Pacific groups.	To support Pacific groups to develop sustainable housing with funding for capacity building and seeding activity.	0.200	0.101	Assisting Pacific communities with funding to build housing capacity and capability.
NECBOP: Home Improvement Project Zones.	Planning and facilitation funding for community-based home improvement projects.	0.350	0.350	Loans were approved to improve the quality of housing for 265 households.
NECBOP: loans for community housing projects.	Loans to communities to set up and manage their own rental portfolios.	1.660	0.600	One loan was given to a community to set up and manage its own rental portfolio.
NECBOP: acquisitions.	The addition of state rental homes in rural areas.	10.557	9.680	82 houses were acquired in rural areas across Northland, East Cape and eastern Bay of Plenty to enable the transfer of people from substandard housing into state rentals.
Broadening the Rural Housing Programme outside of ECBOP.	To allow homeowners to fix houses in critical states of disrepair (operating cost represents write-off).	1.500	1.000	66 loans were approved to help households to address health and safety risks.
Ngati Kahungunu iwi – low-cost housing scheme.	Exploring housing options with Ngati Kahungunu.	1.188	0.000	The Corporation is working with Ngati Kahungunu on a new proposal to be considered as part of the Housing Innovation Fund.

Equal employment opportunity

The Corporation is committed to creating a diverse, skilled workforce in which everyone can participate equitably to achieve their full potential and professional aspirations.

The Corporation's equal employment opportunity programme includes:

- integrating diversity awareness into all management practices
- recognising the aims and aspirations of Māori as tangata whenua
- ensuring people management policies and practices promote successful external and internal working relationships
- building staff knowledge and understanding of other cultures and communities the Corporation serves
- developing a working environment that reflects the Corporation's workforce and the communities it serves.

Highlights from the equal employment opportunity programme for 2003/04 include:

- developing a strategic framework for Te Tiriti/Treaty of Waitangi
- consulting with Māori staff on the Corporation Tiriti/Treaty Framework, Te Hou Ora Staff Network Charter and a Māori Staff Development Programme
- implementing a Te Tiriti/Treaty of Waitangi programme in Hawke's Bay/East Cape and Waikato/Thames/Coromandel
- developing relationships with Workbridge to identify suitable roles for people with disabilities
- a component on disability awareness as part of staff induction
- building on mental health awareness training and physical disability training for Case Managers, and de-stigmatisation training for all frontline staff
- consolidating Language Line support following the frontline/interagency interpreting pilot.

Statement of service performance and financial statements

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Housing New Zealand Corporation and subsidiaries

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2004

The Members of the Board are pleased to present the financial statements of Housing New Zealand Corporation, together with the Group for the year ended 30 June 2004.

- (a) Management is responsible for the preparation of the consolidated financial statements and the judgements used therein.
- (b) Management is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
- (c) In the opinion of management, the consolidated financial statements for the year ended 30 June 2004 give a true and fair view of the financial position and financial performance of Housing New Zealand Corporation and its subsidiaries as at that date.

For and on behalf of the Board,



Roger A Bonifant
Chairman

30 September 2004



Helen M Fulcher
Chief Executive

Statement of service performance

Introduction

This report covers the Corporation's performance for the year against the targets and strategies in the 2003/04 Statement of Intent. Performance is assessed through the following Corporation output classes:

- Output Class 1: Research and policy advice
- Output Class 2: Ministerial support
- Output Class 3: Identifying and matching housing need
- Output Class 4: Customer support
- Output Class 5: Managing investment in housing
- Output Class 6: Housing provider development.

The 2003/04 Statement of Intent also included organisational development objectives, which were to:

- be a good employer and meet the Government's expectations of state sector employees
- work with a number of government agencies and community organisations.

Note: Measures and indicators that are new for 2003/04 and have no comparison to 2002/03 results are noted as N/A, meaning 'not applicable'.

Output Class 1: Research and policy advice

Research and policy development contributes to understanding housing markets and the future need for housing assistance. Understanding issues of market failure, the type and level of housing need and appropriate policy responses requires good quality information and market monitoring. Research and evaluation activities contribute to policy development and good decision-making.

Strategic, sectoral and operational policy advice

The Corporation has responsibility for 'whole of sector' policy advice. It is leading development of the New Zealand Housing Strategy, which will chart future housing needs during the next decade.

Develop the New Zealand Housing Strategy

The policy work programme in 2003/04 featured the development of the New Zealand Housing Strategy discussion document and subsequent consultation with a range of groups across the country. Following approval of the discussion paper in February 2004, 24 public consultation meetings were held throughout New Zealand. This process, together with the lodging of public submissions, was completed by 31 July 2004. Detailed planning has begun to ensure responsibility for implementing the actions is properly co-ordinated and assigned to lead agencies, and that the funding implications are articulated for government.

Assess the effectiveness of the Accommodation Supplement

Policy work during 2003/04 on short-term adjustments to the Accommodation Supplement formed part of the Government's Future Directions 'Working for Families' package in Budget 2004/05. The Future Directions Cabinet paper was delivered with the Corporation contributing to the development of housing assistance options, including proposed adjustments to the Accommodation Supplement maximum.

Other key policy work included:

- developing policy to support the newly launched Housing Innovation Fund, and Mortgage Insurance Scheme
- project planning and beginning the first stage of the housing standards work programme
- contributing to the housing sector review that reaffirmed the existing roles of the Corporation, resulted in the establishment of the Department of Building and Housing, and clarified the respective roles and responsibilities of the two housing agencies
- co-ordinating the Corporation's involvement in the Government's Sustainable Cities Programme of Action
- reviewing community rent relief funding
- producing quarterly housing assistance reports
- investigating the potential of using Corporation programmes to influence industry training
- contributing a housing perspective to migrant and refugee policy work
- facilitating contact with the health, mental health, senior citizens, disability and emergency housing sectors.

PERFORMANCE MEASURE	Target	2003/04 result	2002/03 result
Policy advice, research and evaluation delivered to the Minister of Housing within negotiated deadlines	100%	100%	100%
Policy advice (GST excl.)	\$0.73m ¹	\$1.46m	\$0.89m

¹The difference between the appropriated amount and the total spend was funded through the Corporation's internal cashflow.

Market monitoring and research information

Evaluating Community Renewal, Rural Housing and Healthy Housing programmes

A key initiative for 2003/04 was an evaluation programme for the Community Renewal, Rural Housing and Healthy Housing programmes. The first year of the evaluation of Community Renewal was completed, with reports submitted for five of the six project sites.

The first stage of the evaluation of Healthy Housing was completed. A programme logic and literature review was completed to inform stage two of the evaluation. The second stage of the evaluation was scoped and approved, with the three-year evaluation expected to be implemented during 2004/05.

Evaluation of the Rural Housing Programme started with a programme logic, and the first stages of fieldwork occurred late in the year.

Delivering the housing research programme

Work during the year included:

- Launching the Housing Market Monitor – a quarterly electronic publication available on the Corporation website www.hnzc.co.nz. The Housing Market Monitor is based on housing indicators using existing data from external sources, such as Statistics New Zealand and Quotable Value New Zealand.
- Establishing the initial stages of a project developing housing affordability indicators in partnership with Statistics New Zealand. The housing affordability indicators are due for publication during 2004/05.
- Evaluations of the Mortgage Insurance Scheme, the Mangere Integrated Services Pilot (a Corporation and Ministry of Social Development initiative) and the Housing Innovation Fund.
- Undertaking various research projects, including market testing of resources for the Mortgage Insurance Scheme and the development of the National Contact Centre Customer Research Programme.

Centre for Housing Research Aotearoa New Zealand

The Corporation established the Centre for Housing Research Aotearoa New Zealand – Kainga Tipu (CHRANZ) in 2002 as a body to invest in and promote an active, ongoing platform for housing research. In August 2003, the Establishment Board transferred its responsibilities to a permanent board, appointed by the Housing New Zealand Corporation Board.

The name Kainga Tipu embodies CHRANZ's approach to housing research, with 'housing' relating to wider living environments beyond individual dwellings.

CHRANZ's priorities for 2003/04 were looking at the changing structure of the housing sector and the future of home ownership in New Zealand.

The Centre's work in 2003/04 focused on:

- Investing in housing research (a combination of existing housing research projects and the scoping of new research). The recommendations from this research will provide the framework for a two to three year strategic housing research programme, relevant across the sector.
- Promoting research through the publication of a 2002/03 Annual Report in November 2003; the launch of the CHRANZ website (December 2003); and the launch of the CHRANZ Housing Research database (May 2004). Six housing research reports were published on the CHRANZ website, www.chranz.co.nz

APPROPRIATIONS	Target	2003/04 result	2002/03 result
Research (GST excl.)	\$0.15m ²	\$0.12m	\$0.25m
Evaluation of NECBOP ¹ (GST excl.)	\$0.15m ²	\$0.33m	\$0.31m
Centre for Housing Research Aotearoa New Zealand – Kainga Tipu	\$0.17m ²	\$0.48m	\$0.43m

¹ Northland, East Coast and the eastern Bay of Plenty.

² The difference between the appropriated amount and the total spend was funded through the Corporation's internal cashflows.

Output Class 2:

Ministerial support

The Corporation provides the Minister of Housing with consistent, accurate and timely information to enable the Minister to effectively discharge his Parliamentary and Executive duties. This involves providing ministerial, advisory, administrative and support services to, or on behalf of, the Minister of Housing, ministerial advisory committees, and other groups such as select committees.

Internal performance targets for parliamentary questions were met in full, and all responses were prepared within the time specified and approved by the Minister's office. During 2003/04, the Corporation received a higher than forecast number of parliamentary questions and ministerial letters.

PARLIAMENTARY QUESTIONS	Target	2003/04 result	2002/03 result
Draft replies to parliamentary questions approved by the Minister	98%	98%	100%
Draft replies sent to the Minister's office by required deadline	100%	100%	100%
Quantity of parliamentary questions	300	594	204

MINISTERIAL CORRESPONDENCE	Target	2003/04 result	2002/03 result
Draft replies to ministerial correspondence approved by the Minister	95%	98%	97%
Draft replies to ministerial correspondence completed within 20 working days of the Corporation receiving the correspondence	95%	100%	100%
Quantity of ministerial correspondence	600	640	566

Select committee requests

The Government Relations Unit co-ordinated the Corporation's responses to questions from the Social Services Select Committee on the Estimates and the Corporation's annual Financial Review. All 115 questions the committee asked were responded to within the required timeframe. Seventy questions arose from the 2002/03 Financial Review, and 45 questions related to the 2004/05 Estimates.

Briefing notes and other reports for the Minister

Briefing notes, Cabinet papers and other reports were prepared for the Minister of Housing, the Minister of Finance, the Associate Minister of Housing and the Prime Minister in 2003/04.

Replies required by legislation

Thirteen Official Information Act requests and Ombudsman investigations were made to the Minister, and 40 were made to the Chief Executive. Quality and timeliness performance targets relating to Official Information Act requests were met in full.

OFFICIAL INFORMATION ACT REQUESTS	Target	2003/04 result	2002/03 result
Draft replies to Official Information Act requests and Ombudsman investigations approved by the Minister	95%	100%	100%
Draft replies to Official Information Act requests and Ombudsman investigations sent to the Minister's office within deadline, as provided in the statute	100%	100%	100%
Quantity of Official Information Act requests and Ombudsman investigations	20	13	10

Ministerial support – key strategies

To provide more effective processes to deliver quality ministerial service

The Government Relations Unit:

- met quarterly with the Minister's office to discuss servicing issues
- analysed ministerial correspondence by subject and Corporation region to set a baseline for identifying future trends
- communicated the Unit's ministerial processes to staff at appropriate times.

To increase knowledge of government and Parliament within the Corporation

The Government Relations Unit initiated a series of newsletters to all Corporation staff on parliamentary and government functions and processes. Topics included the Social Services Select Committee's financial review of the Corporation, the functions and processes of the House of Representatives, the Budget process, parliamentary questions, and investigation and review agencies.

The Unit also took appropriate opportunities to communicate the significance of the Official Information Act to staff.

APPROPRIATION	Target	2003/04 result	2002/03 result
Cost of ministerial support (GST excl.)	\$0.34m ¹	\$0.36m	\$0.28m

¹ The difference between the appropriated amount and the total spend was funded through the Corporation's internal cashflows.

Output Class 3: Identifying and matching housing need

This output class aims to provide customers with appropriate ways to access the Corporation; to accurately assess their housing needs; and to provide access to sustainable housing solutions.

Understanding Communities and Housing Need

During 2003/04, a framework was created to help the Corporation understand communities and their housing needs.

Staff considered information and practices across the Corporation, as well as the practices of other government agencies that may also require better understanding of community need.

Clustering initiatives

In November 2003, a social services cluster was launched in Mangere, South Auckland, whereby Corporation staff were based in a Ministry of Social Development Work and Income office. The cluster allows the Corporation to test a new way of working with Work and Income, with a more co-ordinated approach to addressing housing, employment and financial needs. The joint approach has meant people are able to access their full benefit entitlements, gain access to employment opportunities and obtain advice on local housing options, from one location.

Customers at the Mangere Service Centre are able to access information on:

- up-to-date private sector accommodation options
- emergency housing
- home ownership options.

During the course of this pilot, the Mangere Neighbourhood Unit waiting list (priority A to D applicants) dropped by 21%, compared to 2% nationally over the same period.

An interim evaluation in June 2004 provided the following initial findings:

- customers are generally positive about their experience with the service
- efforts to help people overcome barriers into private sector accommodation were well received by customers
- staff were able to help customers in more ways than Corporation and Work and Income staff had previously been able to when working independently.

Needs assessment and prioritisation

Activities in this section aim to ensure those in greatest need are given priority for housing. This section also looks at the monitoring and delivery of the Social Allocation System (SAS) – the process to assess an applicant's housing need and subsequent waiting list priority.

Needs assessment categories are:

Priority A: At risk – people with severe and persistent housing need, to be addressed immediately.

Priority B: Serious need – people with significant and persistent housing need.

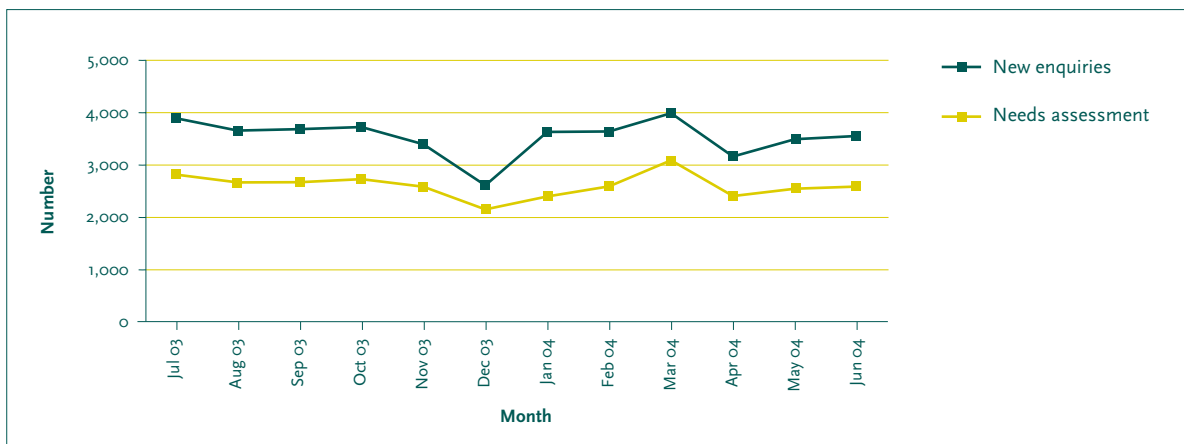
Priority C: Moderate need – people with less immediate need, but whose housing need is likely to increase over time.

Priority D: Low level need – people who may be able to be housed in the private market.

During the year, the Corporation dealt with 42,487 enquiries (compared to 40,454 in 2002/03) and assessed 31,352 applicants for placement in Corporation properties (compared to 30,144 in 2002/03).

INFORMATION	2003/04 average/month	2002/03 average/month
Number of enquiries	3,541	3,371
Number of needs assessments	2,613	2,512

Figure 1 New enquiries and needs assessments 2003/04



While the average time from enquiry to preliminary assessment increased from three to four days, the Corporation remained within its performance target.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Average time from enquiry to preliminary assessment (Social Allocation System – A priority)	PT	≤7 calendar days	4 calendar days	3 calendar days
Average time from last confirmed segment to housed (A priority)	I	monitor trend	24 calendar days	20 calendar days
Percentage of correct assessment decisions – (Social Allocation System) audit result ¹	PT	≥95%	93% ²	92% ³

* Performance target (PT)/Information (I)

¹ Audit results are on the basis of complete customer records.

² June 2004 result. See below for annual trend.

³ June 2003 result.

Audit results of the accuracy of assessments made under the Social Allocation System averaged 89%. Improvements continue to be made with training and auditing to achieve the target of 95% for accurate assessment decisions. The appointment of new Housing Services Managers and training for new staff are expected to improve overall results.

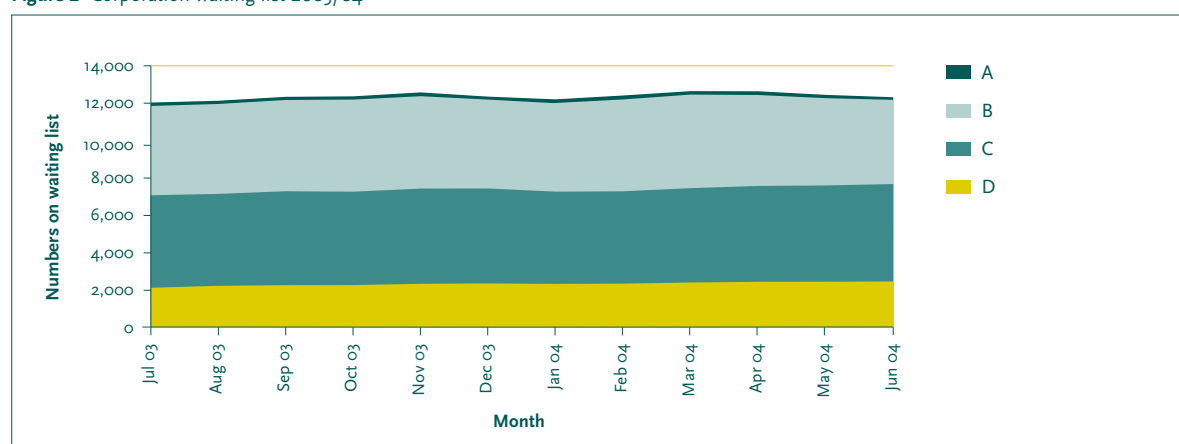
SOCIAL ALLOCATION SYSTEM BI-MONTHLY AUDIT RESULTS 2003/04	Target	Aug	Oct	Dec	Feb	Apr	Jun	Year to date (accumulative)
Percentage of correct assessments based on complete customer records	≥95%	88%	80%	97%	94%	80%	93%	89%

Waiting list management

Excluding some seasonal exceptions, there has been an overall drop in the number of priority applicants (A and B priorities) throughout 2003/04, with good progress made in the final three months. From its July 2003 starting point of 4,952, the national priority waiting list decreased by 6% to 4,636 by June 2004.

APPLICANTS ON THE WAITING LIST 2003/04	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
A priority	182	172	169	173	203	157	194	212	184	199	177	140
B priority	4,770	4,803	4,874	4,920	4,934	4,748	4,737	4,906	4,997	4,858	4,661	4,496
Total priority applicants	4,952	4,975	5,043	5,093	5,137	4,905	4,931	5,118	5,181	5,057	4,838	4,636
C priority	4,939	4,909	5,016	4,988	5,084	5,072	4,925	4,929	5,039	5,115	5,140	5,200
D priority	2,142	2,245	2,280	2,284	2,354	2,372	2,349	2,364	2,423	2,463	2,466	2,481
Total applicants	12,033	12,129	12,339	12,365	12,575	12,349	12,205	12,411	12,643	12,635	12,444	12,317

Figure 2 Corporation waiting list 2003/04



Housing applicants

Particular focus is given to ensuring the highest priority applicants are housed promptly and that the housing provided matches their needs.

During the year, 9,453 new applicants were housed, bringing the total number of people in Corporation tenancies to an estimated 184,730. Of those in new tenancies, 3,545 (38%) were housed in the Auckland region.

A total of 7,977 A and B priority applicants were housed over the year, representing 24,991 people. These priority applicants equated to 84% of total lettings. In the Auckland region, priority lettings represented 89% of total lettings.

APPLICANTS HOUSED 2003/04	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Priority A	132	121	112	120	122	164	110	120	166	115	139	126	1,547
Priority B	651	552	541	519	452	594	411	468	609	528	555	550	6,430
Priority C	107	100	90	95	100	113	78	84	93	79	68	72	1,079
Priority D	64	30	40	36	27	40	17	23	33	30	33	24	397
Total housed	954	803	783	770	701	911	616	695	901	752	795	772	9,453

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Percentage of priority (A and B) lettings to total lettings	PT	≥80%	84%	81%

* Performance target (PT)

Rural regional loans

This section includes activities that aim to provide people in rural and regional areas with access to government housing assistance. Rural regional loans include:

- Low Deposit Rural Lending (LDRL) targeted at low to modest income earners who want to buy or build in rural or regional areas
- home improvement finance for homeowners to repair and enhance their properties
- Kapa Hanga Kainga – Group Self Build loans for building homes as part of a whanau group
- Papakainga lending for building or buying housing on Māori land held in multiple ownership.

To be eligible for assistance through LDRL, loan applicants must complete a home ownership course and meet the Corporation's lending criteria. The course aims to make applicants aware of the responsibilities and commitment involved in buying and owning a home, and provides ongoing support and guidance as required.

Good progress was made through rural lending initiatives during the year, with 232 rural regional loans approved against a target of 250.

A total of 1,104 people graduated from the home ownership education course – 140 graduates ahead of target.

APPROPRIATIONS	Target	2003/04 result	2002/03 result
Number of LDRL graduates	1,000	1,104	1,358
Number of rural regional loans approved	250	232	274
Expenditure on rural regional loans	\$20.00m	\$18.08m	\$20.13m

Mortgage Insurance Scheme

The promotion of home ownership options for low to modest income households is a key part of the Corporation's strategy to address housing need. The Corporation supports home ownership through a two-year pilot Mortgage Insurance Scheme in conjunction with Kiwibank. The scheme has attracted high public interest, with 2,888 applications since its launch in late September 2003. At 30 June 2004, Kiwibank had settled/insured 366 loans and approved a further 190 loans.

MORTGAGE INSURANCE SCHEME	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	2003/04 result
Loans approved	N/A	N/A	N/A	8	25	56	40	36	36	41	64	60	366

APPROPRIATION	Target	2003/04 result	2002/03 result
Expenditure on Mortgage Insurance Scheme	\$2.37m	\$1.07m	N/A

Healthy Housing

The Healthy Housing programme is a joint initiative with the District Health Boards for Auckland, Counties Manukau and Northland. These organisations work with the Corporation to increase awareness of infectious diseases, improve access to health and social services, reduce the risk of housing-related health problems and reduce overcrowding.

The Corporation completed 545 joint assessments during the year, against a target of 650. A further 80 housing assessments that have been carried out are awaiting the health component to be completed before they are counted as joint assessments.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Number of joint assessments	I	monitor trend	545	616
Number of interventions	I	monitor trend	1,469 ¹	597 ¹

* Information (I).

¹ Direct comparisons cannot be made between 2003/04 and 2002/03 due to a change in the method for counting Healthy Housing interventions.

APPROPRIATION	Target	2003/04 result	2002/03 result
Expenditure on Healthy Housing	\$16.90m	\$16.92m	\$12.50m

The Corporation carries out a series of interventions to reduce overcrowding and improve people's living environments. Some households require more than one intervention, for example, insulation and ventilation are often completed for the same household. These are listed under the 'healthy environments' section of the table below, which is a summary of the interventions completed in 2003/04.

HEALTHY HOUSING INTERVENTIONS	Full-year result
Redevelopments	8
Acquisitions	12
Reconfigurations	48
Modernisation	21
Healthy environments	1,235
Assisted into another Corporation property	108
Assisted into private property	37
Total interventions completed	1,469

Rural Housing Programme

The Rural Housing Programme (RHP) was developed to address substandard housing in parts of rural New Zealand. The five-year programme initially focused on Northland, the East Coast and eastern Bay of Plenty (NECBOP). From July 2003, activities for essential repair suspensory loans were broadened to include areas outside the NECBOP region.

The RHP has a multi-pronged approach, with a range of objectives to ensure New Zealanders in rural communities have access to affordable, long-term, good quality housing appropriate to their needs.

It focuses on housing sector development, social and economic development, and the delivery of long-term housing options.

Housing sector development

The Corporation is working with 21 communities in rural areas with substandard housing. The objective is to develop ways to enable communities to build their housing capacity and capability. Work includes completing housing response plans, carrying out needs assessments for individual households, and building locally-based repair and maintenance teams. In 2003/04, a total of 365 housing assessments were completed by iwi communities, and 19 community-based contract teams undertook repairs and maintenance on substandard housing.

Social development

The programme's social development approach includes working with other agencies and organisations to encourage housing investment, achieve parallel social outcomes, and address non-housing issues that impact on long-term housing in rural communities.

Key activities in 2003/04 included:

- Working as part of a social services cluster in Northland (along with the Ministry of Social Development, Community Employment Group, Tertiary Education Commission and Child, Youth and Family) to align goals, work programmes, planning and budgets to improve social outcomes. The cluster has developed a high-level strategic plan with the vision “Housing as the catalyst to initiate family and community solutions”.
- Working with the Ministry of Social Development to encourage caseworkers to engage directly with Rural Housing Programme customers.
- Working with the Ministry of Health (Disability Services Directorate) to provide a more responsive service to people with disabilities.
- A co-operative project with the New Zealand Fire Service to install smoke detectors in rural homes and to provide fire awareness training.
- Working with the Energy Efficiency and Conservation Authority to retrofit and insulate rural homes.
- Working with local councils on projects relating to substandard water and sewerage issues.
- Relationship-building, and engaging in the Northland and Tairāwhiti inter-sectoral fora.

Sustainable housing responses

The aim is to effectively provide appropriate, affordable housing to meet the longer-term needs and aspirations of families, their communities and iwi.

Responses in 2003/04 included:

- The approval of 305 essential repair suspensory loans in the NECBOP region against a target of 266.
- The approval of 66 essential repair suspensory loans in areas outside the East Coast and Bay of Plenty against a revised target of 66 (i.e. Wanganui – Kaiwhaiki, Bay of Plenty – Minginui, South Whangarei – Ngati Whatua, Waikato – Rukumoana).
- The approval of 17 infrastructure suspensory loans, against a target of 16. One loan was to a Ruatahuna community to establish a water and hydroelectric power system for 99 households.
- The establishment of six contracts to research and review low-cost housing designs and products, against a target of three.
- The establishment of eight Home Improvement Project Zone contracts with community organisations, against a target of six. Providers assessed 365 homes against a target of 250.
- Adding 82 new state rentals at an average cost of \$118,000/unit in rural areas, against a target of 90 and \$170,000/unit. This average includes Corporation contributions of \$4.70 million.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Suspensory loans approved – essential repairs	I	monitor trend	371	249
Suspensory loans approved – infrastructure	I	monitor trend	17	31

* Information (I).

APPROPRIATIONS	Target	2003/04 result	2002/03 result
Essential repair suspensory loans : volume	367	371	249
: \$	\$5.50m	\$5.00m	\$3.73m
Infrastructure suspensory loans : volume	33	17	31
: \$	\$0.50m	\$0.13m	\$0.53m
Community-owned rural rental loans	\$1.66m	\$0.60m	\$0.50m
Delivery of new state rentals in rural areas : \$	90 \$10.56m	82 \$9.73m	44 \$5.75m

Output Class 4: Customer support

This output class aims to support people to achieve long-term housing outcomes, by understanding their needs and developing strong relationships.

Income-related rent

Tenants who are eligible for income-related rent (IRR) receive a rent subsidy. A high proportion (90%) of tenants met the criteria during 2003/04, which equated to 56,206 households assisted through subsidised rent.

The accuracy of income-related rent assessments was audited internally during the year, with six bi-monthly audits of 26 of the 43 neighbourhood units. Results showed consistently high accuracy.

INCOME-RELATED RENT AUDIT RESULTS 2003/04	Target	Aug	Oct	Dec	Feb	Apr	Jun	Year to date (accumulated)
Percentage of correct assessments based on complete customer records	≥95%	97%	92%	96%	94%	97%	98%	96%

Case management

Increasingly, tenants and applicants have complex needs relating to employment, health and family. Case management has been adopted to support people who face significant barriers to accessing housing, and/or have difficulty retaining housing.

The Corporation provides specialised housing needs assessment and service co-ordination to other support organisations.

During 2003/04, a high proportion of tenants with complex needs had case management plans, with results fluctuating between 88% and 91%. At 30 June 2004, a total of 727 households were identified with complex needs, of which 91% had case management plans.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Income-related rent accuracy – audit results ¹	PT	≥95%	98% ²	95% ³
Percentage of cases with a case management plan against total number of cases with complex need	PT	≥80%	91%	92%

* Performance target (PT).

¹ Audit results are on the basis of complete customer records.

² June 2004 internal audit result.

³ June 2003 internal audit result.

Loan recipient support

The Corporation helps people manage debt, and offers support to those having difficulty by administering loans through rural lending initiatives. Support includes an early intervention programme that helps those who face mortgage sales from loans the Housing Corporation sold between 1996 and 1999.

The Corporation is notified when customers are issued a final warning. It then contacts them to reiterate that the loan needs to be addressed or they could risk losing their home.

This programme has improved debt management and gives customers an opportunity to address their debt before it becomes overwhelming. Results over the year show an improving trend of arrears being successfully managed.

LOAN SUPPORT RESULTS	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Arrears brought up-to-date or arrangements made	61%	59%	67%	59%	60%	59%	60%	67%	57%	67%	67%	66%

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Percentage of loan recipients in arrears that have brought payment up-to-date, or have made arrangements to clear their debt within the past month (sold loans)	I	monitor trend	66%	N/A

* Information (I).

Household Action Plans

The Household Action Plan initiative helps identify high-need customers and recognises the issues undermining their household's tenure security. It looks to develop short and long-term goals to address these issues and improve the household's circumstances. A pilot was launched in the Mangere and Manawatu Neighbourhood Units between October 2003 and March 2004. As a result, Household Action Plans will be undertaken in other locations.

Output Class 5:

Managing investment in housing

This output class aims to optimise Crown investment towards housing people in need.

Key initiatives include:

- attracting investors to lease appropriate houses to the Corporation for social housing
- reconfiguring former Auckland City Council housing units to ensure they match customer need
- securing land and planning for integrated urban development at Hobsonville
- undertaking a long-term modernisation programme to ensure the Corporation's entire portfolio is fit for its intended use
- ensuring Corporation land is well utilised
- ensuring the Crown's investment is well managed.

Developing the state housing portfolio

Properties are acquired and sold to enable the Corporation to provide additional housing in areas of highest demand.

The ability to house priority applicants (A and B) in high demand areas within two months of registration improved significantly over the year.

The Corporation's ability to house priority applicants in low demand areas within two months decreased over the year. This decreasing trend reflects the increased focus on housing priority applicants in high demand areas.

The tables below show these trends in detail.

ABILITY TO HOUSE PRIORITY APPLICANTS WITHIN TWO MONTHS DURING 2003/04	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %	Jan %	Feb %	Mar %	Apr %	May %	Jun %
High demand areas	29	25	24	24	28	29	31	31	32	33	36	42
Low demand areas	155	134	150	142	138	136	140	140	120	120	126	114

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Ability to house priority applicants – high demand areas ¹	I	monitor trend	42%	25%
Ability to house priority applicants – low demand areas ¹	I	monitor trend	114%	102%

* Information (I).

¹ Results over 100% occur in areas where there is enough stock to house A and B priority applicants, as well as some lower priority applicants.

The Corporation added 1,466 properties to its portfolio during 2003/04 to help meet the demand for rental housing.

ADDITIONS TO PORTFOLIO	Target	2003/04 result	2002/03 result
Additions ¹ : volume (gross)	1,426	1,466 ²	1,275

¹ Target and result figures are for the entire Acquisition programme (including Community Group Housing, Braemar Hospital/Kimberley Centre, Rural Housing Programme, Community Renewal).

² See stock reconciliation table page 26.

CORPORATION HOUSING STOCK	2003/04	2002/03	2001/02
Managed stock	65,111	64,087	61,671
Unconditional contract	193	312	207
Closing stock	65,304	64,399	61,878

Managed stock

This is available for rental, including all standard Corporation rental units and relocatable units (including leased, owned and Community Group Housing stock, excluding carparks and garages). Managed stock is counted from settlement date of acquisition or disposal.

Unconditional contract

These contracts apply when all contract conditions are satisfied and there is certainty the transaction will occur.

Closing stock

This is the total of managed stock and contracts that are unconditional, based on accounting principles.

Stock reconciliation

MOVEMENT IN STOCK	Actual 2003/04	Budget 2003/04	Actual 2002/03
Opening stock ¹	64,401	64,296	61,878
ADDITIONS			
New leases	445	442	441
Renewed leases	205	169	109
<i>Total leases</i>	650	611	550
Buy-ins	564	450	343
New builds	69	177	253
Redevelopments	162	188	92
Relocations	0	0	2
Inter-company transfers ²	21	0	35
<i>Total owned units³</i>	816	815	725
Former Auckland City Council units	0	0	1,666
TOTAL ADDITIONS	1,466	1,426	2,941
DISPOSALS			
Leases expired	272	203	150
Vacant sales	81	165	149
Other (fire damage, demolitions etc.)	190	114	84
Inter-company transfers ²	20	0	37
TOTAL DISPOSALS	563	482	420
NET STOCK MOVEMENT	903	944	2,521
Closing stock ¹	65,304	65,240	64,399

¹ Excludes carparks and garages. Opening stock for 2003/04 does not match closing stock for 2002/03 due to incorrect calculation of stock in 2002/03.

² Transfers of properties to companies within the Corporation group to ensure the best utilisation of the Corporation's resources. Transfers also include properties that could be redeveloped from two units to one.

³ Includes 82 Rural Housing Programme units delivered in 2003/04 against the target of 90.

PERFORMANCE MEASURE	Target	2003/04 result	2002/03 result
Net increase in stock: volume : \$	944 \$165.00m	903 \$160.50m	2,521 ¹ \$206.51m

¹ Includes 1,666 former Auckland City Council properties.

Maintaining and improving the state housing portfolio

State housing assets are improved through modernisation, energy efficiency and minor capital programmes. Regular maintenance is also carried out to ensure properties are maintained to an acceptable standard.

Modernisation programme

The Corporation completed 570 modernisations against a target of 614 during 2003/04, with the shortfall largely due to a late start in the programme and difficulty finding contractors.

ASSET DEVELOPMENT	Target	2003/04 result	2002/03 result
Modernisation: volume : \$	614 \$23.11m ¹	570 \$20.44m	442 \$12.90m
Minor capital	\$13.60m	\$13.56m	\$13.70m
Maintenance	\$124.00m	\$124.15m	\$124.28m

¹The Modernisation budget is funded through appropriations of \$18.81m and \$4.30m Corporation funds.

Energy efficiency programme

The Corporation aims to help improve social, economic and environmental sustainability within its tenants' communities. The energy efficiency programme contributes to this by employing community-based work groups, and people sourced through Work and Income. Energy efficiency targets were exceeded for the year, with insulation and other energy efficient features installed in 3,038 properties, against a target of 2,500. Other properties also benefited from insulation installation through the Healthy Housing, Rural Housing and Community Renewal programmes.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Energy efficiency retrofits: volume : \$	PT PT	2,500 \$4.00m	3,038 \$4.96m	2,619 \$3.70m

*Performance target (PT).

Property condition benchmark

Compliance with the property condition benchmark fluctuated between 88.75% and 81.50% over the year, with an average result of 86.62%. The method of reporting was revised from February 2004 to reflect the condition of the whole portfolio over time. The benchmark represents the percentage of Corporation properties that have fewer than 10 maintenance defects. A comparison of the Corporation's properties against privately-owned rental properties is ascertained through a survey carried out by an independent organisation. The condition of the Corporation's properties has been judged comparable to private sector rental properties.

PROPERTY CONDITION BENCHMARK	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Monthly compliance percentage	86.63	88.75	88.21	88.63	81.50	82.88	85.30	85.83	87.54	86.72	87.60	87.53
Year-to-date compliance percentage	86.63	87.57	87.79	88.01	86.81	86.28	86.18	86.13	86.36	86.39	86.52	86.62

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Property condition benchmark compliance	PT	≥88%	87%	88%

* Performance target (PT).

Efficient asset management

The Corporation monitors the proportion of under-utilised stock and the vacancy rate within the portfolio to ensure assets are used efficiently.

Utilisation of stock

The Corporation has introduced strategies to increase the supply of rental stock and improve property utilisation. This included transferring some tenants in larger properties to more suitable, smaller accommodation, freeing up larger homes for families. During 2003/04, a total of 330 such transfers were recorded, resulting in a net gain of 401 bedrooms – equivalent to 137 three-bedroom houses.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Transfers relating to optimising stock utilisation	PT	200	330	192 ¹

* Performance target (PT).

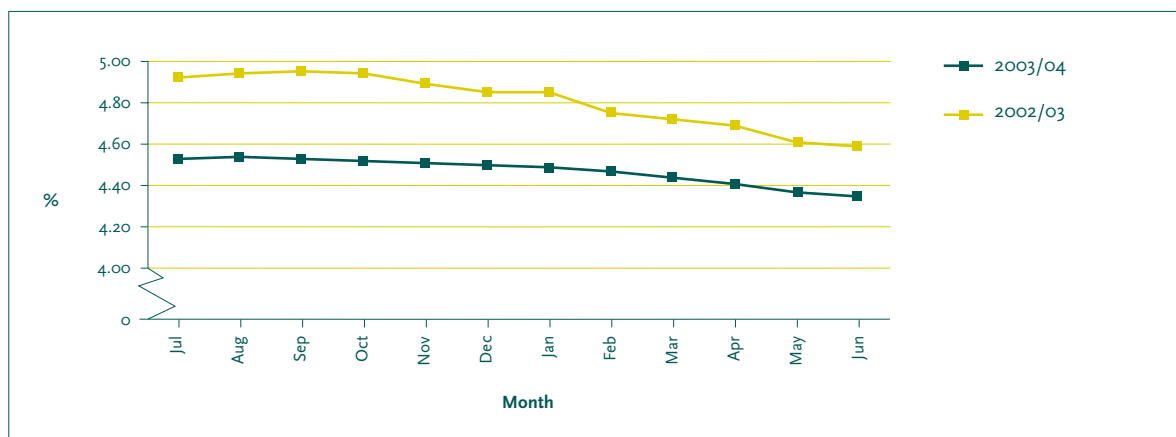
¹ Result for nine months from October 2002 to June 2003.

The transfers contributed to the steady decrease in under-utilisation, to a year-end result of 4.35%, well below the Corporation's under-utilisation target of 5%. Figure 3 illustrates the trend over the year.

STOCK UTILISATION	Target	2003/04 result	2002/03 result
Percentage of stock under-utilisation ¹	≤5%	4.35%	4.59%

¹ This is defined as all let tenancies where household count plus one, is less than bedroom count, divided by total standard properties for which household numbers are known.

Figure 3 Stock under-utilisation for 2002/03 and 2003/04



* Under-utilised stock calculated on the total number of standard let properties (excluding Community Group Housing properties).

Vacancies

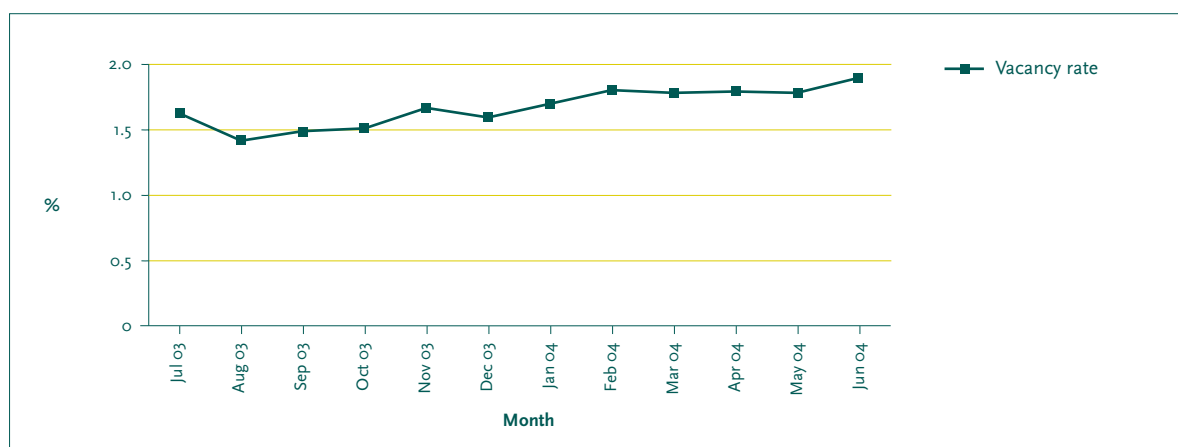
The vacancy rate increased over the year, with the year-end result of 1.88% sitting above the target of 1.5%. This trend is largely due to the increased level of modernisation and other property improvement and redevelopment programmes (such as the former Auckland City Council units) which have a significant impact on the number of units unavailable for letting while work is undertaken. For example, of the Corporation's 1,220 units un-let in June 2004, 731 were undergoing repair or development. A total of 465 were available for let. Figure 4 illustrates the trend over the year.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Vacancy rate ¹	PT	<1.5%	1.88%	1.81%

* Performance target (PT).

¹ Includes Community Group Housing.

Figure 4 Vacancy rate 2003/04



Community development through asset programmes

Maintenance service contractors are engaged to support the Corporation's aim of contributing to social, economic and environmental sustainability. Each contractor is required to develop and manage a community contribution plan, which includes:

- promoting the development of new opportunities for community employment
- collaborating with Work and Income and other social agencies to use local labour
- inviting local community groups and iwi service providers to participate, where practical
- aligning with youth apprenticeships and other trade training schemes wherever possible
- promoting and upholding the Corporation's values and standards through their activities within the communities in which they work.

Community Renewal

Community Renewal is a partnership between the Corporation and people living and working in renewal areas, to promote safe and healthy communities. The main goals are to address social exclusion, foster strong and sustainable communities, and improve the neighbourhood's physical assets and appearance.

Community Renewal projects took place in six communities: Aranui (Christchurch), Fordlands (Rotorua), Clendon (Auckland), Talbot Park (Auckland), Northcote (Auckland) and eastern Porirua (Wellington).

Key achievements included:

COMMUNITY RENEWAL ACTIVITY	Target volume of activity	2003/04 result
Improvements	206	377
Acquisitions	25	26
Disposals	39	34
Expenditure	\$22.34m	\$18.94m

¹The Community Renewal budget is funded through \$18.29m of appropriations and \$4.00m of Corporation funds.

Hobsonville

During the year, the Corporation continued to work with the New Zealand Defence Force to transfer land at the former Hobsonville Airbase from Defence to the Corporation. This land is no longer required for defence purposes and is being transferred under the Public Works Act 1981.

The Corporation is working with Waitakere City Council and the Marine Industries Association to develop an integrated urban community at Hobsonville. This community will promote long-term urban development and will include housing for up to 2,500 households, a marine industrial precinct, schools, and commercial services.

Leasing

The Corporation is continuing to increase the number of lease properties available in areas of high demand. Of the 903 net increase in houses acquired in 2003/04, a total of 378 were lease properties.

Former Auckland City Council housing

The Corporation bought 1,666 units from the Auckland City Council (ACC) in February 2003. Work to reconfigure, modernise and redevelop the units to ensure they meet tenants' needs will be phased over five years. The 2003/04 work programme was hampered by various factors, including lower-than-expected tenancy turnover, frailty of elderly tenants, and difficulty securing temporary accommodation close-by.

FORMER ACC HOUSING DEVELOPMENT	Target	2003/04 result	2002/03 result
Reconfiguration	\$1.74m	\$0.42m	N/A
Modernisation	\$8.66m	\$1.99m	N/A
Redevelopment	\$4.60m	(\$0.22m)	N/A
Total	\$15.00m	\$2.19m	N/A

Rental debt to monthly income

The level of rental debt to monthly income remained above the 10% target for the year, and was on average higher than debt levels in 2002/03. The Corporation is working to reduce debt through staff training and reviewing repayment arrangements to focus on early intervention on debt.

Figure 5 Rental debt to monthly income for 2002/03 and 2003/04



PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Rental debt to monthly income (incl. damages, Community Group Housing, tenants)	PT	≤10%	12.98% ¹	11.86% ²

* Performance target (PT).

¹ June 2004 result.

² June 2003 result.

Output Class 6:

Housing provider development

This output class aims to increase the supply of social housing through the contribution of private and social housing providers, such as iwi, local government and community groups.

Key initiatives include:

- increasing the level of non-government investment in social housing
- establishing and managing the Housing Innovation Fund.

The social housing sector provides not-for-profit and other non-state specialist housing. Contributors to the social housing sector include local government, iwi-based organisations and third sector providers (church groups, charitable organisations and community groups). Located between the state and market sectors, third sector housing organisations use public and private sector resources to deliver housing. They help groups whose needs cannot be met by the state and who have difficulty finding housing in the private sector.

Housing Innovation Fund

In May 2003, the Government announced funding of \$43.26 million in capital and \$19.83 million in operating expenditure over four years for the Housing Innovation Fund. The Fund aims to increase the availability of rental housing and home ownership opportunities for low-income households and people with special needs.

Local government funding is intended to encourage councils to retain and increase their existing rental housing, by helping councils purchase new stock and/or improve existing stock.

Third sector and iwi funding aims to encourage not-for-profit, non-government community groups and organisations, iwi and Māori to increase their involvement in providing social housing. There is capital funding for demonstration projects, and support for developing proposals.

Third sector and iwi/Māori initiatives

The first six loan submissions, totalling \$3.70 million, were approved and accepted during the year. They are:

- Te Roopu Taurima o Manukau, Auckland – a home for Māori with intellectual and/or physical disability
- Community of Refuge Trust, Auckland – housing units for mental health consumers and people in need
- Barrett Homes, Rotorua – housing units for physically disabled young people
- Pukeroa Oruawhata Trust, Rotorua – housing units for Ngati Whakaue kaumatua
- Abbeyfield New Zealand Incorporated, Hamilton – a housing complex for older people
- Lutheran Homes, Palmerston North – housing units for older people.

The Corporation will continue to assist these groups with advice as their projects progress. It is also helping a number of other groups with feasibility and development advice, so they can develop similar projects.

Local government initiatives

The Corporation has had a positive response from local authorities. It is engaged with 14 councils and is assessing seven proposals for loans to develop new housing initiatives. It is anticipated that these proposals will progress to the loan submission stage during 2004/05.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Number of additional third sector and iwi units made available through the Housing Innovation Fund	I	monitor trend	32 ¹	9 ²
Number of additional local government units made available through the Housing Innovation Fund	I	monitor trend	0	N/A

* Information (I).

¹ Funding has been provided to allow the units to be acquired.

² Funding provided through earlier community programmes.

Community Group Housing

The Community Group Housing service provides rental homes for organisations offering community housing. Generally, groups renting these properties provide services for people with special health or welfare needs.

A high proportion of Community Group Housing properties were used for residents with intellectual disabilities (22%) and mental health issues (45%). The Community Group Housing acquisitions programme made good progress, exceeding the target by 11 units.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Additional units made available for Community Group Housing	PT	103	114	81

* Performance target (PT).

Braemar Hospital and Kimberley Centre resettlement

This Ministry of Health project aims to resettle residents of the soon-to-close Braemar Hospital, Nelson, and the Kimberley Centre, Levin. About 362 Kimberley Centre and Braemar Hospital residents are expected to be re-housed into about 60 community-based homes in their choice of available location. The project is expected to be completed by 30 June 2006.

During the year, the Corporation acquired 27 units for the resettlements, which was just under the revised target of 28. The revised target took into account the larger size and cost of the units to be acquired than originally planned. Two pieces of land were also purchased in anticipation of building to be undertaken in 2004/05.

ADDITIONAL UNITS	Target	2003/04 result
Braemar Hospital/Kimberley Centre	4 ¹	27

Rent relief administration

Eligible Community Group Housing customers can get rent relief through a fund administered by the Corporation. Over two-thirds of Community Group Housing tenants received rent relief during 2003/04, from a total of \$4.50 million of government-funded payments provided during the year.

RENT RELIEF INFORMATION	Target	2003/04 result	2002/03 result
Percentage of Community Group Housing tenants receiving rent relief	monitor trend	70%	73%
Average value of annual rent relief provided to a community group	monitor trend	\$3,239	\$4,988

Output Class costing

OUTPUT CLASS	OUTPUT CLASS	2003/04 budget	Actual spend
1	Research and policy advice	\$4.36m	\$3.69m
2	Ministerial support	\$0.63m	\$0.57m
3	Identifying and matching housing need	\$18.90m	\$17.41m
4	Customer support	\$32.66m	\$28.60m
5	Managing investment in housing	\$503.01m	\$507.28m
6	Housing provider development	\$6.44m	\$4.45m
	TOTAL OUTPUT CLASS COSTS	\$566.00m	\$562.00m

Organisational capability

Growing organisational capability is important for achieving strategic outcomes. To this end, during 2003/04 the Corporation focused on:

- supporting high public service standards
- Māori responsiveness
- enhancing organisational capability.

Supporting high public service standards

The Corporation is committed to meeting the Government's expectations of state sector employees. These include that Corporation employees:

- Behave in a manner that reflects the values of integrity, responsibility and respect.
- Operate in a manner that is responsive to the community, performance-oriented and accountable; have a whole-of-government commitment; serve the Government with free, frank and comprehensive advice; and implement decisions effectively with an awareness of Government priorities.

Enhancing Māori responsiveness

The Corporation has continued to develop its internal capability and align its responses to meeting Māori housing need.

At 30 June 2004, 17.8% of Corporation staff identified themselves as Māori. The Māori staff network Te Hou Ora provides support for Māori staff in recruitment, staff development and representation throughout the organisation.

Staff satisfaction

A staff satisfaction survey conducted in July 2003 saw satisfaction maintained at 65%. The areas staff were most satisfied with included their job, the team they work with and the Corporation's direction. The largest increase in staff satisfaction over the year related to recognition received, and overall feelings of satisfaction.

Capability building

Areas identified through the staff survey as needing further improvement included training, staff recognition/reward and the work environment. As a result, a number of measures were taken including:

- developing greater opportunities for on-the-job training
- developing a formal three-day induction programme for all new staff
- implementing a leadership and managers' training programme
- developing and implementing a remuneration and performance management strategy
- providing 'Working Well' sessions for all staff to help identify and manage causes of workplace stress.

Other activities during 2003/04 to enhance organisational capability included:

- reviewing the Corporation's area boundaries to increase alignment with community and local government recognised boundaries
- reviewing performance measures to ensure alignment with the Corporation's outcome framework (the enhanced performance measurement and reporting will take effect from July 2004).

Organisational Performance

Staff turnover

Staff turnover, at 12.38%, was higher than for the previous year but is comparable to the state sector turnover rate of 11% for the same period. Staffing changes associated with the review of the Corporation's housing services operation were a significant factor contributing to this increase.

PERFORMANCE MEASURE	Target	2003/04 result	2002/03 result
Staff turnover	Monitor trend	12.38%	9.82%

Credit Rating

Standard and Poor's raised the long-term local and foreign currency debt ratings on Housing New Zealand Limited to AA from AA- in May 2004. The rating outlook from Standard and Poor's remains positive. The upgrade followed the refinancing of a portion of private sector sourced debt with a loan from the Government in May 2004. This resulted in a majority of Housing New Zealand Limited's debt being sourced from the Government. Standard and Poor's consider the rating is due to the relationship Housing New Zealand Limited has with the Government, the essential nature of the housing services provided, a strong degree of financial interest by the Government, and a significant Government oversight.

Moody's continues to rate Housing New Zealand Limited with a long-term rating of Aaa.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Credit rating : Standard and Poor's : Moody's	PT PT	AA- Aa2	AA Aaa	AA- Aaa

* Performance target (PT).

Results against Statement of Intent performance measures 2003/04

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Policy advice, research and evaluation delivered to the Minister of Housing within negotiated deadlines		100%	100%	100%
Draft replies to parliamentary questions approved by the Minister		98%	98%	100%
Draft replies sent to Minister's office by required deadline		100%	100%	100%
Quantity of parliamentary questions		300	594	204
Draft replies to ministerial correspondence approved by the Minister		95%	98%	97%
Draft replies to ministerial correspondence completed within 20 working days of the Corporation receiving the correspondence		95%	100%	100%
Quantity of ministerial correspondence		600	640	566
Draft replies to Official Information Act requests and Ombudsman investigations approved by the Minister		95%	100%	100%
Draft replies to Official Information Act requests and Ombudsman investigations sent to Minister's office within deadline as provided in the statute		100%	100%	100%
Quantity of Official Information Act requests and Ombudsman investigations		20	13	10
Average time from enquiry to preliminary assessment Social Allocation System (SAS) – A priority	PT	≤7 calendar days	4 calendar days	3 calendar days
Average time from last confirmed segment to housed (A priority)	I	monitor trend	24 calendar days	20 calendar days
Percentage of correct assessment decisions Social Allocation System (SAS) audit result	PT	≥95%	93%	92%
Percentage of priority (A and B) lettings to total lettings	PT	≥80%	84%	81%
Suspensory loans approved – essential repairs	I	monitor trend	305	249
Suspensory loans approved – infrastructure	I	monitor trend	17	31
Healthy Housing joint assessments undertaken	I	monitor trend	545	616
Healthy Housing interventions undertaken	I	monitor trend	1,417	597
Income-related rent accuracy – audit results	PT	≥95%	98%	95%
Percentage of loan recipients in arrears that have brought payment up-to-date or made arrangements to clear their debt (sold loans)	I	monitor trend	66%	N/A
Percentage of case management plans against total number of cases with complex need	PT	80%	91%	92%
Ability to house priority applicants (high demand areas)	I	monitor trend	42%	25%
Ability to house priority applicants (low demand areas)	I	monitor trend	114%	102%
Property condition benchmark compliance	PT	≥88%	87%	88%
Net increase in stock : volume : \$	PT PT	944 units \$165.00m	903 \$160.50m	2,521 ¹ \$206.51m
Energy efficiency retrofits : volume : \$	PT	2,500 \$4.00m	3,038 \$4.96m	2,619 \$3.70m

* Performance target (PT)/Information (I).

¹ This includes 1,666 former Auckland City Council pensioner units that were acquired during the year.

PERFORMANCE MEASURE	*	Target	2003/04 result	2002/03 result
Number of transfers related to optimising stock usage	PT	200	330	192
Vacancy rate	PT	<1.5%	1.88%	1.81%
Rental debt to monthly income (incl. rental, damages, Community Group Housing)	PT	≤10%	12.98%	11.86%
Additional Community Group Housing units made available	PT	103	114	81
Number of additional third sector and iwi units made available through the Housing Innovation Fund	I	monitor trend	32	9
Number of additional local government units made available through the Housing Innovation Fund	I	monitor trend	0	N/A

* Performance target (PT)/Information (I).

Housing New Zealand Corporation and subsidiaries

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

	Group	Group	Budget	Parent	Parent
			(unaudited)		
Notes	2004	2003	2004	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Rental income from tenants	295	280	296	15	15
Rental income from Crown 21	342	297	331	–	–
Interest income	8	9	9	12	10
Other income 3	5	6	9	260	70
Total operating revenue	650	592	645	287	95
Direct expenses 2	402	376	402	23	20
Indirect expenses 2	160	150	164	84	72
Total operating expenses	562	526	566	107	92
Operating surplus before taxation	88	66	79	180	3
Income tax expense/(benefit) 4	44	40	44	(28)	(1)
NET SURPLUS	44	26	35	208	4

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2004

	Group	Group	Budget	Parent	Parent
			(unaudited)		
Notes	2004	2003	2004	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Equity at the beginning of the year	5,991	5,436	5,627	3,017	2,956
Net surplus	44	26	35	208	4
Increase in revaluation reserves 7	2,427	490	–	81	18
Total recognised revenues and expenses for the year	2,471	516	35	289	22
Contributions from owners					
Capital contribution 6	82	42	137	82	42
Distributions to owners					
Dividend paid to the Crown 7	(176)	(3)	(25)	(176)	(3)
EQUITY AT THE END OF THE YEAR	8,368	5,991	5,774	3,212	3,017

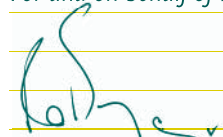
THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

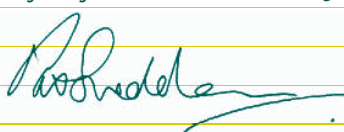
AS AT 30 JUNE 2004

		Group	Group	Budget	Parent	Parent
				(unaudited)		
	Notes	2004	2003	2004	2004	2003
		(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Equity	5	8,368	5,991	5,774	3,212	3,017
Non-current liabilities						
Loans	8	1,547	1,135	1,149	266	215
Provisions	9	22	29	34	22	29
		1,569	1,164	1,183	288	244
Current liabilities						
Bank		—	—	—	—	10
Rent in advance	10	14	11	4	1	1
Accounts payable and other liabilities	11	97	88	80	20	18
Current portion of loans	8	177	408	312	—	12
Current portion of provisions	9	6	9	3	6	9
Employee entitlements		2	2	—	2	2
		296	518	399	29	52
TOTAL EQUITY AND LIABILITIES		10,233	7,673	7,356	3,529	3,313
Non-current assets						
Property, plant and equipment	12	10,086	7,525	7,184	330	224
Mortgage advances	13	65	58	89	65	58
Investment in subsidiary	15	—	—	—	2,973	2,903
		10,151	7,583	7,273	3,368	3,185
Current assets						
Current mortgage advances	13	3	2	—	3	2
Investments	15	46	56	52	46	56
Receivables and prepayments	14	30	26	31	112	70
Properties intended for sale	16	3	6	—	—	—
		82	90	83	161	128
TOTAL ASSETS		10,233	7,673	7,356	3,529	3,313

For and on behalf of the Board, which authorise the issue of the financial statements on 30 September 2004.



Roger A Bonifant
Chairman



Patrick N Snedden
Deputy Chairman

30 September 2004

30 September 2004

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2004

	Group	Group	Budget	Parent	Parent
			(unaudited)		
Notes	2004	2003	2004	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Cash flows from operating activities					
<i>Cash was provided from</i>					
Receipts from Crown	342	297	337	4	3
Rent receipts from tenants	297	279	293	14	16
Interest received	5	9	8	5	10
Mortgage insurance premium received	1	–	–	1	–
Dividend received	–	–	–	184	3
Other receipts	1	3	3	72	61
	646	588	641	280	93
<i>Cash was applied to</i>					
Payments to suppliers and employees	312	317	331	90	81
Income tax paid	47	35	44	–	–
Interest paid	106	101	107	6	4
Other provisions	6	6	–	6	6
	471	459	482	102	91
<i>Net cash inflow/(outflow) from operating activities</i>	17	175	159	178	2
Cash flows from investing activities					
<i>Cash was provided from</i>					
Mortgage principal repayments	11	6	8	9	6
Proceeds from sale of rental properties	10	23	9	3	10
Proceeds from sale of fixed assets	–	1	1	–	–
Decrease in short-term investments	10	11	–	10	11
	31	41	18	22	27
<i>Cash was applied to</i>					
Loans to subsidiaries	–	–	–	9	4
Loan to Housing Agency Account	8	12	–	8	12
Mortgage lending	18	19	32	18	19
Purchase of rental properties and capital improvements	261	259	273	30	23
Purchase of fixed assets	8	10	14	2	2
Investment in subsidiary	–	–	–	70	47
	295	300	319	137	107
<i>Net cash inflow/(outflow) from investing activities</i>	(264)	(259)	(301)	(115)	(80)

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2004

	Group	Group	Budget	Parent	Parent
			(unaudited)		
	2004	2003	2004	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Cash flows from financing activities					
<i>Cash was provided from</i>					
Crown loans	503	107	353	41	28
Other borrowings	—	34	—	—	—
Capital contributions	82	42	143	82	42
	585	183	496	123	70
<i>Cash was applied to</i>					
Dividend payments to the Crown	176	3	25	176	3
Repayments of other borrowings	320	50	329	—	—
	496	53	354	176	3
<i>Net cash inflow/(outflow) from financing activities</i>	89	130	142	(53)	67
Net (decrease)/increase in cash held	—	—	—	10	(11)
Add: Opening cash brought forward	—	—	—	(10)	1
Ending cash carried forward	—	—	—	—	(10)
Cash balances in the Statement of Financial Position					
Bank balance	—	—	—	—	(10)
Ending cash carried forward	—	—	—	—	(10)

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

1. Statement of Accounting Policies

Reporting entity

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

The Group financial statements are for the Housing New Zealand Corporation Group (the Group), including all its subsidiaries. The financial statements have been prepared and presented in accordance with generally accepted accounting practice in New Zealand, the Financial Reporting Act 1993, the Public Finance Act 1989 and the Housing Corporation Act 1974 (as amended).

Measurement basis

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

Specific accounting policies

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

a) *Basis of consolidation – purchase method*

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

b) *Revenues*

Revenue shown in the Statement of Financial Performance comprises the amounts received and receivable by the Group for the provision of housing and lending services to customers and providing policy advice to the Crown. Parent revenues also include dividends and management fees received from subsidiaries.

c) *Maintenance*

The Group recognises liabilities for maintenance on the following basis:

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

d) *Depreciation*

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

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

Major depreciation periods are:

- | | |
|-----------------------------------|--|
| • rental properties | all at 40 years |
| • leasehold improvements | period of the lease or estimated useful life |
| • furniture and fittings | ten years |
| • office equipment | five years |
| • computer equipment and software | four years |
| • motor vehicles | five years. |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

e) *Leases*

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

f) *Income tax*

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

g) *Goods and Services Tax*

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

h) *Property, plant and equipment*

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

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

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

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

i) *Properties intended for sale*

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

j) *Mortgage advances*

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

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

k) *Investments*

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

l) *Receivables*

Receivables are stated at their estimated realisable value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

m) Mortgage sale insurance

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

n) Mortgage Insurance Scheme

The premium income realised and the movement in provision for claims during the year are recognised in the Statement of Financial Performance.

The unearned premium consists of the unrealised amount of premium received, and is determined by apportioning premiums received over the effective periods of risk underwritten.

The provision for claims is the actuarial assessment of the present value of the estimated cost of future claims.

o) Financial instruments

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

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

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

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

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

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

p) Foreign currencies

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

Changes to accounting policies

There have been no changes in accounting policies. However, certain figures for the year 2003 have been re-classified to conform to the current year's presentation. All accounting policies have been applied on a basis consistent with those used in previous years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

2. Operating surplus before taxation

	Group	Group	Parent	Parent
Notes	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
After charging:				
Direct expenses				
Rental property depreciation	105.0	101.0	3.6	3.2
Maintenance expenditure	124.1	124.8	12.6	10.3
Rates	75.1	70.5	1.5	1.5
Bad and doubtful debts, including:				
– Tenancy debts written off during the period	1.2	1.3	–	–
– Change in the tenancy debt provision	0.3	0.2	–	–
– Mortgage advances written off during the period	(0.4)	(0.3)	(0.4)	(0.3)
– Change in the mortgage advances provision	0.1	0.7	0.1	0.7
Rental and operating lease costs	22.9	17.1	3.0	2.2
Permanent diminution in asset values	7.3	3.7	0.3	0.1
Management assets depreciation:				
– Motor vehicles	1.2	1.2	–	–
– Office equipment	0.2	0.2	–	–
– Furniture and fittings	0.1	0.1	–	–
– Leasehold improvements	0.5	0.4	–	–
Mortgage Insurance Scheme future claims provision expense	1.1	–	1.1	–
Other direct expenses	62.8	54.6	1.0	2.1
TOTAL DIRECT EXPENSES	401.5	375.5	22.8	19.8
Indirect expenses				
Rental and operating lease costs	1.5	1.3	1.5	1.3
Amounts received by the auditors for:				
– Auditing the financial statements	26 0.3	0.3	0.3	0.3
– Other services	26 0.1	0.1	0.1	0.1
Interest expense:				
– Crown	50.5	33.9	13.3	5.4
– Other interest	64.6	69.3	1.0	–
Management assets depreciation:				
– Motor vehicles	0.6	0.5	–	–
– Office equipment	0.2	0.2	–	–
– Computer equipment and software	3.2	4.6	–	–
– Furniture and fittings	0.1	0.1	–	–
– Leasehold improvements	0.5	0.5	–	–
Members' fees	21 0.2	0.2	0.2	0.2
Other indirect expenses	38.6	39.0	68.0	64.8
TOTAL INDIRECT EXPENSES	160.4	150.0	84.4	72.1
TOTAL OPERATING EXPENSES	561.9	525.5	107.2	91.9

The underwriting loss on the Mortgage Insurance Scheme for the reporting period of \$1 million (2003, nil) is obtained by deducting the claims expense provision of \$1 million (2003, nil) from the insurance premium realised of nil (2003, nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

3. Other income

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Appropriation income received for provision of policy advice, research and ministerial support to Crown	1	1	2	1
Appropriation income received for various housing initiatives	2	1	2	1
Appropriation income received for low deposit rural lending courses	1	1	1	1
Legal settlements	–	2	–	2
Dividends from subsidiaries	–	–	184	3
Management fees from subsidiaries	–	–	71	61
Other income	1	1	–	1
	5	6	260	70

4. Taxation

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Operating surplus before taxation	88	66	180	3
Prima facie taxation at 33%	29	22	59	1
<i>Plus tax effect of:</i>				
Permanent differences	4	20	(84)	–
Timing differences not recognised	13	(2)	(3)	(3)
Prior period adjustment	(2)	–	–	1
Current year losses not recognised	–	–	–	–
	44	40	(28)	(1)
<i>The taxation charge is represented by:</i>				
Current taxation	44	40	(28)	(1)
	44	40	(28)	(1)

A deferred tax liability on timing differences of \$489 million (2003, \$421 million) for the Group, and \$24 million (2003, \$20 million) for the Parent arising on the revaluation of rental properties has not been recognised on the basis that it is not expected to reverse in the foreseeable future. Also, a deferred tax asset on other timing differences of \$48 million (2003, \$67 million) for the Group and \$39 million (2003, \$47 million) for the Parent has not been recognised. The tax effect of the timing differences not recognised is a \$145 million (2003, \$117 million) liability for the Group, and a \$5 million (2003, \$9 million) asset for the Parent.

In addition, the Group has not recognised losses available to carry forward and offset against future taxable income of \$27 million (2003, \$27 million) and Parent \$24 million (2003, \$24 million). The tax effect of the unrecognised losses is \$9 million (2003, \$9 million) for the Group, and \$8 million (2003, \$8 million) for the Parent.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Imputation credit account

	Parent	Parent
	2004	2003
	(\$m)	(\$m)
Balance as at 1 July	25	23
Imputation credits on dividends received	–	2
Income tax payments during the period	(2)	–
Balance as at 30 June	23	25

Imputation credits available to shareholders of Parent

	Parent	Parent
	2004	2003
	(\$m)	(\$m)
Through the Parent	23	25
Through the subsidiaries	115	66
	138	91

5. Equity

		Group	Group	Parent	Parent
	Notes	2004	2003	2004	2003
		(\$m)	(\$m)	(\$m)	(\$m)
Capital contribution	6	3,022	2,940	3,022	2,940
Asset revaluation reserve	7	5,361	2,947	123	46
Retained earnings	7	(15)	104	67	31
		8,368	5,991	3,212	3,017

6. Capital contribution

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Opening balance	2,940	2,898	2,940	2,898
Contributions from the Crown	82	42	82	42
Closing balance	3,022	2,940	3,022	2,940

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FOR THE YEAR ENDED 30 JUNE 2004

7. Reserves

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Asset revaluation reserve				
Opening balance	2,947	2,466	46	28
Revaluation of rental properties	2,427	490	81	18
Transfer to retained earnings in respect of assets disposed of during the period	(13)	(7)	(4)	–
Amalgamation of subsidiaries	–	(2)	–	–
Closing balance	5,361	2,947	123	46
Retained earnings				
Opening balance	104	72	31	30
Net surplus for the period	44	26	208	4
Transfer from revaluation reserve in respect of assets disposed of during the period	13	7	4	–
Dividend paid to the Crown	(176)	(3)	(176)	(3)
Amalgamation of subsidiaries	–	2	–	–
Closing balance	(15)	104	67	31

On amalgamation of the Property Lease companies in 2003, cumulative revaluation decrements in Property Lease (No. 1) Limited of \$2 million were transferred from Retained earnings to Asset revaluation reserve.

8. Loan liabilities

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Non-current portion of loans	1,547	1,135	266	215
Current portion of loans	177	408	–	12
Total loan liabilities	1,724	1,543	266	227

For more detailed information regarding the effective interest rates, and repricing dates of the non-current loan liabilities, see note 18.

The unamortised discount of non-current liabilities for the Group is \$2 million (2003, \$3 million).

The unamortised premium of non-current liabilities for the Group is nil (2003, \$1 million).

Group only

Bonds

The Group has three tranches of domestic bonds outstanding, in two maturities totalling \$250 million as at 30 June 2004 (2003, \$250 million). Two tranches have been issued at a discount and one tranche issued at a premium, and have coupon rates of 8% (2003, 8%). Bonds are issued under a Trust Deed dated 4 April 1996 between Housing New Zealand Limited and The New Zealand Guardian Trust Company Limited. Pursuant to the Trust Deed, Housing New Zealand Limited has given a negative pledge that, while any of the stock issued under the Trust Deed remains outstanding, they will not, subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets. The Group has a covenant to pay all amounts payable on redemption or repayment of the Bonds, and the payment of interest during the term of the Bonds.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Euro Medium Term Notes

The Group has issued, under the Euro Medium Term Note Programme, a series of Euro Medium Term Notes totalling NZ\$141 million (2003, NZ\$452 million). The Notes are issued under a Trust Deed dated 6 December 2000 between Housing New Zealand Limited and Citicorp. These Notes have maturity dates ranging from three to four years and a weighted average interest rate of 6.39% (2003, 5.96%). The aggregate principal amount of the Euro Medium Term Notes outstanding will not at any time exceed US\$1 billion (NZ\$1.6 billion) or equivalent in other currencies. The Group has given a negative pledge that, while any of the notes issued under the Euro Medium Term Note Programme remain outstanding, it will not, subject to certain exceptions, create or permit to exist any charge or lien over any of its respective assets.

Commercial Paper

The Group has issued, under the Note Issuance Facility Agreement dated 23 December 1998, Commercial Paper totalling NZ\$65 million (2003, NZ\$65 million). The Commercial Paper has maturity dates ranging from 30 July to 24 November 2004 and a weighted average interest rate of 5.95% (2003, 5.59%). The aggregate principal amount of Commercial Paper outstanding will not at any time exceed NZ\$350 million. The Group has given a negative pledge that, while any Commercial Paper issued under the Note Issuance Facility remains outstanding, it will not, subject to certain exceptions, create or permit to exist any charge or lien over any of its assets.

Parent and Group

Crown funding

The Group is refinancing its term debt with Crown borrowings as the debt matures. As at 30 June 2004, \$1,258 million (2003, \$758 million) for the Group, and \$266 million (2003, \$227 million) for the Parent has been borrowed from the Crown, with maturity dates ranging from 2005 to 2014. The weighted average interest rate is 6.08% (2003, 5.38%) for the Group, and 6.27% (2003, 5.51%) for the Parent.

The Group has given a negative pledge that, while any Crown borrowing remains outstanding, it will not, subject to certain exceptions, create or permit to exist any charge or lien over any of its respective assets. During the year ended 30 June 2004, \$2 million (2003, \$2 million) was approved by Treasury as a reduction in the debt to offset payments made by the Parent on behalf of the Crown.

9. Provisions

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Current provisions:				
Mortgage sale provision	5	8	5	8
Provision for lease commitments	1	1	1	1
	6	9	6	9
Non-current provisions:				
Mortgage sale provision	20	26	20	26
Provision for lease commitments	2	3	2	3
	22	29	22	29
	28	38	28	38

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Mortgage sale provision

As part of the agreements to sell mortgages to Westpac Banking Corporation in 1996, 1998 and 1999, the Corporation insured a certain number of those mortgages. The mortgage sale provision is an amount, actuarially assessed, likely to be payable under that insurance. The value of the provision depends on various factors, some of which are the value of loans expected to default, the number of active mortgages, and the average loan balance. The Corporation's liability under this insurance is currently estimated to continue until 2022 (being the latest repayment date of the insured mortgages). The maximum combined liability for the Corporation under the insurance is \$128 million (2003, \$139 million), being the outstanding amount owed under the insured mortgages.

As part of the agreement to sell a further tranche of mortgages to Westpac Banking Corporation in 1998, the Corporation insured all of these mortgages. However, as part of the Corporation's risk management strategies, with respect to its insurance obligations under the sale, it obtained an indemnity on losses above the aggregate level of \$23.3 million from Raukura Whare Limited (a wholly owned subsidiary of Waikato Raupatu Lands Trust). The Raukura Whare Limited indemnity does not, however, relieve the Corporation from its primary liability to Westpac Banking Corporation under the insurance. The Trustee of the Waikato Raupatu Lands Trust has guaranteed (capped at \$20 million) Raukura Whare Limited's liability to the Corporation. The maximum liability for the Corporation under the above insurance is \$56 million (2003, \$62 million), being the outstanding amount owed under the insured mortgages.

As part of the Homebuy Programme, the Corporation agreed with PMI Mortgage Insurance Limited to indemnify PMI for any claims made with respect to Lenders Mortgage Insurance provided by PMI at the Corporation's request. At 30 June 2004, the Corporation had a maximum exposure under this indemnity of \$12 million (2003, \$14 million).

Mortgage provision	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Balance at the beginning of the year	34	39	34	39
Additional provision/(release of unused amounts)	(5)	(1)	(5)	(1)
Amount used	(5)	(6)	(5)	(6)
Unwind of the discount	1	2	1	2
Balance at the end of the year	25	34	25	34
<i>This is represented by:</i>				
Current liability	5	8	5	8
Non-current liability	20	26	20	26
Balance at the end of the year	25	34	25	34

Provision for lease commitments

Some leased accommodation is surplus to requirements. The cost of terminating the lease commitments through sublease or early settlement has been estimated at 30 June 2004. The provision is the discounted value of the expected net outflow for the Corporation. Charges against the provision are made as and when lease payments are made. The value of each payment is dependent on the net amount of rent. The last lease payment will be made on 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Balance at the beginning of the year	4	6	4	6
Additional provision/(release of unused amounts)	–	(1)	–	(1)
Amount used	(1)	(1)	(1)	(1)
Unwind of the discount	–	–	–	–
Balance at the end of the year	3	4	3	4
<i>This is represented by:</i>				
Current liability	1	1	1	1
Non-current liability	2	3	2	3
Balance at the end of the year	3	4	3	4

10. Rent in advance

Rent in advance represents the unearned portion at balance date where rent has been charged or received at the beginning of the rental period.

11. Accounts payable and other liabilities

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Maintenance accrual	10	5	2	1
Interest payable	21	15	2	1
Current tax payable	(2)	1	–	–
Amounts payable to the Crown	–	1	–	1
Mortgage Insurance Scheme unearned premium	1	–	1	–
Provision for Mortgage Insurance Scheme claims	1	–	1	–
Other accounts payable and accruals	66	66	14	15
	97	88	20	18

The actuarial assessment of provision for Mortgage Insurance Scheme claims was made on 30 June 2004 by John Melville and Janet Lockett, both Fellows of the New Zealand Society of Actuaries. The assessment reports comply with professional standards applicable to actuarial reports on technical liabilities for general insurance operation and requirements of *Financial Reporting Standard 35 Financial Reporting of Insurance Activities*. The actuaries have expressed their satisfaction as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims provisions.

Key assumptions made as part of this review related to the nature of the borrowers and the future patterns of loan repayments and defaults under the Mortgage Insurance Scheme. The discount rate used in the calculation of the Provision for Mortgage Insurance Scheme claims was 4.5%. The equity of the Parent (\$3,212 million) is considered sufficient to meet the future claim liabilities of the scheme.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

12. Property, plant and equipment

	Group				Parent			
	At cost (\$m)	At valuation (\$m)	Accumulated depreciation (\$m)	Net carrying value (\$m)	At cost (\$m)	At valuation (\$m)	Accumulated depreciation (\$m)	Net carrying value (\$m)
As at 30 June 2004								
Freehold land	–	4,843	–	4,843	–	130	–	130
Rental properties	–	5,185	–	5,185	–	194	–	194
Capital work in progress	34	–	–	34	2	–	–	2
Leasehold improvements	11	–	7	4	–	–	–	–
Furniture and fittings	3	–	2	1	–	–	–	–
Office equipment	4	–	2	2	–	–	–	–
Computer equipment and software	37	–	27	10	4	–	–	4
Motor vehicles	11	–	4	7	–	–	–	–
	100	10,028	42	10,086	6	324	–	330
As at 30 June 2003								
Freehold land	–	3,332	–	3,332	–	83	–	83
Rental properties	–	4,154	–	4,154	–	138	–	138
Capital work in progress	19	–	–	19	1	–	–	1
Leasehold improvements	10	–	6	4	–	–	–	–
Furniture and fittings	3	–	1	2	–	–	–	–
Office equipment	3	–	2	1	–	–	–	–
Computer equipment and software	31	–	24	7	2	–	–	2
Motor vehicles	9	–	3	6	–	–	–	–
	75	7,486	36	7,525	3	221	–	224

Valuation

Freehold land and rental properties were revalued as at 30 June 2004 at fair value in accordance with *FRS 3 Accounting for Property, Plant and Equipment*. The valuation was performed by Quotable Value New Zealand, a company employing Registered and Qualified Valuers with the Principal Registered Valuer for the valuation being Andrew Parkyn (ANZIV, SNZPI).

The total gross amount of the valuation, excluding properties intended for sale, and excluding selling and other costs, was \$10,028 million for the Group and \$324 million for the Parent (2003, \$7,486 million for the Group and \$221 million for the Parent).

The revaluation effect relating to freehold land was an increment of \$1,442 million for the Group and \$39 million for the Parent (2003, increment of \$388 million for the Group and \$10 million for the Parent). The revaluation effect relating to rental properties (improvements) was an increment of \$985 million for the Group and \$42 million for the Parent (2003, increment of \$102 million for the Group and \$9 million for the Parent).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Rights of first refusal for sale of land

The Waikato Raupatu Claims Settlement Act 1995 creates a right of first refusal whereby land held by, or on behalf of, the Crown or Crown agencies must be offered to the landholding trustees (as defined in the Act) before it is disposed of to any other person. The Waikato-Tainui right of first refusal applies to land held by both Housing New Zealand Limited and the Corporation. The right of first refusal does not apply in certain circumstances, including where land is being transferred to another Crown agency or returned to a former owner under the Public Works Act 1981. The Waikato-Tainui claim area encompasses a large part of the Waikato, and would affect approximately 4,485 properties for the Group and 217 for the Parent.

In 1999, the Crown and Ngati Turangitukua entered into a Deed of Settlement. As part of that Deed, Housing New Zealand Limited agreed to enter into a deed of grant of right of first refusal with Ngati Turangitukua, whereby specified Housing New Zealand Limited properties must be offered to Turangitukua Nominees Limited before they are disposed of to any other person. The right of first refusal does not apply in certain circumstances, including where the property is subject to a legal, equitable, or statutory obligation to dispose of the property to another person. The 15 specified Housing New Zealand Limited rental properties are all in and around Turangi.

The Crown has also entered into Deeds of Settlement that contain rights of first refusal with various other parties. The rights of first refusal in these Deeds only apply to land held by or on behalf of the Crown. For example, land held for state housing purposes under the Housing Act 1955, and would not apply to land held by Housing New Zealand Limited or the Corporation in their own names. These rights of first refusal do not apply in certain circumstances, including where the land is being transferred to another Crown agency, or returned to a former owner under the Public Works Act 1981.

13. Mortgage advances

	Group and Parent	Group and Parent
	2004	2003
	(\$m)	(\$m)
Loans	73	66
Less Doubtful debts provision	(5)	(6)
	68	60
Non-current loans	70	64
Doubtful debts provision	(5)	(6)
	65	58
Current loans	3	2
TOTAL	68	60

For the purposes of allocating the net mortgage balance between current and non-current, all of the doubtful debts provision is assumed to relate to the non-current mortgages.

Repayment profile

	Group and Parent		Group and Parent	
	2004		2003	
	Weighted average interest rate	(\$m)	Weighted average interest rate	(\$m)
Up to 12 months	7.31%	3	6.89%	2
1 to 5 years	6.60%	8	6.91%	8
Over 5 years	6.84%	62	7.00%	56
TOTAL	6.83%	73	6.98%	66

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

14. Receivables and prepayments

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Rent and other customer receivables	5	4	–	–
Provision for doubtful debts	(2)	(2)	–	–
Prepayments	2	3	–	–
Loan to Trust House Limited	–	2	–	–
Receivable from subsidiaries	–	–	118	58
Receivable from the Crown	3	1	(2)	–
Receivable from Housing Agency Account	19	11	(6)	11
Other receivables	3	7	2	1
	30	26	112	70

15. Investments

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Current investments				
Registered Certificates of Deposit and Call Deposits	46	56	46	56
	46	56	46	56
Non-current investments				
Investment in subsidiary	–	–	2,973	2,903
	–	–	2,973	2,903

The weighted average interest rate on Registered Certificates of Deposit and Call Deposits at 30 June 2004 was 5.86% (2003, 5.24%). All rates are revisable within 12 months.

A total of \$70 million (2003, \$47 million) of Housing New Zealand shares were issued to the Corporation, increasing the investment in subsidiary.

Investments related to the Mortgage Insurance Scheme of \$1 million (2003, nil) forms part of Registered Certificates of Deposit and Call Deposits.

Subsidiary companies

As at 30 June 2004, the subsidiary companies of the Corporation were:

Company	Principal Activity	Balance date	Ownership interest
Housing New Zealand Limited	Provision of Rental Housing	30 June	100%
Community Housing Limited	Provision of Management Assets	30 June	100%
Property Lease (No. 1) Limited	Provision of Rental Housing	30 June	100%
Property Lease (No. 13) Limited	Provision of Property Management Services	30 June	100%
HNZC Property Developments Limited	Property Development	30 June	100%
Pinehill Holdings Limited	Property Development	30 June	50%

On 18 May 2004, HNZC Property Developments Limited (PDL) was incorporated. The Corporation purchased equity of \$100 (100 shares). PDL is a wholly owned subsidiary of the Corporation. The purchase of shares in PDL did not increase the assets or liabilities of the Group because PDL had no assets or liabilities at that stage.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

16. Properties intended for sale

At balance date, properties have been reclassified as intended for sale where a formal offer has been accepted from the existing tenant (Home Buy); the property is under development by Pinehill Limited; the property is vacant and intended to be sold; or commitments for property sales have been made. The carrying value of these properties for the Group is \$3 million (2003, \$6 million), and for the Parent is nil (2003, nil). The total gross amount of the valuation of properties intended for sale, excluding selling and other costs, was \$5 million for the Group and nil for the Parent (2003, \$6 million for the Group and nil for the Parent).

17. Reconciliation of net surplus after taxation with cash flows from operating activities

	Group 2004	Group 2003	Parent 2004	Parent 2003
	(\$m)	(\$m)	(\$m)	(\$m)
Net surplus after taxation	44	26	208	4
Add/(deduct) non-cash items				
Depreciation	112	109	4	3
Permanent diminution in asset values	7	4	—	—
Movement in provision for doubtful debts	—	2	—	1
Movement in provision for lease commitments	—	(1)	—	(1)
Movement in mortgage sale provision	(4)	1	(4)	1
Movement in provision for future insurance claims	1	—	1	—
	116	115	1	4
Add/(deduct) non financial performance items classified as operating activities				
Provision related payments	(6)	(6)	(6)	(6)
Movement in working capital				
Increase/(decrease) in rent in advance	3	(3)	—	—
Increase/(decrease) in other accounts payable and other liabilities	12	(2)	—	1
(Increase)/decrease in receivables and prepayments	6	(1)	(25)	(1)
	21	(6)	(25)	—
Net cash inflow from operating activities	175	129	178	2

The movement in the Group working capital for accounts payable and accruals excludes amounts of \$21 million (2003, \$11 million) relating to investing and financing activities. The movement in the Parent working capital for accounts payable and accruals excludes \$2 million (2003, \$1 million) relating to investing and financing activities.

The movement in receivables and prepayments excludes amounts of \$10 million (2003, \$13 million) for the Group, and \$17 million (2003, \$15 million) for the Parent, relating to investing and financing activities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

18. Financial instruments

(a) Currency risk

The Group is exposed to foreign exchange risk as a result of transactions in foreign currencies arising from borrowing. Where exposure is certain, it is the Group's policy to hedge these risks as they arise.

The Group uses currency swaps and forward foreign exchange contracts to manage this. There are no unhedged currency risks.

The notional principal or contract amounts of currency swaps and foreign exchange instruments outstanding at balance date are:

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Cross-currency interest rate swaps	195	528	—	—
Forward foreign exchange contracts	—	1	—	—
	195	529	—	—

The cash settlement requirements of currency swaps and forward foreign exchange contracts approximates the notional contract amounts shown above.

The Group does not have any other foreign currency monetary assets or liabilities that are not hedged.

(b) Interest rate risk

It is Group policy to limit interest rate risk from mismatched interest rate review cycles. Liabilities are managed so their interest rate review cycle matches, as much as possible, the interest rate review cycle of financial assets.

The Group has long-term fixed and floating rate borrowings to fund ongoing activities. Group policy is to limit the portion of floating rate debt. Within this constraint, the Group has entered into interest rate swaps to convert floating rate to fixed rate borrowings.

Management also monitors interest rate levels on an ongoing basis and, from time to time, will lock in fixed rates when they are of the view that interest rates may rise. Forward rate agreements, interest rate swaps and interest rate options are used.

The notional principals of interest rate swaps and forward rate agreements outstanding at balance date are:

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Interest rate swaps	1,577	1,442	111	51
Forward rate agreements	117	117	—	—

The cash settlement requirement of interest rate swaps and forward rate agreements at 30 June 2004 is the net interest payable for the Group of \$10 million (2003, \$7 million) and for the Parent of \$1 million (2003, nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Repricing analysis

The following tables identify the effective interest rates of the interest-bearing financial assets and liabilities of the Parent and Group and their repricing or maturity periods, whichever is earlier.

Group 2004						
	Interest rate per annum (%)	Total (\$m)	Less than 1 year (\$m)	1-2 yrs (\$m)	2-5 yrs (\$m)	Greater than 5 yrs (\$m)
Liabilities						
Loan liabilities	7.01%	1,724	177	61	651	835
		1,724	177	61	651	835
Assets						
Registered Certificates of Deposit and Call Deposits	5.86%	46	46	—	—	—
Mortgages	6.83%	73	26	12	24	11
		119	72	12	24	11

Group 2003						
	Interest rate per annum (%)	Total (\$m)	Less than 1 year (\$m)	1-2 yrs (\$m)	2-5 yrs (\$m)	Greater than 5 yrs (\$m)
Liabilities						
Loan liabilities	7.10%	1,543	408	156	540	439
		1,543	408	156	540	439
Assets						
Registered Certificates of Deposit and Call Deposits	5.24%	56	56	—	—	—
Mortgages	6.98%	66	28	7	20	11
		122	84	7	20	11

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Parent 2004						
	Interest rate per annum (%)	Total (\$m)	Less than 1 year (\$m)	1-2 yrs (\$m)	2-5 yrs (\$m)	Greater than 5 yrs (\$m)
Liabilities						
Loan liabilities	6.27%	266	19	11	61	175
		266	19	11	61	175
Assets						
Registered Certificates of Deposit and Call Deposits	5.86%	46	46	—	—	—
Mortgages	6.83%	73	26	12	24	11
		119	72	12	24	11
Parent 2003						
	Interest rate per annum (%)	Total (\$m)	Less than 1 year (\$m)	1-2 yrs (\$m)	2-5 yrs (\$m)	Greater than 5 yrs (\$m)
Liabilities						
Loan liabilities	5.51%	227	20	7	40	160
		227	20	7	40	160
Assets						
Registered Certificates of Deposit and Call Deposits	5.24%	56	56	—	—	—
Mortgages	6.98%	66	28	7	20	11
		122	84	7	20	11

(c) Fair values

The following methods were used to estimate the fair values for each class of financial instrument:

Bank balances, receivables, accounts payable, and loans to subsidiaries

The carrying amount is the fair value for each of these classes of financial instrument.

Non-current liabilities and investments

The fair value for each of these classes of financial instrument is estimated based on the net present value of the loan, using current market rates for debt and investments of similar maturity.

Mortgage advances

The carrying value shown is net of the provisions for bad and doubtful debts. The carrying amount is the fair value for this item.

Foreign currency forward exchange contracts, currency swaps, interest rate swaps, interest rate options and forward rate agreements

The fair value of these classes of financial instrument is based on the quoted market prices of comparable financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Group				
	2004		2003	
	Carrying amount (\$m)	Fair value (\$m)	Carrying amount (\$m)	Fair value (\$m)
Assets				
Receivables	30	25	26	21
Mortgage advances	68	68	60	60
Investments	46	46	56	56
Currency swaps	–	37	–	107
Liabilities				
Accounts payable and accruals	113	113	101	101
Current loan liabilities	177	178	408	409
Non-current loan liabilities	1,547	1,579	1,135	1,164
Interest rate swaps	–	16	–	76

Parent				
	2004		2003	
	Carrying amount (\$m)	Fair value (\$m)	Carrying amount (\$m)	Fair value (\$m)
Assets				
Receivables	112	114	70	65
Mortgage advances	68	68	60	60
Investments	46	46	56	56
Liabilities				
Bank balances	–	–	10	10
Accounts payable and accruals	23	23	21	21
Current loan liabilities	–	–	12	12
Non-current loan liabilities	266	267	215	216
Interest rate swaps	–	–	–	2

(d) Maximum credit risk exposure

Credit risk is the risk that the counterparty to a transaction with the Group or Parent will fail to discharge its obligations, causing the Group or Parent to incur a financial loss. Financial instruments that potentially subject the Group and Parent to credit risk mainly consist of receivables, mortgage advances, Crown receivables, short-term investments, loans to subsidiaries, and currency swaps receivable. The Group and Parent have credit policies to manage this exposure to credit risk. Limits on exposures have been set and are monitored regularly.

Mortgage advances are secured by mortgage or similar documents. Each mortgage advance is subject to credit check before approval. The Corporation frequently reviews the credit quality of the major financial institutions that are counterparties to the off-balance sheet financial instruments. With the exception of mortgage advances, no collateral is required in relation to financial assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Maximum exposures to credit risk as at 30 June were:

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Bank balances	–	–	–	–
Mortgage advances	68	60	68	60
Investments	46	56	46	56
Receivables	30	26	112	70
Interest rate swaps	12	–	1	–
Currency swaps	37	107	–	–

These exposures are net of any recognised provision for losses on these financial instruments. Any bond collateral in relation to rent receivable is held by Tenancy Services and may, on application by the Group, be applied in payment of rent owing.

(e) Concentration of credit risk

The Group is not exposed to any material concentration of credit risk.

(f) Liquidity risk and credit facilities

Liquidity risk is the risk the Group will encounter difficulty in raising funds at short notice to meet its financial commitments when they are due.

The Group has a \$50 million 364-day committed standby facility with two banks, which matures in December 2004. Subject to agreement with the banks, the facility can be extended for an additional 364 days (not earlier than 120 days and not later than 30 days before the facility maturity date). The Group also has a \$350 million uncommitted note issuance facility with a group of banks. These facilities are used to meet short-term liquidity requirements.

The Group has an unsecured bank overdraft facility of \$1 million (2003, \$1 million) with an interest rate of 8.75% (2003, 7.95%).

19. Statement of contingent liabilities

The following contingent liabilities exist at 30 June 2004:

The Corporation is liable to the owners (ANZ National Bank Limited, Ichthus Limited and Westpac Banking Corporation) of mortgages sold by the Corporation during 1992 to 1999 for certain losses they may incur from specified limited aspects of their ownership of those mortgages. The amount of the contingent liability cannot be estimated.

The Corporation has certain guarantees under the Mortgage Guarantee scheme. The Corporation ceased providing mortgage guarantees from 1 November 1991. The amount of the contingent liability cannot be estimated.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

20. Statement of commitments

	Group	Group	Parent	Parent
	2004	2003	2004	2003
	(\$m)	(\$m)	(\$m)	(\$m)
Lending commitments				
Loans approved but not drawn down	6	6	6	6
Capital expenditure commitments				
Estimated capital expenditure contracted but not provided for	156	105	1	1
Operating lease commitments				
Lease commitments under non-cancellable operating leases:				
Not later than one year	29	17	2	2
Later than one year and not later than two years	27	15	2	2
Later than two years and not later than five years	69	32	5	5
Later than five years	70	32	1	1
TOTAL OPERATING LEASE COMMITMENTS	195	96	10	10

21. Transactions with related parties

The New Zealand Government wholly owns the Corporation. The Corporation undertakes many transactions with statutory corporations, state-owned enterprises and government departments on an arm's length basis. These transactions are not considered related party transactions as defined in *Statement of Standard Accounting Practice 22 Related Party Disclosures*.

The Parent receives payments from the Crown through the Ministry of Housing and Treasury.

The Parent administers the Housing Agency Account as an agency of the Crown in terms of the Housing Act 1955. As at 30 June 2004, the total amount owing from the Housing Agency Account to the Corporation is \$19 million (2003, \$11 million).

Rental income from the Crown

Under the Housing Restructuring Act 1992, Housing New Zealand Limited and the Crown have entered into an agreement whereby the Crown will compensate Housing New Zealand Limited for the difference between the income-related rents charged by Housing New Zealand Limited for properties and the market rent for such properties. The agreement came into force on 17 November 2000. From the same date, the Accommodation Supplement regime was no longer available to Housing New Zealand Limited tenants. Income from the Crown has been separately disclosed.

When rental income from the Crown has been collected on behalf of a tenant over and above the amount the tenant is entitled to, the tenant is liable to repay the extra Crown-contributed rent. The Corporation collects the debt from the tenant, repays the Crown and records a debt receivable from the tenant and a corresponding debt payable to the Crown. As the debt is not legally owed from the Corporation to the Crown, the receivable and payable have been netted off in the Corporation's financial statements. The gross amount of the receivable and payable is \$2 million (2003, \$1 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Remuneration of Members

	Group and Parent	Group and Parent
	2004	2003
	(\$)	(\$)
Roger Bonifant (<i>Chairman</i>)	49,000	49,000
Patrick Snedden	30,625	30,625
Maryan Street	24,500	24,500
John Hill (resigned on 31 December 2003)	12,250	24,500
David Pritchard	24,500	24,500
David Lange	24,500	24,500
Lope Heath	24,500	24,500
Paul White	24,500	24,500
Susan Huria (appointed on 1 January 2004)	12,250	–
TOTAL	226,625	226,625

The above table includes all remuneration payments made to Members, excluding GST. Total remuneration paid to Members for the year ended 30 June 2004, including GST, totalled \$245,675 (2003, \$243,681) for both Group and Parent.

22. Segment information

Group 2004 Industry segments	Lending	Rental housing	Policy and ministerial support services	Total
	(\$m)	(\$m)	(\$m)	(\$m)
Total revenue	10	639	1	650
Segment net surplus/(loss)	4	40	–	44
Segment assets	115	10,118	–	10,233

Group 2003 Industry segments	Lending	Rental housing	Policy and ministerial support services	Total
	(\$m)	(\$m)	(\$m)	(\$m)
Total revenue	11	580	1	592
Segment net surplus/(loss)	3	23	–	26
Segment assets	119	7,554	–	7,673

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Parent 2004 Industry segments	Lending	Rental housing	Policy and ministerial support services	Inter-group	Total
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Total revenue	10	17	1	259	287
Segment net surplus/(loss)	4	16	—	188	208
Segment assets	115	329	—	3,085	3,529

Parent 2003 Industry segments	Lending	Rental housing	Policy and ministerial support services	Inter-group	Total
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Total revenue	11	19	1	64	95
Segment net surplus/(loss)	3	1	—	—	4
Segment assets	119	239	—	2,955	3,313

The Group mainly operates in three industries in New Zealand: providing housing finance, rental housing, and policy advice and ministerial support. Any inter-segment transactions were carried out at normal commercial terms and conditions.

In 2004, the lending segment has a tax credit of \$1 million (2003, \$1 million), which increases the segment net surplus. This is primarily caused by tax adjustments for the mortgage sale provisions.

The Mortgage Insurance Scheme is applicable throughout New Zealand.

23. Subsequent events

No event has occurred since the end of the financial period not otherwise dealt with in the financial statements, that has or may significantly affect the Group's operations or state of affairs.

24. Budgeted figures

The budgeted figures disclosed in these financial statements are those underlying the financial performance targets in the Group's 2003/2004 Statement of Intent.

Actual net surplus after taxation showed a favourable variance against budget of \$9 million. This comprised operating revenue favourable by \$5 million and indirect expenses favourable by \$4 million.

The favourable variance in revenue was driven by rental income being \$10 million above budget (higher market rents), offset by an unfavourable variance in other income of \$4 million and \$1 million in interest income. Savings for indirect expenses occurred across personnel costs, consultants, depreciation, and miscellaneous (for miscellaneous, an unbudgeted \$4 million credit relates to the sale pool provision release), while an unfavourable variance of \$8 million in interest expense eventuated (due to impact of capital restructure and subordinated debt being transferred to interest-bearing).

Equity at the end of the year in the Statement of Movements in Equity showed a variance of \$2,594 million against budget, due mainly to property valuations (beginning and end of year). The budget comparison does not include an estimate of the property valuation changes. Capital contributions are \$55 million below budget due to appropriations carried over and timing of appropriation drawdowns.

The significant variances in the Statement of Financial Position are in equity (refer above); loans; and property, plant and equipment. Loans (current and non-current) are \$263 million above budget due to additional borrowings to fund more property acquisitions and the transfer of equity and subordinated debt to Crown loans. Property, plant and equipment is \$2,902 million above budget due to property valuation movements for 2003 and 2004, which are not budgeted.

The variances in the Statement of Cash Flows are a result of the variances in the Statements of Financial Performance and Financial Position detailed above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

25. Remuneration of employees

	Group and Parent	Group and Parent
	2004	2003
\$100,001 – 110,000	14	13
\$110,001 – 120,000	8	5
\$120,001 – 130,000	5	6
\$130,001 – 140,000	3	6
\$140,001 – 150,000	6	2
\$150,001 – 160,000	–	1
\$160,001 – 170,000	4	4
\$170,001 – 180,000	2	2
\$180,001 – 190,000	1	1
\$190,001 – 200,000	2	3
\$200,001 – 210,000	2	1
\$280,001 – 300,000	1	–
\$320,001 – 330,000	–	1

The remuneration information provided excludes contractors.

26. Fees paid to auditors

	Group and Parent	Group and Parent
	2004	2003
	(\$m)	(\$m)
Amounts received by the auditors for:		
– Auditing the financial statements	0.3	0.3
– Other services	0.1	0.1
	0.4	0.4

Other services include assurance services relating to the rent setting process, income-related rent review, Private Sector Leasing Programme review and review of Housing New Zealand Limited's half-yearly financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

27. Additional disclosures (unaudited)

Interest register entries

The following are particulars of entries made in the Interest Register for the period 1 July 2003 to 30 June 2004.

Disclosure of interest

Members disclosed an interest in the following entities pursuant to section 140 of the Companies Act 1993. The following Parent company disclosures are also applicable to the Group subsidiary companies.

Roger Bonifant

<i>Entity</i>	<i>Relationship</i>
Housing New Zealand Limited	Director
Community Housing Limited	Director
Property Lease (No.1) Limited	Director
Property Lease (No.13) Limited	Director
HNZC Property Developments Limited	Director
Barrhill Chertsey Irrigation Limited	Director
Motor Trade Finances Limited	Director
Rural Equities Limited	Director
Ashburton Contracting Limited	Director
Loan and Building Society	Director
Rawlinsons Limited	Director
South Canterbury District Health Board	Member
W Pinckney Limited	Director
Timaru District Holdings Limited	Director
Williams & Kettle Limited	Director

Patrick Snedden

<i>Entity</i>	<i>Relationship</i>
Housing New Zealand Limited	Director
Community Housing Limited	Director
Property Lease (No.1) Limited	Director
Property Lease (No.13) Limited	Director
HNZC Property Developments Limited	Director
Common Sense Organics Limited	Director/Shareholder
Snedden Publishing & Management Consultants Limited	Director/Shareholder
Data Publishing Limited	Director/Shareholder
Health Care Aotearoa Inc	Business Adviser
ASB Trusts Amateur Public Sports Promotion Limited	Director
ASB Trusts Public Amenities Development Limited	Director
ASB Trusts	Deputy Chair
Watercare Services Limited	Director
Mai Media Limited	Director
Ngati Whatua o Orakei Maori Trust Board Treaty Negotiations Team	Adviser
Auckland District Health Board	Member

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

David Lange

<i>Entity</i>	<i>Relationship</i>
Housing New Zealand Limited	Director
Community Housing Limited	Director
Jonathan Hudson Associates Limited	Director/Shareholder
Lange Consulting Limited	Director/Shareholder
Land Transport Safety Authority	Director

David Pritchard

<i>Entity</i>	<i>Relationship</i>
Housing New Zealand Limited	Director
Community Housing Limited	Director
Pritchard Group Limited	Director/Chief Executive/Shareholder
Port Marlborough New Zealand Limited	Director
S4o Limited	Director

Paul White

<i>Entity</i>	<i>Relationship</i>
Housing New Zealand Limited	Director
Community Housing Limited	Director
Canterbury District Health Board	Member (resigned September 2003)
Torea Tai Consultants Limited	Director/Shareholder
Te Rarawa	Iwi member
Health Sponsorship Council	Member

Maryan Street

<i>Entity</i>	<i>Relationship</i>
Housing New Zealand Limited	Director
Community Housing Limited	Director
Crown Forestry Rentals Trust	Trustee
Centre for Housing Research, Aotearoa New Zealand (CHRANZ)	Member

Lope Heath

<i>Entity</i>	<i>Relationship</i>
Housing New Zealand Limited	Director
Community Housing Limited	Director
KAM Legal	Partner
Ginnen Alarms Limited	Shareholder
Brainwave Trust	Trustee
Domestic Violence Centre Inc	Member

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Susan Huria (appointed 1 January 2004)

<i>Entity</i>	<i>Relationship</i>
Housing New Zealand Limited	Director
Community Housing Limited	Director
Ngai Tahu Development Corporation Limited	Director
Te Ara Tika Properties Limited	Director/Shareholder
Radio New Zealand Limited	Director
Huria Anders Limited	Director/Shareholder
The Boardroom Practice Limited	Director (resigned 1 January 2004) Shareholder (resigned)
Susan Huria Associates (2003) Limited	Director/Shareholder

John Hill (resigned 31 December 2003)

<i>Entity</i>	<i>Relationship</i>
Housing New Zealand Limited	Director
Community Housing Limited	Director
Building Industry Authority	Member
John Hill Architect	Sole Trader
Auckland University of Technology	Councillor

Indemnity and Insurance

The total annual premium for the Directors and Officers Liability Insurance is \$103,781 (2003, \$85,000).

Report of the Auditor-General

TO THE READERS OF HOUSING NEW ZEALAND CORPORATION AND GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

The Auditor-General is the auditor of Housing New Zealand Corporation (the Corporation) and Group. The Auditor-General has appointed me, S R L O'Connor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Corporation and Group, on his behalf, for the year ended 30 June 2004.

Unqualified Opinion

In our opinion the financial statements of the Corporation and Group on pages 12 to 64:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Corporation and Group's financial position as at 30 June 2004;
 - the results of 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.

The audit was completed on 30 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 Board 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 Board;
- 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 Board and the Auditor

The Board 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 Corporation and Group as at 30 June 2004. They must also fairly reflect the results of operations and cash flows and service performance achievements for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989 and the Housing Corporation Act 1974 (as amended).

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 43(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.

In addition to the audit we have carried out specific assignments to provide an independent review of the income-related rent process, to independently review the market rent setting process and have undertaken a review of the Private Sector Leasing Programme. We have also undertaken a review of the Housing New Zealand Limited half year financial statements to 31 December 2003. All these assignments are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Corporation and Group.



S R L O'Connor

Ernst & Young

On behalf of the Auditor-General
Wellington, New Zealand

Housing Agency Account

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2004

The financial statements of the Housing Agency Account for the year ended 30 June 2004 have been prepared in accordance with the Public Finance Act 1989 and the Housing Act 1955.

- (a) Management is responsible for the preparation of the financial statements and the judgements used therein.
- (b) Management is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
- (c) In the opinion of management, the financial statements for the year ended 30 June 2004 give a true and fair view of the financial position and financial performance of the Housing Agency Account as at that date.

For and on behalf of the Board,



Roger A Bonifant
Chairman

30 September 2004



Helen M Fulcher
Chief Executive

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004	2003
		(\$000)	(\$000)
Gain on sale of land assets		885	21
Interest income		—	88
Total operating revenue		885	109
Total operating expenses	2	118	202
NET SURPLUS/(DEFICIT)		767	(93)

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004	2003
		(\$000)	(\$000)
Equity at the beginning of the year		2,241	2,334
Net surplus/(deficit)		767	(93)
Total recognised revenues and expenses for the year		767	(93)
Distributions to owners			
Surpluses paid to the Crown		—	—
EQUITY AT THE END OF THE YEAR		3,008	2,241

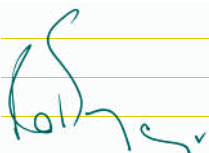
THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

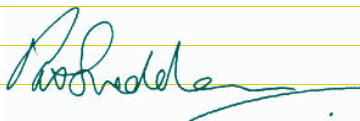
AS AT 30 JUNE 2004

	Notes	2004	2003
		(\$000)	(\$000)
Equity		3,008	2,241
Non-current liabilities			
Amount due to Housing New Zealand Corporation Group	7	19,254	10,797
Current liabilities			
Accounts payable and accruals		–	10,798
TOTAL EQUITY AND LIABILITIES		22,262	23,836
Non-current assets			
Land	3	22,225	22,185
		22,225	22,185
Current assets			
Land intended for sale	4	34	212
GST recoverable		3	1,439
		37	1,651
TOTAL ASSETS		22,262	23,836

For and on behalf of the Board, which authorise the issue of the financial statements on 30 September 2004.



Roger A Bonifant
Chairman



Patrick N Snedden
Deputy Chairman

30 September 2004

30 September 2004

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004 (\$000)	2003 (\$000)
Cash flows from operating activities			
<i>Cash was provided from</i>			
Interest received		—	88
		—	88
<i>Cash was applied to</i>			
Payments to suppliers and employees		231	90
GST paid/(recovered)		(1,436)	1,438
		1,205	1,528
Net cash inflow/(outflow) from operating activities	5	1,205	(1,440)
Cash flows from investing activities			
<i>Cash was provided from</i>			
Proceeds from sale of land		1,023	521
		1,023	521
<i>Cash was applied to</i>			
Purchase of land		10,685	11,500
		10,685	11,500
Net cash inflow/(outflow) from investing activities		(9,662)	(10,979)
Net (decrease)/increase in cash held		(8,457)	(12,419)
Add: Opening cash brought forward		(10,797)	1,622
Ending cash carried forward		(19,254)	(10,797)

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

1. Statement of accounting policies

Reporting entity

The Housing Agency Account is administered as an agency of the Crown by Housing New Zealand Corporation in terms of the Housing Act 1955. These financial statements are prepared in accordance with section 34 of that Act.

Measurement basis

The accounting principles recognised as appropriate for measuring and reporting financial performance and financial position on an historical cost basis are followed by the entity.

Specific accounting policies

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

a) Land

Land and related developments are stated at the lower of cost and net realisable value, applied on a basis consistent with management's intended development programme. Any decreases in value are charged to the Statement of Financial Performance. Net realisable values have been determined by independent registered valuers. Cost is defined as all costs incurred that are directly related to the development of these assets.

b) Land intended for sale

Land intended for sale is stated at the lower of cost and net realisable value, applied on a basis consistent with management's intended disposal programme. Any decreases in value are charged to the Statement of Financial Performance. Net realisable values have been determined by independent registered valuers. Cost is defined as all costs incurred that are directly related to the development of these assets.

c) Cash

For the purposes of the Statement of Cash Flows, Cash and Cash Equivalents are represented by the Amount due to Housing New Zealand Corporation (the Corporation). This balance is the amount funded in cash or cash equivalents by the Corporation to the Housing Agency Account.

d) Receivables

Receivables are stated at their estimated realisable value.

e) Revenues

Income shown in the Statement of Financial Performance comprises the amounts received and receivable by the Housing Agency Account for providing rental land to customers, interest income and gain on sale of land.

f) Income tax

The Housing Agency Account is not liable for taxation, by virtue of section CB3(a) of the Income Tax Act 1994.

Changes to accounting policies

There have been no changes in accounting policies. However, certain figures for 2003 have been reclassified to conform to the current year's presentation. All policies have been applied on a basis consistent with those used in the previous year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

2. Operating surplus before taxation

	2004	2003
	(\$000)	(\$000)
After charging:		
Legal costs	67	36
Rates	3	–
Other expenses	48	166
Total operating expenses	118	202

Audit fees are paid by the Corporation.

3. Land

	2004	2003
	(\$000)	(\$000)
Land	22,225	22,185

Land is held at the lower of cost or net realisable value. Land was transferred from the Ministry of Defence at market value. The net realisable value of land as at 30 June 2004 is \$26.00 million (2003, \$22.20 million).

4. Land intended for sale

	2004	2003
	(\$000)	(\$000)
Land intended for sale	34	212

Land intended for sale is held at the lower of cost or net realisable value. Land intended for sale was valued as at 30 June 2004 at fair value. The valuation of land was performed by TM Walker (DipVal, ANZIV, SNZPI) and AJ Brady (FNZIV, MBA) registered valuers of TelferYoung.

During the year, land with cost of \$0.20 million was sold for \$1.10 million. The net realisable value of land remaining as at 30 June 2004 is \$1.50 million (2003, \$5.30 million).

5. Reconciliation of net surplus after taxation with cash flows from operating activities

	2004	2003
	(\$000)	(\$000)
Net surplus/(deficit) after taxation	767	(93)
Add non-cash items		
Bad debts written off	–	–
(Less) items classified as investing activities		
Gain on sale of land assets	(885)	(21)
Movement in working capital		
Increase/(decrease) in payables	(113)	112
(Increase)/decrease in receivables	1,436	(1,438)
Net cash inflow/(outflow) from operating activities	1,205	(1,440)

The movement in the working capital for payables excludes amounts of \$12.00 million (2003, nil) relating to investing and financing activities. The movement in receivables excludes amounts of \$1.30 million (2003, nil) relating to investing and financing activities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

6. Financial instruments

(a) Maximum credit risk exposure

Credit risk is the risk that the counter-party to a transaction with the Housing Agency Account will fail to discharge its obligations, causing the Housing Agency Account to incur a financial loss. Financial instruments, which potentially subject the Housing Agency Account to credit risk, principally consist of GST receivable.

Maximum exposures to credit risk as at 30 June were:

	2004	2003
	(\$000)	(\$000)
Receivables	3	2,757

(b) Concentrations of credit risk

The largest debtor is the Inland Revenue Department, accounting for 100% of receivables at 30 June 2004.

(c) Fair values

The fair value for each of these classes of financial instruments is estimated based on the net present value of the instrument using current market rates for debt of similar maturity.

	2004		2003	
	Carrying amount	Fair value	Carrying amount	Fair value
	(\$000)	(\$000)	(\$000)	(\$000)
Assets				
Receivables	3	3	2,757	2,757
Liabilities				
Accounts payable and accruals	—	—	12,116	12,116
Amounts due to the Corporation	19,254	13,909	10,797	6,118

(d) Interest rate risk

The amount due to the Corporation is interest free, therefore there is no interest rate risk.

7. Transactions with related parties

The Crown wholly owns the Housing Agency Account. The Housing Agency Account undertakes some transactions with statutory corporations, state-owned enterprises and government departments on an arm's length basis. These transactions are not considered to be related party transactions as defined in *Statement of Standard Accounting Practice 22 Related Party Disclosures*.

The Corporation administers the Housing Agency Account as an agency of the Crown in terms of the Housing Act 1955. As at 30 June 2004, the total amount owing from the Housing Agency Account to the Corporation is \$19.30 million (2003, \$10.80 million).

8. Segment information

The Housing Agency Account predominantly operates in one industry, being the ownership of land, and in one geographical segment, being New Zealand, for reporting purposes.

Report of the Auditor-General

TO THE READERS OF THE HOUSING AGENCY ACCOUNT FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

The Auditor-General is the auditor of The Housing Agency Account (the Account). The Auditor-General has appointed me, S R L O'Connor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Account, on his behalf, for the year ended 30 June 2004.

Unqualified Opinion

In our opinion the financial statements of the Account on pages 71 to 76:

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

The audit was completed on 30 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 Housing New Zealand Corporation Board 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 Board;
- 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 Board and the Auditor

The Board 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 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 Board's responsibilities arise from the Public Finance Act 1989 and the Housing Act 1955.

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 43(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.

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

A handwritten signature in blue ink, appearing to read 'f o l', followed by a long horizontal line.

S R L O'Connor
Ernst & Young

On behalf of the Auditor-General
Wellington, New Zealand

Directory

Board of Directors

Roger Bonifant, Chairman

Patrick Snedden, Deputy Chairman

Lope Heath

John Hill (resigned on 31 December 2003)

Susan Huria (appointed on 1 January 2004)

David Lange

David Pritchard

Maryan Street

Paul White

Senior management

Helen Fulcher, Chief Executive

Jordan Alexander, General Manager Strategic Services (to 10 October 2003)

Ian Bourke, General Manager Housing Services

Andrew Clapham, General Manager Home Ownership

Gerard Coles, General Manager Assurance Services

Paula Comerford, General Manager Housing Partnerships

Greg Orchard, General Manager Asset Services

Arun Patel, General Manager Support Services

Joanne Tuffield, General Manager Strategic Services (from 23 February 2004)

Auditor

Ernst & Young

P O Box 490

Wellington

Telephone: (04) 499-4888

Facsimile: (04) 495-7400

On behalf of the Controller and Auditor-General

Registered office

Level 3

28 Grey Street

P O Box 2628

Wellington 6015

Telephone: (04) 474-2100

Facsimile: (04) 472-5752

www.hnzc.co.nz

Publications list

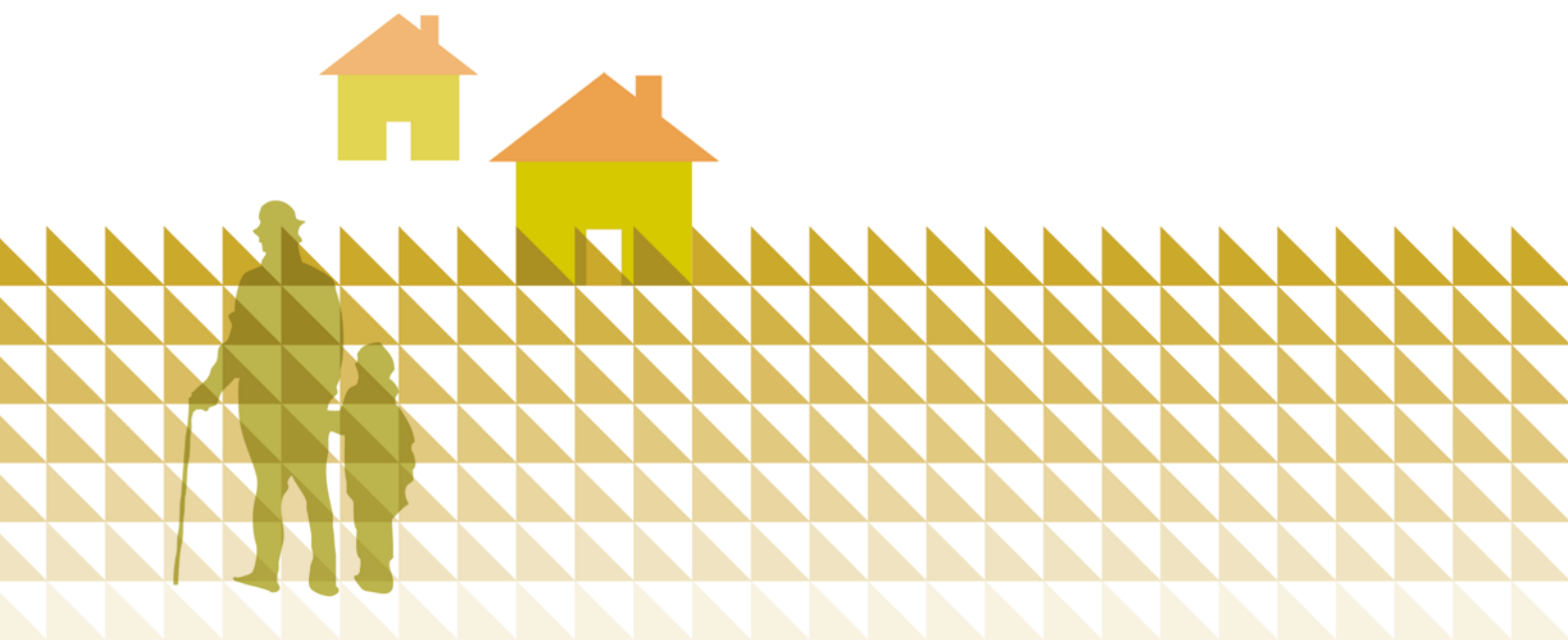
Brochures

- *Do you need help to find a rental home?*
- *Need the right home for your community group?*
- *Want your own home – but not sure you can afford it?*
- *Do you need a modified home?*
- *How to request a review of your application for housing or income-related rent*
- *How does housing affect your health?*
- *Income-related rent – your obligations*

General

- Annual Report
- Statement of Intent
- Briefing to the Incoming Minister
- Development Guide
- *Thought owning a home was out of reach? Think again*
- Housing Market Report
- Tenant newsletter *Close to Home*.

For more information about these publications, visit the Corporation's website www.hnzc.co.nz



National Office Wellington

28 Grey Street, PO Box 2628, Wellington 6015

Phone: 04 474 2100

Fax: 04 472 5752

www.hnzc.co.nz

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